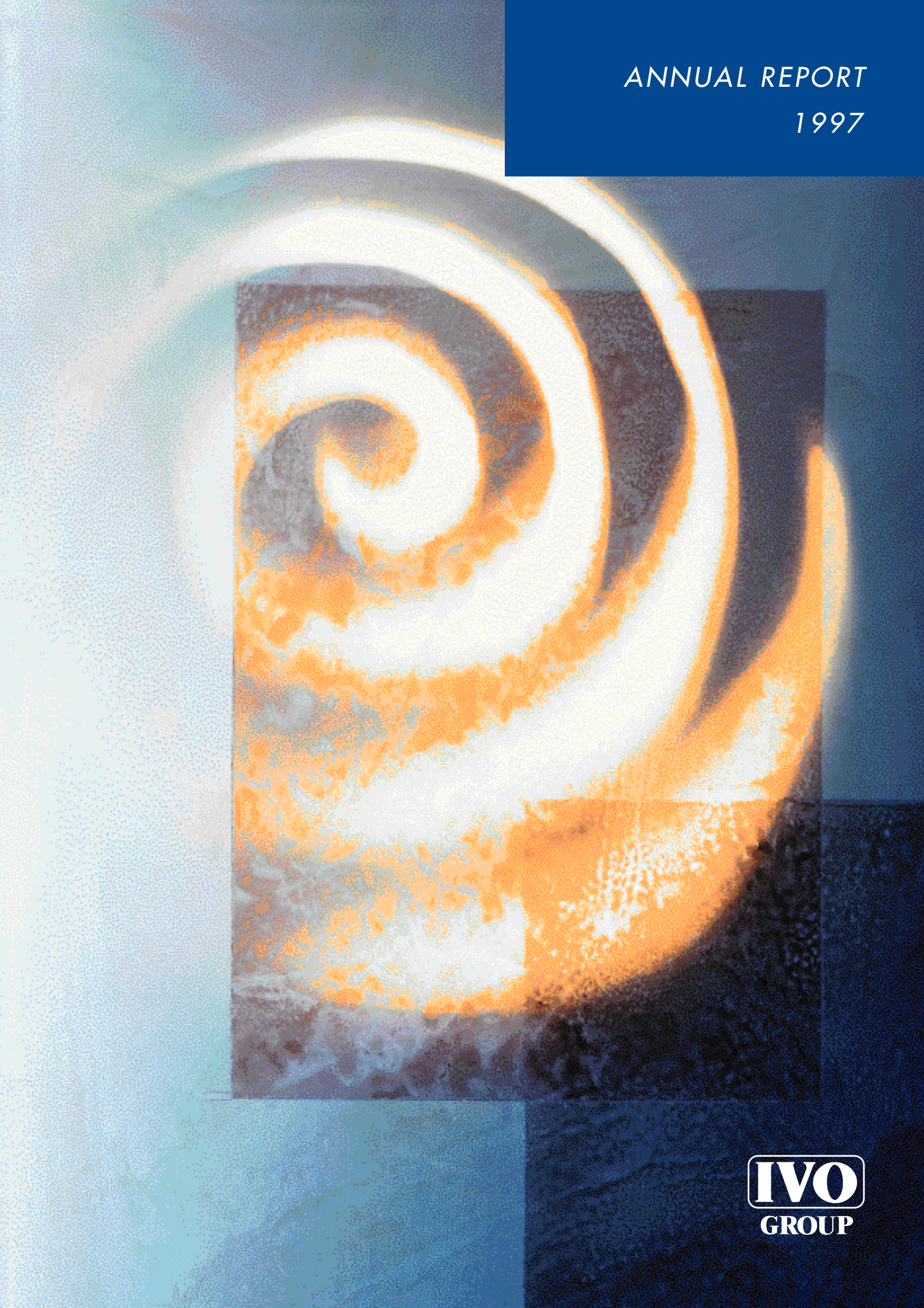
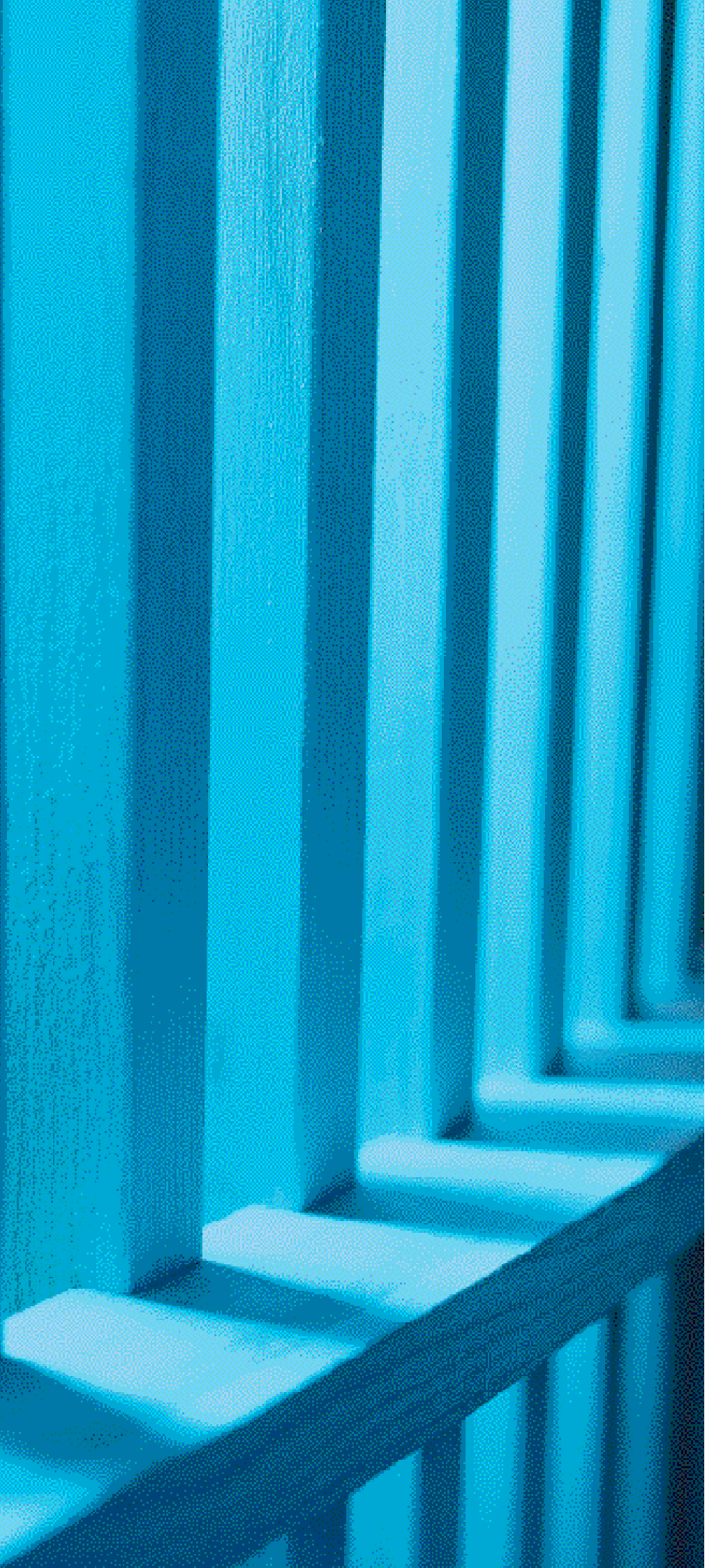
ANNUAL REPORT 1997



IVO GROUP



CONTENTS

ANNUAL GENERAL MEETING

The Annual General Meeting of Imatran Voima Oy will take place on June 30, 1998 at 11.00 a.m. at the head office of the company, Malminkatu 16, Helsinki.

ANNUAL REPORT AND INTERIM REPORTS

Annual Report and Interim Reports are published in Finnish, Swedish and English. The Interim Reports are planned to be published on May 15, 1998 (January – March), on August 7, 1998 (January – June) and on November 6, 1998 (January – September). Publications are available from:
IVO Group, Corporate Communications,
00019 IVO, tel. +358 9 85 611,
fax +358 9 694 4481.

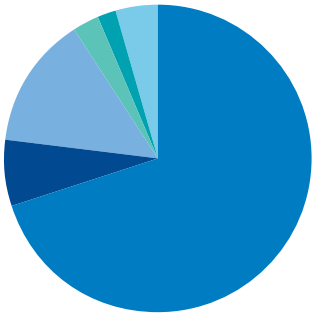
ENVIRONMENTAL REPORT

A separate environmental report is published each year in Finnish, Swedish and English.

IVO GROUP IN 1997

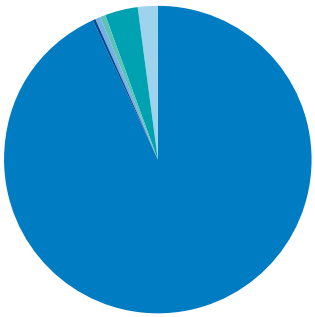
- IVO Group's result, at almost FIM 2.0 billion, showed an increase of FIM 237 million.
- Turnover, at FIM 13.8 billion, increased by 15% on the previous year.
- Return on equity was 12.1%. Debt/equity ratio was 67%, and equity/total capital ratio 40%.
- Profit for the financial year totalled FIM 3.8 billion.
- IVO Group's investment was at a record high, FIM 7.3 billion. The sales of fixed assets totalled FIM 6.1 billion, FIM 5.4 billion of which came from the sale of the grid.
- Significant investments resulted in an increase in the balance sheet, to FIM 34 billion.
- In the Nordic domestic market, IVO Group's electricity sales totalled more than 48 TWh, representing a 13% market share.
- IVO Group's shareholding in Gullspång Kraft AB exceeded 90%. Länsivoima Oy became our subsidiary.

TURNOVER BY BUSINESS SECTOR*



* Turnover generated from trade between business sectors has not been eliminated.

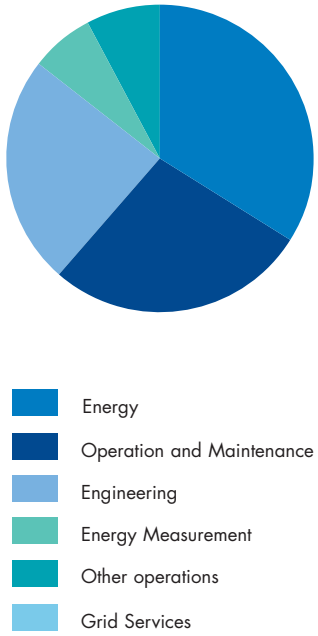
INVESTMENTS BY BUSINESS SECTOR



FINANCIAL HIGHLIGHTS OF THE YEAR	1997	1996	Change %
Turnover, FIM million	13,775	11,937 [1)]	+ 15
Operating profit			
FIM million	2,591	2,042	+ 27
% of turnover	19	17	..
Profit before extraordinary items			
FIM million	1,973	1,736	+ 14
% of turnover	14	15	..
Return on equity %	12.1	12.9	..
Return on capital employed %	11.8	13.5	..
Equity/total capital %	40	38	..
Debt/equity %	67	87	..
Investment, FIM million	7,306	4,555	+ 60
Balance sheet total, FIM billion	34.0	28.2	+ 21
Employees as at December 31	8,901	7,942	+ 12

[1)] The processing of electricity distribution fees has been changed in 1997, and the figure includes the corresponding change.

EMPLOYEES BY BUSINESS SECTOR AS AT DECEMBER 31



IVO GROUP

IVO Group is an international company which has expertise in all aspects of the energy chain. IVO is the second-largest energy company in the Nordic domestic market and among the 15 largest in Europe. We are established independent energy producers, and operation and maintenance experts in the British Isles and South East Asia. We are also involved in central Europe, Russia and China.

IVO's expertise in all energy services gives us a distinct advantage in the world's increasingly competitive and deregulated energy markets. Our expertise, which we offer to our customers, covers energy generation; supply and distribution of power and heat; operation and maintenance; fuel supplies; energy measurement; the design and construction of various types of power plants and transmission systems; capital investments; and construction management. IVO is a world leader in the construction of combined heat and power plants, and in the operation and maintenance of these plants.

We derive significant added value from the synergy between our business sectors, and from our investment in quality. Our strengths include flexible and customised energy technologies, which are independent of equipment manufacturers, efficiency, economy and effective environmental management.

We continually improve our environmental expertise to meet changing requirements and provide our customers with efficient and environmentally-friendly research, product development, testing and expert services.

IVO GROUP

BUSINESS SECTORS

ENERGY

The Energy business comprises power generation, electricity sales, and electricity distribution and supply. Power generation provides its customers with partnership in power plant operation, as well as with associated electricity, process steam and district heat. Our electricity and heat customers comprise energy-intensive industries, electricity companies and small-scale customers, including households and service companies. Some of the electricity is sold through electricity exchanges. Electricity sales also offers the customers marketing services through IVO Partners chain, as well as expertise relating to the efficient use of energy. Electricity distribution delivers regional and local transmission and distribution network services on equal terms to all its customers, which number almost 700,000.

The total electricity procurement capacity of the IVO Group is 10,800 MW, 9,100 MW of which comes from wholly- or partly-owned power plants. Almost 20% of electricity is produced by combined heat and power generation. Heat generation capacity totals about 3,500 MW.

We generate power and heat by using hydro-electric and nuclear power, coal, natural gas, peat, biofuels and, to a minor extent, oil. The potential for using solar and wind power is being researched at our experimental power plants.

Power plant projects developed and implemented in co-operation with customers and partners provide significant potential for growth in this business in the Nordic domestic market, the British Isles, central Europe and South East Asia.

The turnover of the Energy business for the year was FIM 10,896 million. The business is operated by Imatran Voima Oy and Länsivoima Group in Finland, and by Gullspång Group and IVO Energi AB in Sweden.

OPERATION AND MAINTENANCE

The business comprises operation services for power plants, regional heat services (IVO O&M), and IVO Service maintenance operations.

IVO O&M (Operation & Maintenance) has signed a contract for the operation and maintenance of one-third of Finland's power generation capacity. In Finland, industry and population centres are also provided with regional heat services using indigenous fuels. Outside Finland, IVO O&M has signed power plant operation contracts in the British Isles, Indonesia, Malaysia and Thailand. We continue to seek growth outside the Nordic market.

IVO Service maintenance covers everything from a single maintenance operation to the maintenance of an entire plant or site. Our special expertise also covers demanding maintenance services for turbine, boiler, switchgear and transformer plants. In Finland and Sweden, IVO Service has a strong position and, in Hungary and the UK, there is promising growth potential.

Turnover of the Operation and Maintenance business totalled FIM 1,092 million. A total of 43% of this came from outside the IVO Group and 14% from exports and overseas operations. The business is operated by IVO Generation Services Group.

ENGINEERING

The Engineering business specialises in turnkey contracts for power generation and transmission systems and their parts, and in the related consulting, design, contracting and construction management.

Power plant engineering is focused on the combined heat and power plants, refurbishment, environmental protection technology, and automation and electrification. Expertise is marketed in the Nordic countries and the nearby areas, in central Europe, and South East Asia and China.

Power transmission engineering offers design, construction and maintenance of transmission lines, substations, transmission and distribution networks, and telecommunication systems and power system control. This business is the market leader in the Nordic countries in railway electrification, and antenna and telemast supplies. Marketing for power transmission engineering is focused on the Nordic countries and on the development aid projects financed by these countries.

In addition, this business sector covers nuclear and hydropower engineering.

The turnover of the Engineering business, which is operated by IVO Power Engineering Group, was FIM 2,152 million, 58% of which came from exports and overseas operations.

ENERGY MEASUREMENT

The Energy Measurement business specialises in the development, manufacture and marketing of equipment, systems and services for energy metering and the control of electricity use. It offers a product range of energy metering equipment and systems.

Enermet Group is responsible for the Energy Measurement business. The Group has operations in Finland, Sweden, Norway, Denmark, the Netherlands, Germany, Switzerland, Australia and New Zealand. The deregulation of the energy market in the Nordic countries, and a similar trend expected in central Europe, gives a new impetus to, and improves the prospects for, this business.

The turnover of the Energy Measurement business was FIM 413 million, 81% of which came from exports and overseas operations.

GRID SERVICES

At the end of August, the grid owned by IVO Transmission Services Ltd and IVO was sold to Finnish Power Grid Plc (Fingrid), which controls, operates and develops the entire grid in Finland and the cross-border lines to the neighbouring countries. IVO owns 25% of shares and 33% of voting rights in Finnish Power Grid. The turnover of the Grid Services business totalled FIM 671 million.

IVO GROUP
REVIEW BY THE CEO

Towards the end of 1997, the principal owner of Imatran Voima Oy and Neste Oy made a decision to establish a holding company, and it is intended to transfer IVO's and Neste's shares to this company during spring 1998. IVO-Neste Group Ltd will be listed on the stock exchange as soon as the necessary arrangements are complete and market conditions are favourable. In this way, IVO's aspiration for a listing will finally become reality, albeit in a roundabout way. Stock exchange operations are, however, nothing new for IVO, since two of our subsidiaries, Länsivoima Oy and Gullspång Kraft AB, have been listed on the exchange for a considerable time. In addition, we have presented our financial statements in the way required by a public company for several years.

NEW OWNER OF THE GRID

The most significant change in the company's history took place at the end of August, when the high-voltage network, built, owned and operated by IVO, was sold to Finnish Power Grid Plc. Since IVO was founded, we have transmitted our electricity principally through our own lines. Over several decades, high-voltage transmission became an important addition to electricity production business.

In the early years, a 110 kV network was used to transmit energy from the Imatra hydropower plant to western Finland. When the river Oulujoki was harnessed, it became time to change to 220 kV lines. IVO was one of the first companies in the world to build a 400 kV system; this was done to meet the needs created by harnessing the river Kemijoki and for the cross-border lines to Sweden. The competitiveness of our transmission services kept IVO in the vanguard of development in high-voltage technologies. I hope that the same pace will be kept by Finnish Power Grid, in which IVO is a minority shareholder.

DISTRIBUTION NETWORK: A NEW FOCAL POINT

IVO is compensating for relinquishing the grid with corresponding electricity distribution operations closer to the customers. The comparison between the costs, losses and other key figures of the high-voltage transmission developed by IVO and those of the decentralised distribution provides sufficient evidence of the need for IVO's resources and expertise in the development of this business. IVO Group has already achieved a marked increase, through Gullspång in Sweden and Länsivoima in Finland, in its market share of distribution.

The restriction on ownership of distribution networks, which is due to be introduced in Finland by the Electricity Market Act, will neither benefit the market, nor small-scale consumers, since it will make increases in efficiency in this business more difficult.

CAPACITY INCREASE AFTER DUE CONSIDERATION

In 1997, about 900 MW of new capacity was completed in Finland, 100 MW of which came into IVO's direct ownership; in addition, over the next few years, our share of Helsinki Energy's Vuosaari B plant will be 130-150 MW. Almost all the new generation capacity is natural-gas-fired combined heat and power. As a result, Finland will consolidate its position as the country which uses the greatest proportion of combined heat and power generation in the world.

In the other Nordic countries, very little new capacity has been built, or is under construction. This is a result of the low price of electricity which does not encourage investment in new capacity. Denmark has the greatest over-capacity. In 1996, a third of its total production, 15 TWh, was available to be sold to neighbouring countries. So long as environmental regulations do not conform across the Nordic market, the low price of coal in the world market will maintain the competitiveness of Danish electricity.

Nordic over-capacity is forecast by Nordel to level out before 2005, unless new large-scale power plants are completed. The possible phasing-out of nuclear power ahead of schedule in Sweden and the liberalisation of the central European market, which would result, at least, in the hazard of the Nordic power reserve being transmitted south through new sub-marine links, would bring this schedule forward.

The uncertainty of electricity prices tends to result in generators postponing investment decisions to the last moment. Efforts are made to truncate construction periods; one way of doing so is to begin environmental impact assessments as early as possible. Finland has completed, or has ongoing, assessments for a number of power plants. IVO keeps a watchful eye on the situation and has completed environmental impact assessments for the Naantali and Inkoo plants.

Electricity prices, the natural-gas question in western Finland, and the new gas transmission tariff, all result in uncertainty. Since gas-fired power plants can now be built more quickly, there is still time for consideration. An increase in nuclear power capacity is another question: even though a decision to build would be made before the turn of the century, the construction time will be very constrained if Finland intends to comply with the Kyoto carbon dioxide decisions.

COMPETITIVE EDGE THROUGH ENVIRONMENTAL EXPERTISE

IVO's sixth Environmental Report, published this spring, provides a good picture of the management of environmental issues at IVO. Our profound environmental expertise is our strength, particularly in our projects in eastern and central Europe. Extensive investments made in air pollution control at our power plants improve the competitiveness of our electricity in the Nordic market, although it seems that, today, price is the only criterion on electricity exchanges.

A report on the environmental impact of the manufacture of a product is required increasingly often. In this context, the production chain of used energy is also scrutinised. It is, however, practically impossible to find any generally accepted standards. For coal and natural gas, it is easy to specify emissions generated in the combustion process but, in the case of peat, and of nuclear power in particular, there are disagreements between various schools of thought. The certification of hydropower to environmental standards also seems to arouse intense feelings. IVO's wide range of types of production demands powerful environmental expertise and its continuous development for the future.

ACKNOWLEDGED QUALITY

IVO Group sees quality as a clear route to improved profitability and has made a considerable investment in it. An impressive report from the Financial Times and Price Waterhouse in September was a demonstration of the approbation that IVO enjoys. In this report, European business executives and analysts ranked IVO as the number 2 company in its sector.

RESULTS THROUGH COMPETITIVENESS

Our results show that we are reasonably competitive in all areas and very competitive in some. It is true that the rapid improvement in the energy situation in Sweden and Norway depressed our electricity sales more than we expected, but this was counteracted by the significant improvement in the results of our subsidiaries Gullspång, Länsivoima and IVO Power Engineering.

Our future success will increasingly depend on competitiveness. I feel confident that our skilled and motivated personnel will be able to offer the best available products and services which have been tailored to meet market needs. Our investment in research and development will ensure that we have our finger on the pulse and will be able to ensure our competitiveness far into the future.

In Sweden, we are negotiating the merger of Gullspång and Stockholm Energi AB, in order to strengthen our position and improve our competitiveness. The spring of 1998 will reveal whether a new and stronger company to challenge our Nordic competitors can be established.

IVO will probably face the future as part of a major Nordic energy company, headed, from the beginning of March, by our Chairman and CEO Heikki Marttinen. I wish him good fortune and success in his demanding role and am confident that, as he continues his work as the Chairman of our Board, the IVO Group will begin the new millennium as an international, productive and efficient part of IVO-Neste Group.

Helsinki, March 6, 1998

Kalervo Nurmimäki
CEO

CORPORATE GOVERNANCE AS AT MARCH 1, 1998

Imatran Voima Oy's administrative bodies comprise the Supervisory Board, the Board of Directors, and the CEO.

The Annual General Meeting appoints the Supervisory Board, which then appoints the members of the Board of Directors, the CEO and the Senior Executive Vice Presidents.

The Supervisory Board's duties also include the supervision of the management of the company by the Board of Directors and the CEO. The Supervisory Board also makes decisions on any large reduction in, or extension of, the company's operations, or any substantial change in the company's organisation. In addition, it may instruct the Board of Directors in fundamentally important matters or those which have major implications.

The Executive Board, chaired by the CEO, is responsible for daily operations.

SUPERVISORY BOARD

	Membership spanning the period between Annual General Meetings
Kimmo Sasi, Chairman, Member of Parliament	1996-1999
Kari Laitinen, Deputy Chairman, Party Secretary	1997-1998
Markku Autti, Managing Director	1996-1999
Rose-Marie Björkenheim, MSc (Econ)	1995-1998
Timo Järvilahti, Member of Parliament	1997-2000
Osmo Kurola, Member of Parliament	1997-2000
Leena Luhtanen, Member of Parliament	1997-1998
Pekka Tuomisto, Director General	1997-2000
Taisto Turunen, Director General, Representative of the Ministry of Trade and Industry	1995-1998
Esko Vainionpää, Director	1997-2000
Employee Representatives	
Eeva Kauppinen, Secretary	1997-2000
Keijo Kontiainen, Design Engineer	1997-2000
Satu Laiterä, Manager, Chemistry and Environmental Engineering	1997-2000
Tapio Lamminen, Supervisor	1997-2000

AUDITOR

SVH Coopers & Lybrand Oy, Authorised Public Accountants,
Pekka Kaasalainen, Chief Auditor, Authorised Public Accountant.

Supervisory Auditor

SVH Coopers & Lybrand Oy, Authorised Public Accountants.

EXECUTIVE BOARD AND BUSINESS RESPONSIBILITIES

Kalervo Nurmimäki, CEO from March 1, 1998.

Anders Palmgren

Technology, including engineering, operation and maintenance, IVO Technology Centre and environment.
Corporate Materials Management, Corporate Information Technology.

Kari Huopalahti

Power Generation, including holding of power plants, power and heat generation and fuels, development of power plant projects and the related energy contracts and investments.
Corporate Security.

Tapio Kuula

Distribution, including electricity distribution and supply in subsidiaries and associated companies, and electricity company acquisitions.
Energy Measurement.
Corporate Human Resources, Corporate Planning, Strategy Planning (Energy), Corporate Services.

Rauno Kallonen

Electricity Sales, including electricity procurement, Energy Management Centre and IVO Partners.

Kaj Lindström

Corporate Financing, Corporate Treasury.

Juhani Santaholma

Corporate Real Estates, Corporate Legal Affairs, Corporate Communications.

BOARD OF DIRECTORS

Heikki Marttinen

MSc (Econ). Born 1946, President and CEO of IVO-Neste Group Ltd, Chairman of the Board of Directors since 1997, member of the Board since 1993. Mr Marttinen worked for IVO from 1993 to March 1998.

Kalervo Nurmimäki

MSc (Eng). Born 1937, CEO since 1998, Deputy Chairman of the Board since 1993, member of the Board since 1983. Mr Nurmimäki joined IVO in 1961.

Anders Palmgren

DTech. Born 1940, Senior Executive Vice President since 1993, member of the Board since 1982. Dr Palmgren joined IVO in 1971.

Bo Göran Eriksson

LL.M (trained on the bench). Born 1943. Director General, Ministry of Trade and Industry, Trade Department. Member of the Board since 1997.

Kari Huopalahti

MSc (Eng). Born 1947. Executive Vice President, member of the Board since 1987. Mr Huopalahti joined IVO in 1973.

Tapio Kuula

MSc (Eng) and MSc (Econ). Born 1957. Executive Vice President, member of the Board since 1997. Mr Kuula joined IVO in 1996.

Harri Piehl

MSc (Eng). Born 1940. President of JP Operations Management Ltd Oy. Member of the Board since 1997.

Gerhard Wendt

PhD. Born 1934, he has been employed with Kone Corporation since 1970 and retired as President at the end of 1994. Member of the Board since 1994.

Executive Vice President Juhani Santaholma acts as Secretary to the Supervisory Board and Board of Directors.

ENERGY

KEY FIGURES[1)]

	1997	1996
Turnover, FIM million	10,896	8,937 [2)]
Operating profit, FIM million	1,899	1,290
– % of turnover	17	14
Investment, FIM million	6,853	4,299
Capital employed, FIM million	23,131	18,940
Number of employees as at December 31	3,018	2,309

1) The figures include Gullspång Group from April 1, 1996, and Länsivoima Group from January 1, 1997.
2) The processing of electricity distribution fees was changed in 1997. The figure includes the corresponding change.

The Energy business comprises power generation, electricity sales, and electricity distribution and supply. Power generation provides its customers with partnership in power plant operation, as well as with associated electricity, process steam and district heat. Electricity and heat customers include energy-intensive industry, electricity companies, and small customers, such as households and service companies. Some of the electricity is sold in spot markets. Electricity sales also offers the customers marketing services, through the IVO Partners chain, and expertise in the efficient use of energy. Electricity distribution produces regional and local transmission and distribution network services on equal terms to all customers.

During the past few years, this business has been significantly extended by means of acquisitions. The IVO Group is the second-largest energy company in the Nordic domestic market. It has been operating in the UK since the market was deregulated. In Hungary, it strengthened its position as a generator when it acquired a share in the Budapest power company. In Malaysia and Thailand, IVO generates and sells power and heat in co-operation with local and other international companies. In Finland, the energy business is operated by Imatran Voima Oy and the Länsivoima Group, and in Sweden by the Gullspång Group and IVO Energi AB.

The IVO Group's special strengths include operational and organisational models, which are tailored to meet the needs of customers and local co-operation partners, substantial investment in research and development, and benefits of scale resulted from the expansion of business. IVO's experience gained in different countries, combined with the high level of expertise, provides a firm basis for long-term development of the business.

MARKET REVIEW

During the 1990s, the energy business has changed from traditional, and often national and municipal, energy utilities to competitive open markets. At the beginning of the decade, deregulation resulted in significant development of the UK and Norwegian electricity markets and, a few years later, of those in Finland, Sweden and Denmark.

The IEM directive approved in the European Union will gradually lead to the deregulation of the electricity and gas markets in other EU countries as well. The timetable is long, however, and the degree of deregulation is relatively small in comparison with that of the British and Nordic models. Energy legislation has been revised most recently in Germany, Italy and Spain. Corresponding development is under way outside Europe, for example in the US, Australia and New Zealand.

In the Nordic countries, the electricity markets are strongly integrated. Cross-border transmission is open to all operators, and its costs have been, or are being, shifted to grid charges. Denmark, the last of the Nordic countries to do so, revised its legislation from the beginning of 1998 to make it possible for large-scale Danish electricity users to buy electricity from different suppliers.

In Finland, Sweden and Norway, all electricity users are in the deregulated market. Requirements for measurement on an hourly basis have, however, so far formed a barrier for small consumers. In Norway, this has been addressed by introducing load profiles into settlement of power invoicing, while in Sweden a reasonable price limit has been set for meters. The Finnish Parliament is currently dealing with an amendment to law which is based on load profiles. In England and Wales, the extension of competition to consumers of less than 100 kilowatts has been postponed from spring 1998 until the autumn.

In recent years, the ownership of power and electricity companies has continued to consolidate rapidly in the UK, Sweden, Norway and Finland and has created more intense competition as a result. At the same time, the number of electricity companies has decreased. In addition, major operators from central Europe and the US have entered the Nordic market.

The rationale behind liberalisation was to introduce competition, increase efficiency, find new sources of procurement and create stronger market positions. It also involved the broadening of companies' shareholder bases and the diversification of their financing options through privatisation. In addition to price, the creation of commercial brands, the development of

services and marketing are also gaining significance in competitive markets. Vertical integration from energy production to the electricity customer has also been emphasised in the changes in ownership. Correspondingly, businesses which specialise in a fairly narrow sector, for example trading, have also entered the market.

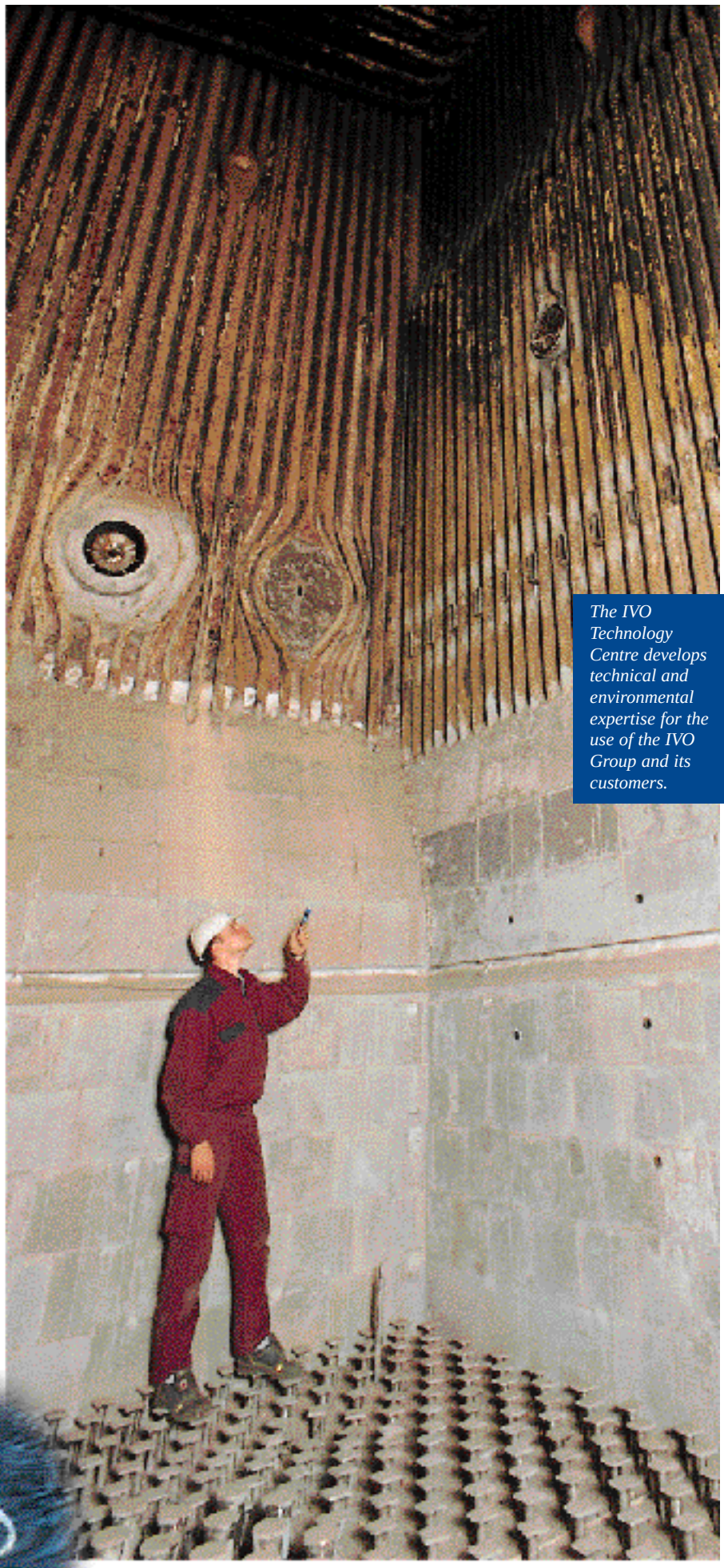
In South East Asia, the rapid economic growth that prevailed in the 1990s took a sudden downward trend, and many countries drifted into economic crisis. The dramatic falls in exchange rates, and forecasts of decreased demand, are delaying the implementation of energy projects.

POWER GENERATION

The power generation capacity of the Nordic countries is almost 90,000 MW. More than 47,000 MW of this is hydroelectric power, more than 12,000 MW nuclear power, and nearly 30,000 MW other thermal power. In Norway, electricity is generated almost exclusively by hydropower; in Sweden, principally with hydro and nuclear power; and in Denmark with coal-fired thermal power. In Finland, nuclear and hydro power are used together with an extensive range of other fuels.

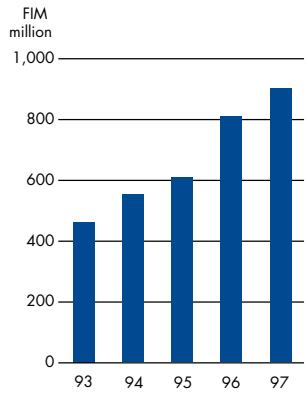
In Sweden, changes are expected in the energy production, since the Swedish government has made a decision to close down unit 1 of the Barsebäck nuclear power plant from the beginning of July 1998 and unit 2 conditionally in 2001. No decision has yet been reached about how to compensate the owner of the Barsebäck power plant, Sydkraft AB, for the loss of the nuclear power capacity.

Finland is the world leader in combined heat and power (CHP), which has the undeniable benefit of high overall efficiency and low pollution. In Denmark, district heating is also, to a great extent, based on CHP, but in Sweden there is considerable potential for growth. The low price

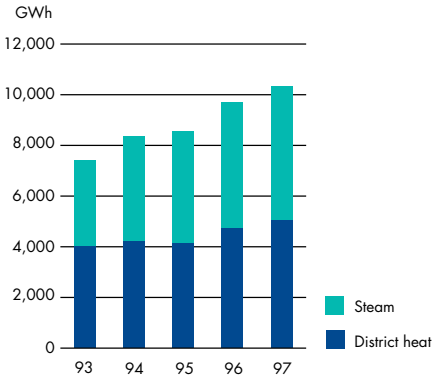


The IVO Technology Centre develops technical and environmental expertise for the use of the IVO Group and its customers.

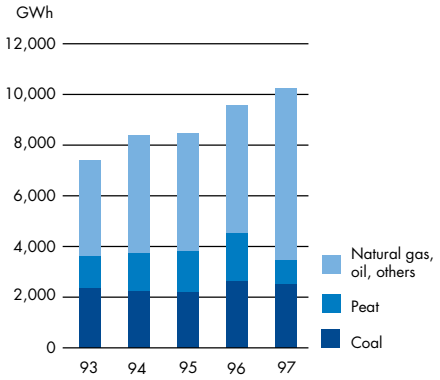
HEAT SALES TURNOVER



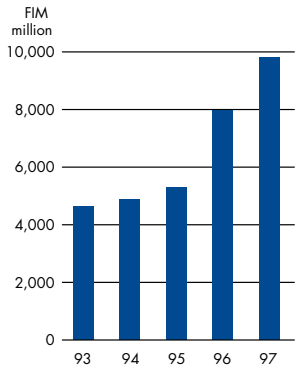
DISTRICT HEAT AND STEAM SALES



HEAT GENERATION BY ENERGY SOURCE



ELECTRICITY SALES TURNOVER



of electricity and the over-capacity in the Nordic market have, however, so far made the extensive construction of CHP plants economically unviable in Sweden. In spring, the Swedish government made a decision to subsidise CHP from biofuels by a total of SEK 450 million over the next five years. A decision on the recipients of subsidies will be made during 1998, after which some projects are expected to be launched.

Industry produces most of the process steam it needs although, as companies have focused more on their core businesses to improve efficiency, outside suppliers have recently increased their share of this business.

In the UK, total energy generation capacity is at almost 70,000 MW, with a further 3,000 MW being constructed. A major part of this new capacity is gas-fired power, and considerably more than half of it is in the hands of independent power producers. Because of its low price and advanced power plant technology, the proportion of gas has risen to almost 30% of all production. During the past few months, however, new gas-fired power projects have been at a standstill as a result of Government action.

Towards the end of the year, the recession in South East Asian countries weakened currencies and the liquidity of the finance market became apparent in the energy sector, too. The slowing of economic growth was also reflected in the demand for energy and in the plans for constructing new capacity in China.

IVO GROUP'S POWER GENERATION

The IVO Group has a total capacity of 8,600 MW of electricity generation and 2,500 MW of heat generation in the Nordic countries. The Energy business accounts for almost 10% of the electricity generation capacity in this area. IVO has shares in power plant companies in the UK, Hungary, Malaysia and Thailand, which are operating or constructing nearly 2,600 MW of electricity generation capacity and almost 2,900 MW of heat generation capacity.

Hydro and nuclear power, coal, natural gas, peat, biofuels and, to a minor extent, oil are used for electricity and heat generation in the IVO Group. CHP accounts for about 20% of the total electricity production. The condition and availability of our power plants are high.

Of the power plant projects being completed in Finland, the largest include the Kirkniemi power plant, the third unit for the Pamilo power plant, and Vuosaari B for Helsingin Energia, from which 130 MW will be available to IVO during the power plant's first year of operation. A modernisation and power upgrading project is in progress at the Loviisa power plant; this will increase the output of the plant by some 100 MW. The Gullspång Group has 20 MW of hydropower capacity under construction in Sweden.

At the turn of 1998, the IVO Group sold or let on long lease a total of 184 MW of capacity to the Swedish companies Vattenfall AB and Graningeverkens AB (publ).

The IVO Group supplied 10.3 TWh of heat, almost 6% more than in 1996. The sale of process steam for industry was somewhat higher than that of district heat. District heat is supplied to energy companies and process steam to local industry from CHP plants and from heating plants. These contracts often also involve electricity supply.

At the year end, IVO bought in Finland the Valkeakoski mills' power plant from Säteri Oy. At the same time, the parties agreed on long-term energy supplies. The operation and maintenance contract, which had been agreed in 1996, was extended. The power plant uses natural gas, peat, biofuels and coal. The plant's electrical output is 20 MW and thermal output 80 MW.

IVO agreed with Finnforest Oy on continuing the supply of heat until the end of 2007. IVO generates the heat at the Pitkäniemi heating plant, which will quadruple its acquisition of fuel wood from Finnforest.

In the UK, the first 750 MW unit of Humber Power Limited's gas-fired power plant was completed in spring. Electricity sales from the power plant began as expected. In April, IVO reduced its shareholding from 30% to 22.5% in the power plant company by selling shares to Elf Exploration UK plc and British Energy plc, which became the new partners. Humber's second 510 MW unit, which is under construction, will be completed to schedule towards the end of 1998, at which time the plant will become one of the largest and most efficient gas-fired power plants in Europe. IVO was responsible for the project development of both stages at Humber. IVO Energy Trading Limited runs IVO's power trading in the UK, and its operations are expected to increase.

At the beginning of 1998, the IVO Group obtained a new business area in the British Isles, when it succeeded in its tender for a 120 MW peat-fired power plant to be constructed in the Republic of Ireland. In this first open international competition in the Republic's history, five companies, three of which came from Europe, one from the US and one from Japan, were shortlisted.

In Germany, IVO prepared for the gradual liberalisation of the country's energy market. Development work focused primarily on CHP projects for industry. In addition, studies on the opportunities for supplying electricity from the Nordic countries to customers in Germany, and for building IVO's own production capacity in Germany, were carried out.

During the year, IVO and a Japanese company, Tomen Corporation, jointly acquired a 79.6% share of the Hungarian company Budapesti Erömü Rt. An electricity contract, which enables construction of the new Újpest 108 MW gas-fired combined-cycle power plant, was signed towards the end of the year. The power plant is scheduled for completion in 2001.

In Thailand, IVO owns shares in three companies. Of these, Union Power Development Company Limited completed negotiations for a 1,400 MW coal-fired power plant project valued at FIM 6.2 billion. Devaluation of the Thai currency and the instability of the state economy have, however, prolonged the negotiations for financing and, as a result, construction of the power plant could not begin to plan. In March 1998, The Cogeneration Public Company Limited obtained a new, significant shareholder, which ensures the extension project of the company's power plant. In addition, Laem Chabang Power Company Limited concluded electricity contract negotiations for a 105 MW gas-fired power plant project valued at FIM 360 million.

In Malaysia, Powertek Berhad continued negotiations for an extension, valued at FIM 1 billion, of the Teluk Gong power plant. In Indonesia, development work on IVO's coal- and peat-fired power plant projects was suspended until the outlook for the national economy and the country's political situation have been clarified.

In China, the Shandong province authorities approved in May IVO's plans for the construction of a 24 MW CHP plant in the city of Zaozhuang. After the decision, IVO entered into electricity contract negotiations which are scheduled for completion in the spring of 1998.

IVO GROUP'S POWER AND HEAT GENERATION CAPACITY AS AT DECEMBER 31, 1997

POWER PLANTS	MW[1]
Hydro-electric power	
Imatran Voima Oy	743
Imatra	170
Mustionjoki	7
Myllykoski	1
Oulujoki	496
Palokki	7
Tainionkoski	62
Gullspång Group	1,426
Killin Voima Oy	8[2]
Länsivoima Group	13
Nuclear power	
Imatran Voima Oy	
Loviisa 1, 2	930
Conventional condensing power	
Imatran Voima Oy	1,835
Haapavesi	154
Inkoo	1,000
Meri-Pori	565[3]
Naantali 1	116
Combined heat and power generation	
Imatran Voima Oy	877/861/791
Hyvinkää	46/70
Joensuu	56/125
Järvenpää	6/7
Kauttua	19/7/50
Kirkniemi	135/30/125
Kokkola	184/82/106
Kotka	79/15/140
Kouvola	46/70
Kuusamo	6/20
Naantali 2, 3	160/300/60
Riihimäki	5/40
Uimaharju	50/–/230
Valkeakoski	20/–/80
Vanaja	65/95
Gullspång Group	14/36
Jyväskylän Energiantuotanto Oy	115/315/130[2]
Peak-load gas turbines and others	
Imatran Voima Oy	303
Huutokoski	176
Loviisa	40
Naantali	40
Vanaja	47
Kopparnäs	0,1
Gullspång Group	48
Länsivoima Group	10

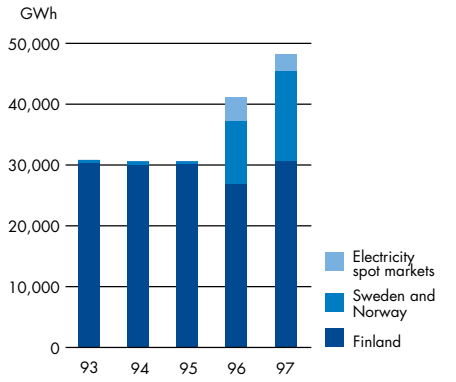
HEATING PLANTS	MW[4]
Imatran Voima Oy	109/63
Järvenpää	30
Kievari	15
Kouvola	46
Lohja	18/38
Säynätsalo	–/25
Gullspång Group	210
Jyväskylän Energiantuotanto Oy	221[2]

SHARES IN PARTLY OWNED POWER PLANTS	MW	IVO Group's share MW
Nordic countries		
Imatran Voima Oy		1,513
Helsingin Energia/Vuosaari A	165	110
Helsingin Energia/Vuosaari B	450	130
Kemijoki Oy	830	511
Lahden Lämpövoima Oy	195	98
Lappeenrannan Lämpövoima Oy	190	95
Oulun Energia/Toppila 2	130	55
Pamilo Oy	84	41
Teollisuuden Voima Oy/Olkiluoto	1,560	415
Fixed-term shares		58
Gullspång Group		1,074
AB Aroskraft/Aros	560	186
Karlshamnsverkets Kraftgrupp AB/Karlshamn	996	179
Karskär Energi AB/Karskär	165	15
Mellansvensk Kraftgrupp AB/Forsmark	3,095	316
OKG AB/Oskarshamn	2,210	378
IVO Energi AB		
Mellansvensk Kraftgrupp AB/Forsmark	3,095	30
Other countries		
United Kingdom		
Humber Power Limited/Humber 1	750	169
Regional Power Generators Ltd/Brigg	240	60
Hungary		
Budapesti Erömü Rt., total	262/1,572/532[1]	112/671/227[1]
Malaysia		
Powertek Berhad/Teluk Gong	440	31
Thailand		
The Cogeneration Public Company Limited/COCO I, II	300/–/385[1]	33/–/43[1]

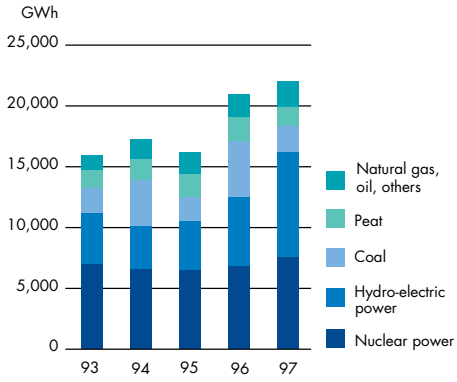
CAPACITY UNDER CONSTRUCTION	MW[1]	IVO Group's share MW[1]
Sweden		
Gullspång Group	19	19
United Kingdom		
Humber Power Limited/Humber 2	510	115
Thailand		
The Cogeneration Public Company Limited/COCO III	470/–/270	52/–/30

1) Electricity/district heat/process steam output. 2) IVO's share of ownership 60%.
3) Teollisuuden Voima Oy holds an output share of 187 MW. 4) District heat/process steam output.

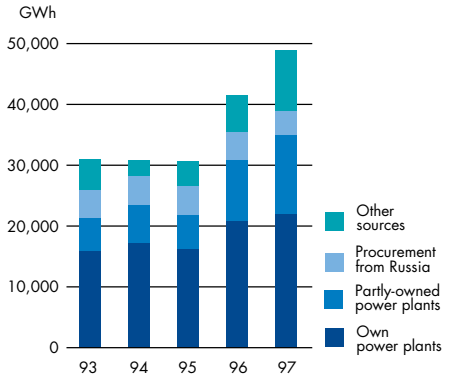
ELECTRICITY SALES



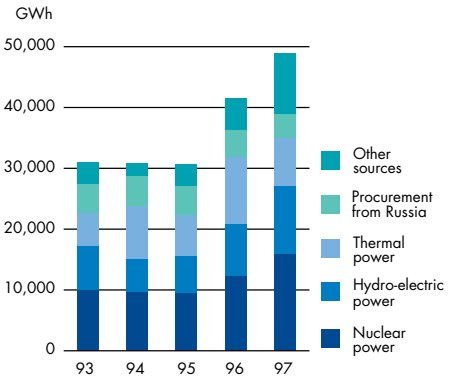
ELECTRICITY GENERATION BY ENERGY SOURCE



ELECTRICITY PROCUREMENT BY SOURCE



ELECTRICITY PROCUREMENT BY ENERGY TYPE



ENVIRONMENTAL PROTECTION

Development of IVO's environmental protection systems to the ISO 14001 standard was launched in autumn 1996. The objective is to achieve certification during 1998. Crucial issues in the development of the environmental management system include the definition of long-term environmental targets, the supervision of the environmental quality of sub-suppliers and contractors, and the development of electricity products. Environmental audits were carried out at the Haapavesi, Imatra, Inkoo, Meri-Pori and Toranki power plants.

Gullspång has chosen the EU's EMAS system as the basis for the environmental management of its energy production. The Gullspång, Jössefors, Höljes and Hällefors hydro-electric power plants were registered to the system in early 1997. The objective is for the Group's entire energy production machinery to be accredited by the end of 1998. Gullspång Nät AB's objective is to adopt a quality system in accordance with the ISO 9001 standard and to have its entire operations certified by the middle of 1998. The intention is to extend the quality systems and to have them certified to the ISO 14001 standard by the end of 1999. Länsivoima is also currently drawing up an operating programme to develop environmental management.

IVO's power plants are fitted with the best available air pollution control technology. The measures implemented at the Inkoo power plant during spring and autumn concluded the extensive investment programme for air pollution control which had been carried out mainly in the 1990s. As a result of the burner conversions made in the plant's unit 3, nitrogen oxide emissions from the boiler were cut to half the earlier figure. In addition, the capacity of the electrostatic precipitators was increased in units 2 and 3. The improved combustion technology and particle separation also increase potential uses for ash and gypsum.

The repository for low- and intermediate-level nuclear waste was completed on the power plant island of Hästholmen in Loviisa. The first low-level waste lots were placed in the repository in the spring. Provision has been made for the final disposal of spent fuel by extending the intermediate storage facilities, where the spent fuel removed from the reactors is stored until it is finally disposed of as planned in Finland's bedrock.

The majority of the IVO Group's emissions originate from energy production in Finland. The sulphur dioxide emissions from IVO's power plants totalled 11,500 tonnes, nitrogen oxide emissions 11,500 tonnes, particle emissions 960 tonnes and carbon dioxide emissions 7 million tonnes. Almost 80% of the by-products from flue gas cleaning were utilised. Detailed information on the environmental loads of IVO's power plants is given in the IVO Group's annual Environmental Report.

THE ELECTRICITY MARKET IN THE NORDIC COUNTRIES

In the Nordic market, the power trade in the grid is valued at some FIM 60 billion annually and, in Finland, at some FIM 12 billion. In the Nordic countries, the use of electricity totalled more than 360 TWh. In Finland, electricity consumption increased by an exceptional 5%, to well over 73 TWh, as a result of a strong economic upturn. In the other Nordic countries, the demand has increased slowly in recent years.

A major part of the power trade continues to be contract-based, albeit increasingly shorter contracts, which are signed between generators and large-scale customers. About 15% of the electricity produced in Norway and Sweden is sold in the Norwegian-Swedish electricity exchange, Nord Pool, where the market price of electricity is quoted on an hourly basis. Financial products, with the aid of which electricity is quoted in stock exchanges and which brokers offer to their customers, have increased their share of the power trade.

In the Nordic countries, the market price of electricity varies considerably in line with the amount of rain. Because of low rainfall levels in 1996, the market price was high at the beginning of 1997, but dropped rapidly as a result of the early spring. During the year, the average market price was very low, other than for a short peak in December when the weather was cold. Maintenance outages at Sweden's nuclear power plants also raised the market price temporarily.

In EL-EX, the private Finnish Electricity Exchange, business has been relatively slack. At the beginning of 1998, the ownership of EL-EX passed to Finnish Power Grid Plc, which has an objective to integrate EL-EX into the Nordic exchange operations.

In Finland, electricity taxation is now focused on consumption, as in the other Nordic countries. The change in taxation improved the competitive position of Finnish players in the Nordic market.

ELECTRICITY SALES IN THE IVO GROUP

The IVO Group supplies electricity from power plants which it wholly or jointly owns, from other Nordic generators, from Russia and from electricity spot markets. Electricity is sold to industry, electricity companies, buying consortia and electricity spot market customers.

In its Nordic domestic market, the IVO Group sold a total of 48.1 TWh of electricity, 2.8 TWh of which was sold in the spot markets. Electricity sales increased by 17% on the previous year, with most of the growth coming from Gullspång and Länsivoima. New industrial customers were won from the deregulated electricity market, and the earlier volume of orders was increased with several companies. For example, IVO agreed a long-term contract with Swedish TelgeKraft AB.

The exceptional diversity of our power procurement structure and our ability to use economical energy sources ensure competitive prices and reliable supplies. In Finland, IVO's Energy Management Centre is responsible for ensuring that our customers have the electricity they need and that the Group procures electricity in the most efficient and cost-effective way. The IVO Group has a 13% market share of the Nordic power trade.

In November, IVO, together with Imatran Seudun Sähkö Oy, Joutsenon Energia Oy, Keuruun Sähkö Oy, Länsivoima Oy, Parikkalan Valo Oy and Tuusulanjärvi Energy Ltd, established the IVO Partners chain. Forssan Energia Oy and Naantalin Energia Oy joined the chain later, and negotiations are being conducted with several other companies.

The chain is intended to improve the competitive position of IVO and the partners in the Nordic electricity market. The IVO Partners chain means practical co-operation in marketing between energy producer and electricity supplier. The strength of the new chain lies in the combination of local expertise with nation-wide marketing and the provision of common services. Belonging to the chain does not, however, force suppliers to buy their electricity from IVO.

In the open market, electricity has become simply another commodity. The IVO Partners chain was created to meet the challenges presented by the market.

THE MARKET FOR ELECTRICITY DISTRIBUTION IN THE NORDIC COUNTRIES

The Nordic electricity companies sell some 200 TWh of electricity each year to 14 million customers in small companies and households. The market value of electricity is well over FIM 35 billion, while that of electricity distribution is around FIM 40 billion. There are about 700 electricity companies in the Nordic countries, the 15 largest of which cover a third of the market.

In Norway, Sweden and Finland, electricity market legislation has made it possible for all electricity users to ask suppliers to tender. In Sweden and, up to now also in Finland, however, an expensive meter which is able to measure energy on an hourly basis has been a prerequisite for tendering and has restricted competition among small consumers. When an amendment of the law, which is pending in Finland, comes into effect during 1998, measurement on an hourly basis will no longer be required from small customers, and the settlement of power invoicing is calculated by means of load profiles, in the same way as in Norway.

Customers who are already able to take advantage of competitive tendering have done so readily. In Finland, for example, more than half of customers have negotiated new electricity contracts, although most have been with their existing supplier.

The market is currently extremely volatile. Suppliers compete for customers by means of different service models and product structures. Investment in marketing has increased substantially. Increased competitiveness has been sought by making acquisitions and entering into joint ventures. This, in turn, has reduced the number, and increased the size, of companies. The municipalities, in particular, have begun to reconsider their roles as owners. For many of them, it is clear that, in today's markets, the energy business is no longer a core operation and, as a result, they are seeking to profit from their investments in energy.

IVO GROUP'S ELECTRICITY DISTRIBUTION AND SUPPLY

The business expanded considerably when Länsivoima was acquired in January and brought the IVO Group 225,000 new customers. IVO's subsidiaries operating in Finland had at the year end some 330,000 electricity customers, mainly in the south and west of the country. The Gullspång Group has about 360,000 customers, most of which are in central Sweden. In electricity distribution, the IVO Group has about a 5% share of the Nordic market, and its transmission and distribution network measures about 113,000 kilometres. On a local level, we also sell heat to small companies and to households.

At the beginning of September, IVO sold its entire 50% share in Uudenmaan Energia Oy to Länsivoima. In addition, Länsivoima sold its shares in Suomen Voimatekniikka Oy and Kymppivoima Oy and, in the autumn, established a new company, Länsitec Oy, which focuses on the construction and maintenance of networks. After ownership arrangements made in January 1998, Länsivoima owns 65% and IVO Power Engineering Ltd 35% of Länsitec Oy. IVO's ownership of Imatran Seudun Sähkö Oy increased from 8% to 12%. In March 1998, the town of Järvenpää and the municipality of Tuusula sold their shares in Tuusulanjärvi Energy Ltd to IVO, after which the company is wholly owned by IVO.

In Sweden, Gullspång acquired the entire share capital of Ljusnarsbergs Energi AB and Tivedsenergi AB, and a 49% share in Katrineholm Energi AB. As a result of the deals, Gullspång acquired about 30,000 new customers. Negotiations aimed at the merger of Gullspång and Stockholm Energi AB began in December. Should these succeed, the new company will be Sweden's largest electricity company in terms of customers.

Considerable investments are made in the development of electricity products and customer services. At the beginning of July, the marketing of the HemEl® electricity product became nationwide in Sweden when small consumers became able to take advantage of competitive tendering. At the year end, HemEl® had 340,000 contract customers. The sale of the JobbEl® product to small companies was also launched towards the end of the year. In Finland, Länsivoima and several of IVO's associated companies responded to ever-increasing competition for small customers by establishing the IVO Partners chain. At the same time, Länsivoima's profile was increased and the marketing of electricity to companies was strengthened.

TURNOVER, RESULT AND INVESTMENT

The turnover of the Energy business, at almost FIM 10.9 billion, increased by FIM 2.0 billion. Turnover from power sales amounted to FIM 9.8 billion, which is well over FIM 1.8 billion higher than in the previous year. As a result of a change in energy taxation, the turnover is not directly comparable with the previous year's figure. In Finland, turnover from electricity sales amounted to FIM 5.7 billion, of which almost FIM 1.3 billion constituted a comparable increase in sales. The inclusion of the Länsivoima Group in the figures had the most significant effect on turnover, but IVO's electricity sales in Finland also increased.

In Sweden and Norway, turnover from electricity sales increased by a quarter, to well over FIM 4.1 billion. Most of the growth came from the integration of the Gullspång Group with the Energy business for the entire year. On the other hand, IVO's electricity sales to the Norwegian-Swedish electricity spot market were markedly reduced.

Heat sales, at FIM 0.9 billion, increased by FIM 93 million. The change in energy taxation accounted for about half this growth. The sale of process steam increased, primarily as a result of the commissioning of the Kirkniemi power plant.

The operating profit, at FIM 1.9 billion, grew by FIM 0.6 billion and was 17% of the turnover. The increase in the operating profit resulted from the Länsivoima Group's increased share, from Gullspång Group's inclusion in the figures for the whole year, and from IVO's increased electricity sales. On the other hand, the low market price of electricity and the considerable reduction in power trading through the electricity spot markets, had an adverse effect.

The Energy business invested FIM 6.9 billion, primarily in power and electricity companies. Kemijoki Oy's hydropower shares were acquired from the State of Finland for less than FIM 1.6 billion, and a total of FIM 3.5 billion was invested in Gullspång shares. Länsivoima shares were purchased for around FIM 0.3 billion. In Hungary, IVO invested FIM 136 million in the minority share of Budapesti Erömü and, in Russia, FIM 57 million in the shares of Lenenergo.

RESEARCH AND DEVELOPMENT

The Energy business invested FIM 70 million in research and development during the year.

The Energy business aggregated the IVO Group's common development programmes in order to develop power trading

services and to increase the efficiency of the distribution network operations. Crucial issues in power trading include modern information and communications technologies, which help to apply new solutions to customer communication and to data management between customers and the electricity company.

Models and comparisons which are being developed for the management of the operating costs of the network are also vital to the distribution network operations.

The transmission of measurement data to customers was tested via the Internet. The suitability for small customers of load profiles, and the differences between various meters from the viewpoints of the different parties, were studied.

SHORT–TERM OUTLOOK

Electricity demand in the Nordic countries continues to grow slowly. The political decision made in Sweden to close the Barsebäck nuclear power plant will, if it is implemented, decrease the supply of inexpensive base-load capacity. Capacity of the transmission lines between the Nordic countries and central Europe, where the price of electricity is higher, will be increased. These factors are all likely to add pressure for an increase in electricity prices and to expedite the decision to build new capacity.

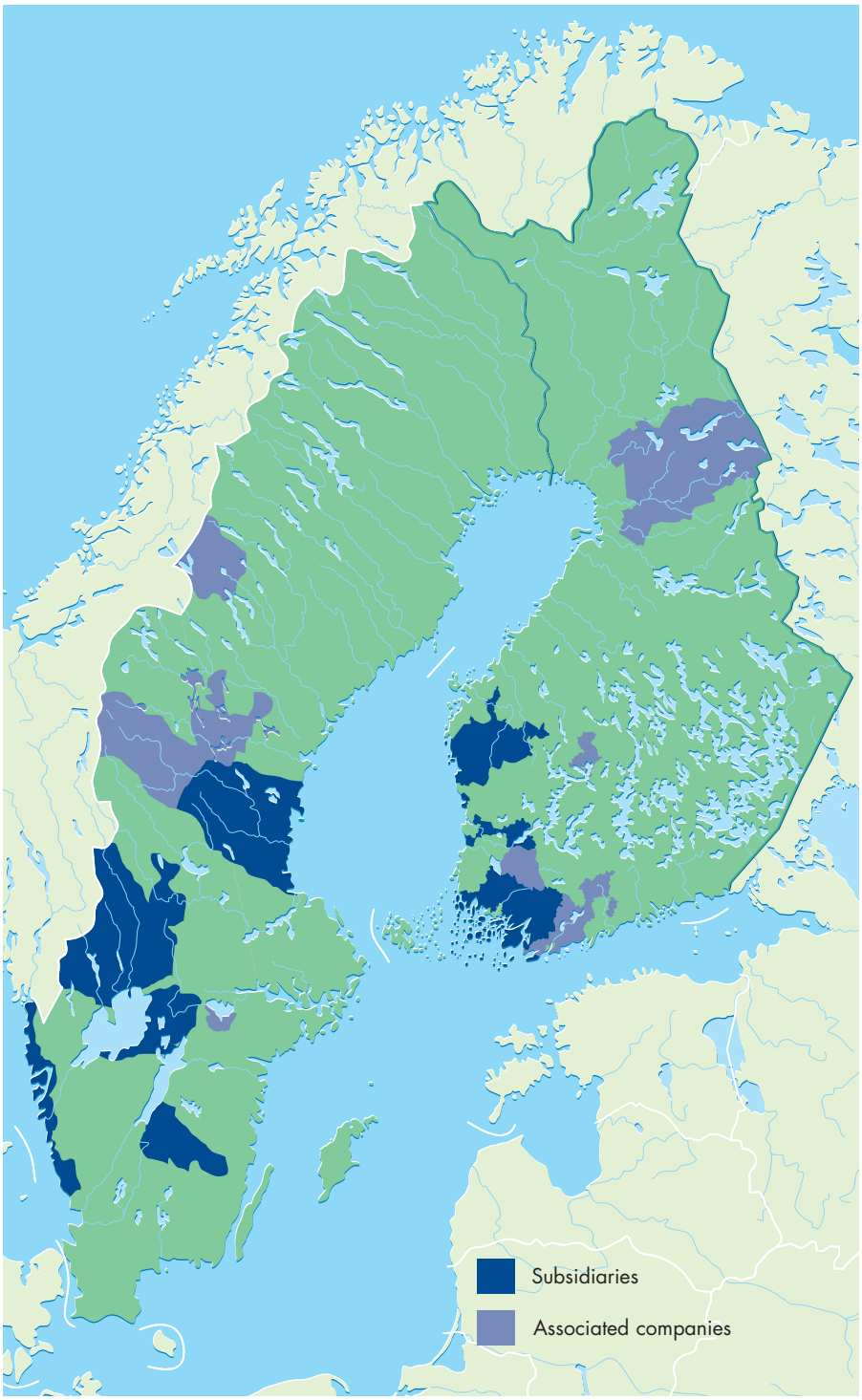
In the deregulated markets, competition for customers will continue to become keener and contract periods shorter. As small customers begin to ask for tenders from their electricity suppliers, services and marketing, as well as market profile and price, will become important competitive factors. Trading volumes in the electricity spot markets will grow while, at the same time, the price of electricity will increasingly fluctuate in concert with the market situation.

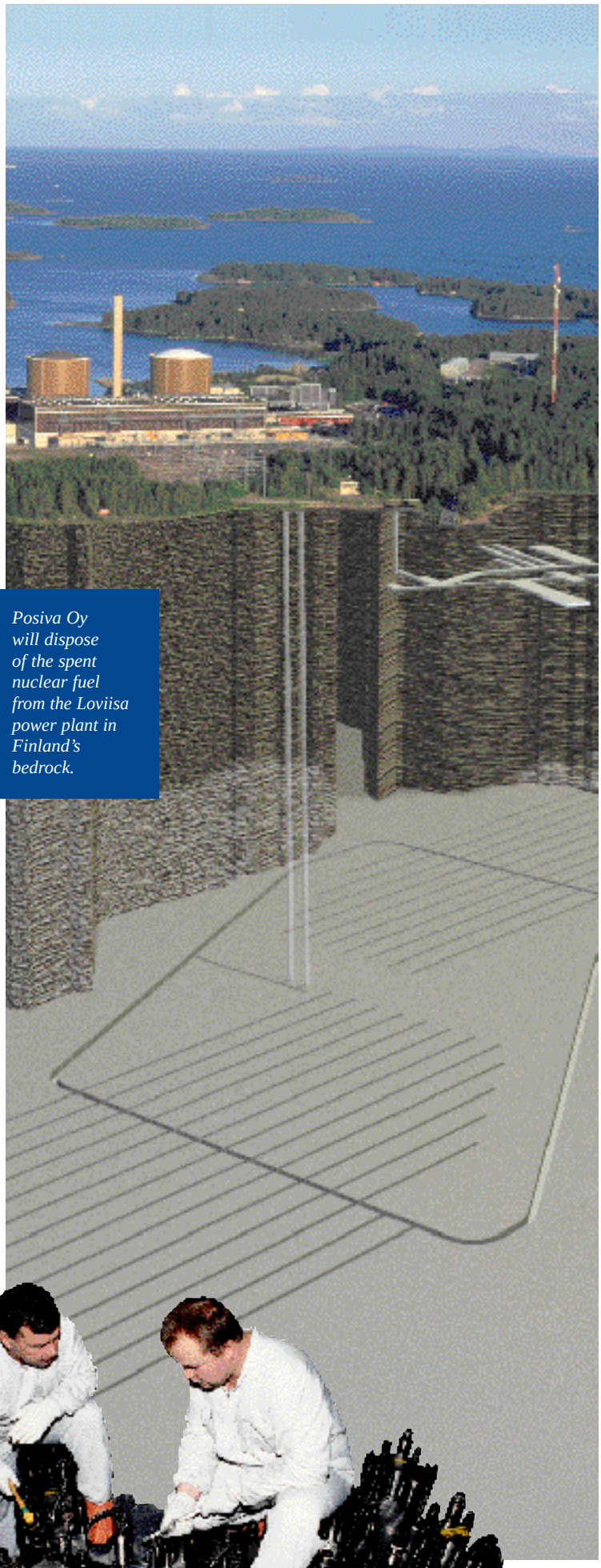
In the Nordic electricity distribution and supply market, the IVO Group is endeavouring to strengthen its position. In this respect, the proposed merger of Gullspång and Stockholm Energi would be a significant step forward if it were to succeed. Negotiations for extending co-operation in central Finland have also taken place.

In Finland, IVO prepared to increase the generating capacity of the Naantali and Inkoo plants. Similarly, Teollisuuden Voima Oy launched an environmental impact assessment for a new nuclear power plant. IVO Group sees extensive potential for co-operation between municipalities and industrial enterprises in the CHP, particularly in Sweden. In this market, IVO's long experience of power-plant co-operation with Finnish municipalities and large-scale industry gives it a strong competitive edge. No contracts have, however, been concluded because of the over-capacity in the electricity market, the corresponding low price and the delay in decisions on subsidies by the State of Sweden.

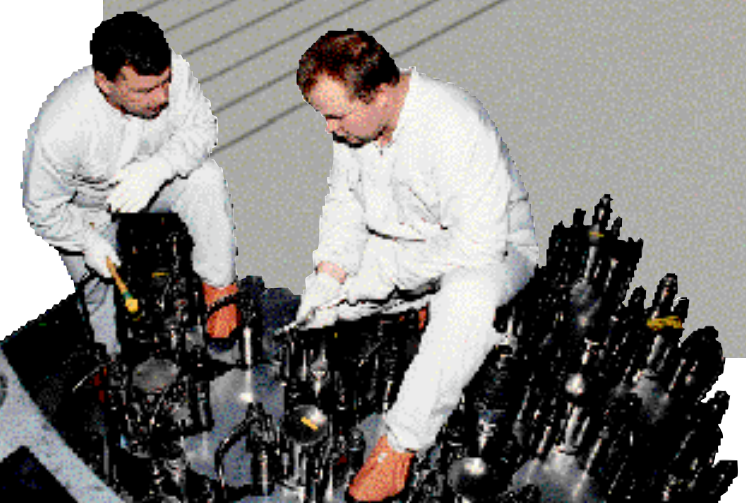
The potential for constructing CHP capacity will not only open up in the Nordic domestic market, but also in the UK and Germany, as the trend towards outsourcing power plant projects and ownership to energy experts, enabling companies to focus on their core businesses, gathers force. The ownership of electricity companies will continue to change; municipalities, in particular, have paid increasing attention to the risks associated with ownership. In South East Asia, the outlook is affected by the economic crisis.

IVO GROUP'S HOLDINGS IN ELECTRICITY COMPANIES AS AT DECEMBER 31, 1997





Posiva Oy will dispose of the spent nuclear fuel from the Loviisa power plant in Finland's bedrock.



NUCLEAR POWER IN THE IVO GROUP

IVO owns the 930 MW Loviisa power plant, which consists of two VVER-440-type pressurised water reactors. Loviisa is the only VVER plant in the world designed and constructed to meet Western safety standards. The units started commercial operation in 1977 and 1981.

Since the beginning of commercial operation, the average load factor has been 83.6% at unit 1, and 87.1% at unit 2. In 1997, the load factor of unit 1 was 94.3% while that of unit 2 was 94.7%, making the Loviisa power plant one of the most efficient nuclear power plants in the world.

The units are now being modernised in order to increase capacity by some 10% and to extend substantially the plant's operating life. Tests associated with modernisation and power upgrading at raised reactor levels proceeded according to plan. After the tests, long-term trial run of both units continued at 107% power. The volume of production was the highest ever, 8 TWh. The modernisation project, begun in 1995, is expected to be completed in 2000.

IVO owns a 415 MW share of the Olkiluoto nuclear power plant's output through its 26.6% shareholding in Teollisuuden Voima Oy. In addition, it owns an output share of 346 MW of the Forsmark nuclear power plant and of 378 MW of the Oskarshamn nuclear power plant in Sweden through its subsidiaries.

Since 1997, spent fuel from Loviisa is disposed of in Finland, whereas it was previously returned to Russia. After interim storage on site, it will be disposed of by Posiva Oy, a company owned jointly by Teollisuuden Voima and IVO, in Finland's bedrock. Site investigations and environmental impact assessments for the final disposal have been made in Eurajoki, Kuhmo and Äänekoski and, since the beginning of 1997, in Loviisa. The decision on which site to use will be made in the year 2000. Spent fuel in Sweden is disposed of by Svensk Kärnbränslehantering AB, which is also working on the site-selection programme.

In Finland, financial provision has been made for handling and disposing of nuclear waste since nuclear power was introduced. The cost is included in the price of nuclear electricity and is allocated to the Nuclear Waste Disposal Fund of Finland, which is supervised by the Ministry of Trade and Industry. In Sweden, the cost of future nuclear waste management is also included in the price of nuclear electricity.

On December 31, 1997, liability for the waste from Loviisa was confirmed by the Ministry of Trade and Industry at FIM 2,624.4 million, FIM 1,856.3 million of which was collected in the reserve fund by April 1, 1998. The shortfall is covered by securities. The fund is expected to cover the liability in the year 2000. Until then, it will be added to by an average of FIM 200 million each year, with a concomitant reduction in securities. IVO is permitted to borrow 75% of the funded sum.

In the IVO Group's financial statements for 1997, FIM 567 million was entered in extraordinary items for the liability for nuclear waste disposal. The liability is fully covered, as the forecast development of the liability and the interest income of the fund for the subsequent three years are taken into account.

OPERATION AND MAINTENANCE

KEY FIGURES

	1997	1996
Turnover, FIM million	1,092	930
Operating profit, FIM million	88	92
– % of turnover	8	10
Investment, FIM million	35	21
Capital employed, FIM million	149	143
Number of employees as at December 31	2,465	2,077

The Operation and Maintenance business comprises the operation services of power plants and local heating services (IVO O&M), and IVO Service maintenance.

IVO O&M carries out long-term turnkey operation and maintenance at customers' power plants, enabling the customers to focus on the development of their core businesses. Local heating services, IVO O&M's latest product, is an energy supply contract which is tailored to customers' needs and comprises the building, operation and maintenance of a heating plant as well as the sale of the energy it generates. Local heating services, which use local fuels and fuels produced as industrial by-products, also use IVO's other services in the region.

IVO Service covers everything from a single operation to a contract for the maintenance of an entire plant or site. Our customers include owners and operators of industrial plants, power plants and substations. Municipalities and centres of population are becoming customers, as local heating is introduced.

The Operation and Maintenance business, which is operated by IVO Generation Services Group, functions in Finland, the UK, Sweden, Hungary, Indonesia, Malaysia and Thailand.

MARKET REVIEW

The market for power plant operation and maintenance services continues to grow in the Nordic countries as well as in Europe. The economic recession in South East Asia has contributed to a slow down in the operation and maintenance markets. In particular, new projects have been postponed.

In Finland, the operation services market is in its infancy, but interest in it is increasing. There is strong growth and intense competition in the market for contracted industrial maintenance services in all industries throughout the country.

IVO GROUP'S OPERATIONS

The Operation and Maintenance business's contracts cover about 6,300 MW of power capacity and 2,500 MW of process steam and district heating capacity. This capacity comprises 62 power plant and heating plant units, six of which are outside Finland.

In Finland, the operation of Schauman Wood Oy's Joensuu mill's power plant was started up as a remote control operation from IVO's Joensuu power plant. In Valkeakoski, a further contract was signed for the operation and maintenance of Säteri mills' power plant. The first contract was signed in 1996, and the power plant passed into IVO's ownership at the end of the year.

In May, a particularly significant local heat supply came into operation, at Jyväskylä, as the 25 MW heating plant built for Schauman Wood Oy's plywood works was completed. The plant is operated by remote control from IVO's Rauhalahti power plant.

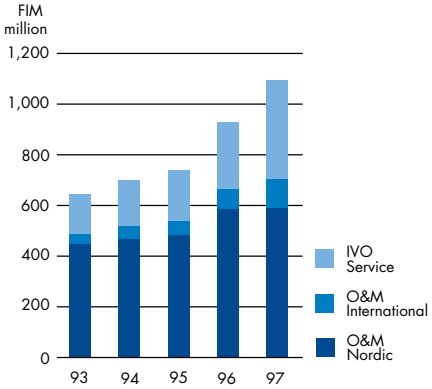
Birka Service AB, which began in Sweden at the end of 1996, considerably extended its operations in the maintenance market in central Sweden. It also acquired three local maintenance companies. IVO owns 50% of the parent company of Birka Service.

In the UK, the first 750 MW unit of the Humber combined-cycle gas turbine plant was commissioned in April. It is operated and maintained by IVO Generation Services (UK) Ltd. The company obtained a corresponding contract on the second 510 MW unit of the Humber plant to be completed at the end of 1998.

In Malaysia, a survey for the conversion of the Teluk Gong power plant to a combined-cycle plant began. The considerable increase in power output which conversion would bring would create the potential for extending the present operation and maintenance contract. In Indonesia, long-term contracts were obtained for the operation and maintenance of two power plants which are under construction. It is scheduled today that the Sibolga 220 MW and the Amurang 110 MW power plants will start generating electricity at the beginning of 2000. In Thailand, the preparation of the operation and maintenance contract for the Hin Krut power plant progressed to schedule and as planned. The economic crisis in South East Asia resulted in delays and reassessments of independent power plant projects in Indonesia and Thailand.

In Finland, the Operation and Maintenance business increased its service capacity through the acquisition of a majority share in Kymen Kunnossapito Oy and all the shares of Support Service Oy. As a

OPERATION AND MAINTENANCE TURNOVER



TURNOVER BY BUSINESS AREA

FIM million	1997	1996
O&M Nordic	591	588
O&M International	114	79
IVO Service	387	263
Total	1,092	930

OPERATION-TIME ENERGY AVAILABILITY OF POWER PLANTS

%	1997	1996	1995
Natural gas-fired power plants	99.1	99.4	99.2
Peat and wood-fired power plants	99.2	99.0	98.9
Coal-fired power plants	97.4	97.5	92.7
Average	98.2	98.1	94.9

The five-year average was 96.2% in 1997-93, 95.1% in 1996-92, and 94.1% in 1995-91.

OPERATION-TIME TIME AVAILABILITY OF HYDRO-ELECTRIC POWER PLANTS*

%	1997	1996	1995
Hydro-electric power plants	99.7	99.0	99.8

* Power plants for which the Operation and Maintenance business is responsible in Finland.

NUMBER OF EMPLOYEES BY BUSINESS AREA AS AT DECEMBER 31

	1997	1996
O&M Nordic	791	794
O&M International	142	127
IVO Service	1,532	1,156
Total	2,465	2,077

result of the acquisitions, the subsidiaries Raaseporin Kunnossapito Oy and Hämeen Kunnossapito Oy, became wholly-owned subsidiaries of the Operation and Maintenance business. A new IVO Service office was established in Jyväskylä to serve customers in central Finland.

The largest increase in the demand for IVO Service products was in contracted maintenance which is tailored to customers' needs. New customers in Finland include Valmet Corporation's Pansio works, UPM-Kymmene Corporation's Pietarsaari works, Valio Finnish Co-operative Dairies' Association's industrial plant in Iisalmi, and Puhos Board Oy in Kitee. A contract was signed to extend the maintenance co-operation with OMG Kokkola Chemicals Oy.

Significant installation and maintenance assignments in Finland and Sweden were achieved by the special maintenance business. In Finland, the market position was strengthened, despite increasingly severe competition. In the UK, IVO Service operations were initiated and, in Hungary, a marketing company, in co-operation with the Budapest energy company Budapesti Erömü Rt., was established for marketing of the maintenance services.

TURNOVER AND RESULT

Turnover of the Operation and Maintenance business increased to FIM 1,092 million, 17% up on the previous year. O&M International and IVO Service businesses recorded the most significant growth. Around 87% of turnover emanated from the Nordic domestic market, and turnover from outside the IVO Group increased from 34% to 43%.

Results were good: operating profit totalled FIM 88 million; profit before extraordinary items was about FIM 95 million, or 9% of turnover.

Turnover is expected to increase to some FIM 1.2 billion in 1998.

RESEARCH AND DEVELOPMENT

Nearly FIM 20 million, about 2% of turnover, was invested in research and development, and development of human resources.

In order to reduce the special expertise required on site, a remote support system was developed for power plant operation and maintenance. Expert services, centralised at specially-established support centres, will save costs and improve the reliability of power plants. The remote support operation was initiated at the Glanford Brigg and Peterborough power plants in the UK at the beginning of 1998.

QUALITY AND ENVIRONMENTAL PROTECTION

Development work continued at the power plants in line with quality and environmental management systems. A two-year project has culminated in all power plants outside Finland, and most power plants in Finland, having a quality system which meets the ISO 9002 standard. The Rauhalahti power plant in Jyväskylä, Finland and the Glanford Brigg, Peterborough and Humber power plants in the UK have additionally been accredited to the environmental standard, ISO 14001. Customers co-operated with IVO in this work.

HUMAN RESOURCES

The Operation and Maintenance business makes goal-orientated investments in its employees' development and expertise. Training to increase their knowledge was targeted to meet strategic objectives and customer needs. A number of varied training and apprenticeship programmes, in addition to target-orientated job rotation, were used.

Programmes were used to improve employees' working capacity, involvement and industrial safety.

SHORT-TERM OUTLOOK

The demand for operation services is increasing in our target areas: Finland, Sweden and several central European countries. The economic recession in South East Asia is expected to continue to result in the postponement of projects, particularly those for new power plants, and will affect the growth potential of the operation and maintenance business in this region.

In Finland, the indications are that the maintenance business will continue to grow rapidly, particularly in contracted maintenance. The outlook for the special maintenance sector in Sweden, Hungary and the UK markets is promising.

Customers' competitiveness is strengthened with good co-operation in the operation and maintenance sector and with continuous product development.

ENGINEERING

KEY FIGURES

	1997	1996
Turnover, FIM million	2,152	1,974
Operating profit, FIM million	80	29
– % of turnover	4	1
Investment, FIM million	35	90
Capital employed, FIM million	600	541
Order book, FIM billion	2.1	2.4
Number of employees as at December 31	2,136	2,107

The Engineering business specialises in turnkey contracts for energy generation and transmission systems, and for railway electrification and antenna mast construction. In addition, it offers project management, design and consulting services. Our principal customers are in the power and electricity, railway, and telecommunications industries.

The power plant business focuses on the Czech Republic, Poland, Hungary, Russia, Romania, China, Thailand, Indonesia, and Finland and its neighbouring countries. The power transmission business targets Finland, Sweden, Norway and the Baltic countries, as well as certain countries which are covered by Nordic development aid. In Germany, the British Isles and Malaysia, we co-operate with other business sectors of the IVO Group.

Our extensive expertise and experience of a wide range of power plants, transmission systems, district heating systems, nuclear power engineering, environmental protection, automation, electrification, telecommunication and information systems, and the conservation of energy have strengthened our position in the countries in which we operate. Other important factors in our success include our own technology products, synergetic use of the expertise inherent in the IVO Group, alliances with significant partners, and our emphasis on domestic work. Our operating experience, flexibility and competitiveness, combined with the fact that we are truly independent of manufacturers, give us a competitive edge.

The Engineering business is operated by IVO Power Engineering Group, which is the largest organisation in this business in the Nordic countries.

MARKET REVIEW

Investment in new power plants in the Nordic countries continued to be very modest. For a number of reasons, including environmental ones, Russia needs to build new plants and to refurbish existing ones, but problems with financing delay investments. During the past few months, however, there have been signs of revival in this market. Discussions on how to meet future energy needs are continuing in the Baltic countries, and no major investments can be expected before these have been concluded.

In the Czech Republic, the small-scale district heating and power plant modernisation markets are in an interesting phase, and new power plant projects are being planned in Poland. In Romania, projects for the refurbishment of power plants have been opened to foreign suppliers, and international funds have been obtained. Decisions which have been made about building additional capacity in Hungary will give an important impetus to the market for new power plants. In China, foreign investment in power plants is on the increase; in addition, the country has a growing market for environmental protection technologies.

The level of investment in power transmission projects continued to be low in the Nordic countries, although the initiation of Finnish Power Grid Plc's operations improved the Finnish market for a while. In Norway, investment in strengthening the grid was delayed because of problems encountered in reclaiming land. Projects for the maintenance and refurbishment of transmission networks are increasing, both in Finland and in nearby areas. In developing countries, regional electrification projects are also increasing, but their achievement will depend entirely on international development aid.

New high-speed railways in the Nordic countries and western Europe are expected to result in growth in the railway electrification market. Railway electrification and refurbishment projects in Russia, the Baltic countries and eastern areas of central Europe offer new opportunities, while the extension of mobile phone networks is creating a rapidly-growing market for antenna mast supplies.

Projects to improve the safety of nuclear power plants, with financing from the European Union, are continuing in the CIS countries and in eastern areas of central Europe. While there are few new hydropower projects in the Nordic countries, the refurbishment sector showed signs of revival.

IVO GROUP'S ENGINEERING OPERATIONS

During the year, new orders worth around FIM 1.7 billion were received.

The Kirkniemi power plant, which IVO built in partnership with Metsä-Serla Corporation, was completed in the autumn. This turnkey contract, worth more than FIM 300 million, included design, the supply of equipment, installation, construction management and commissioning. The natural gas-fired power plant outputs 100 MW of electricity and 120 MW of process steam.

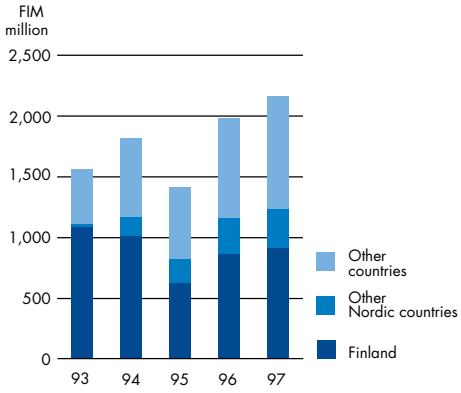
The Hovinsaari gas-fired power plant for Kotkan Energia Oy was completed in October to generate 49 MW of electricity and 50 MW of district heat. The total value of this project, including the refurbishment of the old power plant, was about FIM 190 million. The third unit of the Pamilo hydroelectric power plant was also completed in October and was worth about FIM 60 million.

The construction of a large-scale power plant in St Petersburg, which was begun at the end of 1994, is nearing conclusion. The Russian foreign trade company Technopromexport is the main contractor for the project, but IVO's Engineering business leads the consortium implementing those parts of the project which were awarded to companies in the West. The total value of the consortium's contracts is some FIM 2 billion, about half of which will be payable to IVO. The plant is designed to output 900 MW of electricity and 800 MW of district heat. After the construction is completed, equipment installation will begin; some of these installations form part of the Western contracts.

The first contract for a power plant was signed in Poland. IVO's Engineering business leads the consortium which will provide the Polish power company EC Tychy S.A. with a power plant to generate electricity and district heat for the city of Tychy. The project, worth more than FIM 200 million, is due for completion at the end of 1999. Contracts for power plant refurbishments were received from Poland and from Romania. Conversion systems for combustion technology are to be delivered for two boilers at the Siekierki coal-fired power plant in Poland, while the Iasi and Suceava coal-fired power plants in Romania will each be provided with a new combustion system developed by IVO. Completion of these projects, worth about FIM 180 million, is scheduled for the period 1998-99.

The Engineering business completed several important power plant projects.

ENGINEERING TURNOVER



TURNOVER BY BUSINESS AREA

FIM million	1997	1996
Power plant engineering	1,036	932
Power transmission engineering	1,017	909
Nuclear power engineering	69	137
Hydropower engineering	30	41
Sales between business units	–	– 45
Total	2,152	1,974

OUTSTANDING ORDERS AS AT DECEMBER 31

FIM million	1997	1996
Finland	378	675
Other Nordic countries	100	162
Other countries	1,608	1,580
Total	2,086	2,417

NUMBER OF EMPLOYEES BY BUSINESS AREA AS AT DECEMBER 31

	1997	1996
Power plant engineering	1,006	1,032
Power transmission engineering	961	909
Nuclear power engineering	119	118
Hydropower engineering	27	25
Corporate staff	23	23
Total	2,136	2,107

In the Czech Republic, the first stage of the desulphurisation plant being built for the Chvaletice brown-coal-fired power plant was completed; the second stage will be completed in June 1998. The Olomouc power plant project progressed on schedule, despite floods in the area. The Engineering business is leading the consortium in Olomouc which is constructing a power plant for the Czech power company Moravskoslezské Teplárny a.s. to generate electricity, district heat and process steam. The project, due for completion in November 1998, is worth more than FIM 300 million.

The most significant orders for power transmission in Finland were obtained from Finnish Power Grid, for which IVO will provide two substations and more than 70 kilometres of power line. In Latvia, the construction of a fibre-optic network continued. An additional order was obtained for a cable project which is underway in Abu Dhabi; at the same time, the implementation schedule for the project was extended to February 1999. A contract for 110 kilometres of 132 kV power line was signed in Nepal and, in India, this business obtained a telecommunications project worth about FIM 120 million. A major part of this project is for equipment from Nokia Telecommunications.

The power transmission is working in a consortium of power companies from five countries which is investigating the possibility of connecting the electricity networks of Russia, Belarus, Ukraine and Moldavia with the west European joint operation network UCPTE. This project, which began in December, is scheduled to take a year and a half and will be financed through the EU's Tacis programme.

The Engineering business's expertise in nuclear power is also in demand. An order for a uranium processing system was received from Kazakhstan and, in Slovakia, the development and testing of a reactor cooling system began at the Bohunice VVER-440 nuclear power plant. In addition, embrittlement characteristics of a VVER-440 reactor pressure vessel are being investigated with a Czech subcontractor. The EU's Phare programme will be responsible for financing both of these projects. In 1998, the Leningrad nuclear power plant, in Sosnovy Bor, will be provided with three systems to improve fire safety and access control. A training simulator, which will help to improve availability and safety, was delivered to and introduced at the Kola nuclear power plant.

The Engineering business has been consulting Russian design organisations for a number of years on two VVER-type nuclear power plant projects to be built in China. In January 1998, the parties to these projects signed an additional contract on IVO's participation in the design of the Lianyungang nuclear power plant. The contract includes checking the reactor building's layout plans, detailed structural drawings, and training Russian designers in Finland.

Electric Rails Ltd continued the electrification of railways in Finland. The 170 kilometre electrified rail line between Tampere and Rauma became operational in January 1998. The electrification contract on the Skien railway yard and depot was completed in Norway. Towards the end of the year, Electric Rails obtained a significant order from SL Bansystem AB in Sweden for the electrification of the Snabbspårvägen line in the Stockholm area.

Transmast Ltd continued to deliver masts for Telecom Finland Ltd, and the company progressed its international expansion through the establishment of subsidiaries in Sweden, Latvia and Thailand, and a sales office in Estonia. In Thailand, Transmast Ltd obtained a significant contract for the building of base stations for a mobile phone network from Nokia Telecommunications (Thailand) Ltd. Transmast will carry out the project in collaboration with Electric Rails. Some of the projects of the Swedish company Transelectric AB and the Norwegian company AS Linjebygg are in developing countries. In addition, Linjebygg has established its position in the maintenance and service of oil rigs. Transelectric has a leading position in the Swedish market since its acquisition, at the end of 1996, of the power transmission business of ABB Electrotec.

TURNOVER, RESULT AND INVESTMENT

Turnover of the Engineering business was FIM 2,152 million, about 9% higher than in the previous year. The major part of this growth came from exports and overseas operations, which together accounted for 58% of turnover.

Operating profit, at FIM 80 million, was FIM 51 million higher than in 1996. Profit before extraordinary items and tax was FIM 72 million, up from FIM 23 million in the previous year, primarily as a result of increased efficiency of the parent company's operations. Profitability

of the subsidiaries continued to be good.

The value of new orders was maintained at the previous year's level, FIM 1.7 billion. This fell, however, below target, primarily because decisions to commission several power plant projects were delayed. At the end of the year, the order book stood at FIM 2.1 billion, more than 82% of which was for orders from outside Finland.

During the year we invested a total of FIM 35 million in the business, the majority of which was to acquire machines, equipment and edp software.

RESEARCH AND DEVELOPMENT

A total of FIM 22 million, more than 1% of turnover, was invested in research and development.

At Vanaja, in Hämeenlinna, a new type of small-scale power plant was tested. The plant is in the 10-40 MW class and uses biomass, waste sludge and peat, and various mixtures of these fuels, in an environmentally-friendly way. The plant's boiler was converted to demonstrate the new methods. These technologies are also suitable for the refurbishment of medium-sized power plants, such as those in many countries in eastern Europe, where such refurbishments are in great demand.

The design and modelling software for energy technologies was extended to cover the combustion processes of power plant boilers and the control of emissions. Applications for this software, which increase energy control and the bulk flows of pulp and paper mills, were introduced. Based on the bed mixing dryer, which was developed by the IVO Technology Centre, a model was developed to deal with the waste sludge which is produced by the forest industry; this improves the use of energy at paper mills and reduces the effect on the environment.

The Engineering business also took an active part in a development project associated with the use, maintenance and building of electricity distribution networks.

SHORT–TERM OUTLOOK

It is expected that a number of projects, which have been in the pipeline for some time, will be ordered in the first part of 1998. New orders for projects worth more than FIM 1 billion are expected to be received. The largest of these are Europeat's peat-fired power plant in Ireland and a desulphurisation plant for the Kozienice power plant in Poland.

The power plant engineering business has achieved a stable position in selected market areas, in many of which business is beginning to revive. The inactivity in the Finnish market no longer hampers the growth of the business, since nearly 90% of turnover is expected to originate in the international markets. The synergy which exists in the IVO Group is an important element in the competitive strength.

The power transmission business will be demerged to a separate company at the beginning of 1999. The new company will increasingly direct its operations at the maintenance market and has increased potential for joint projects with electricity and telecommunication companies. The building and maintenance of electricity distribution networks has been investigated as a new market area and the building of mobile telephone networks provides worldwide opportunities, particularly as a subcontractor of equipment and system suppliers. We already co-operate with Nokia Telecommunications in Norway and Thailand.

The Engineering business continues to grow in international markets.

ENERGY MEASUREMENT

KEY FIGURES

	1997	1996
Turnover, FIM million	413	386
Operating profit, FIM million	32	34
– % of turnover	8	9
Investment, FIM million	44	19
Capital employed, FIM million	224	227
Number of employees as at December 31	610	550

The Energy Measurement business develops, manufactures and markets equipment, systems and services for measuring energy and load control for energy companies and industry. Since the electricity market is in the process of liberalisation, large buildings, housing companies and residential areas are now customers.

The product range includes energy meters, terminal units, and metering and control systems. This business now has a greater need to control a wide range of data transmission networks, as electricity and telecommunications networks, and other data transmission connections are used in communication technologies.

Enermet Group is responsible for the Energy Measurement business. The Group has operations in Finland and owns companies in Sweden, Norway, Denmark, the Netherlands, Germany, Switzerland, Australia and New Zealand.

MARKET REVIEW

During the past year, energy companies, authorities and the energy industry discussed the significance, to the participants in the industry and to consumers, of the liberalisation of the energy market and of the requirements of the new regulations for energy measurement.

The demand for remote reading systems has increased significantly in the Nordic countries, where individual households, as well as industry and trade, can now benefit from competition in the energy market. This has increased interest in energy measurement, remote reading systems, and in the potential of state-of-the-art technology to increase the efficiency of energy companies' operations. Central European countries are also considering an increased use of two-way systems.

IVO GROUP'S OPERATIONS

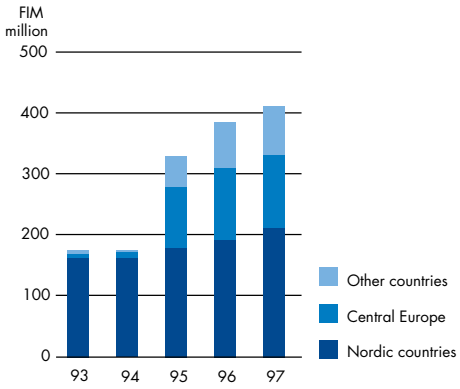
Competitive pricing and short bursts of demand have been characteristic of this business, while dramatic changes in our customers' businesses have created new pressures for product development and faster delivery. This was particularly marked towards the end of the year as the demand for metering systems and electricity meters equipped with electronic two-way terminal units increased. Growth was particularly rapid in the Nordic countries.

A similar trend was apparent in central Europe and Australia. The Energy Measurement business has a significant opportunity in the German market when Die Neue Messe München had ordered a new Avalon system to facilitate remote meter reading at the stands at its exhibition centre, which is currently under construction.

TURNOVER, RESULT AND INVESTMENT

The turnover of the Energy Measurement business was FIM 413 million, 7% higher than in the previous year. Exports and overseas operations accounted for 81% of

ENERGY MEASUREMENT TURNOVER



NUMBER OF EMPLOYEES BY TARGET AREA AS AT DECEMBER 31

	1997	1996
Nordic countries	432	377
Central Europe	127	124
Other countries	51	49
Total	610	550

turnover. Sales of electronic electricity meters increased in central Europe, while those of remote reading systems increased in the Nordic countries.

Operating profit was FIM 32 million, almost 8% of turnover. Profit before extraordinary items was FIM 27 million.

The majority of the business's FIM 43 million investment was in increasing its production capacity in Finland. In Switzerland, the automation of a ripple control receiver production line significantly improved our competitiveness.

PRODUCT DEVELOPMENT

During the year, FIM 35 million, 8% of turnover, was invested in product development and research. Investment was made in the development of a new Avalon energy metering and control system, which uses a number of different means, such as the telephone and electricity networks, of transmitting various types of data in an optimal way.

The evolution of energy meters focused on the development of modular meter families for the demanding European and Australasian markets. The development of a new-generation ripple control receiver strengthened our position as the leading supplier in this industry.

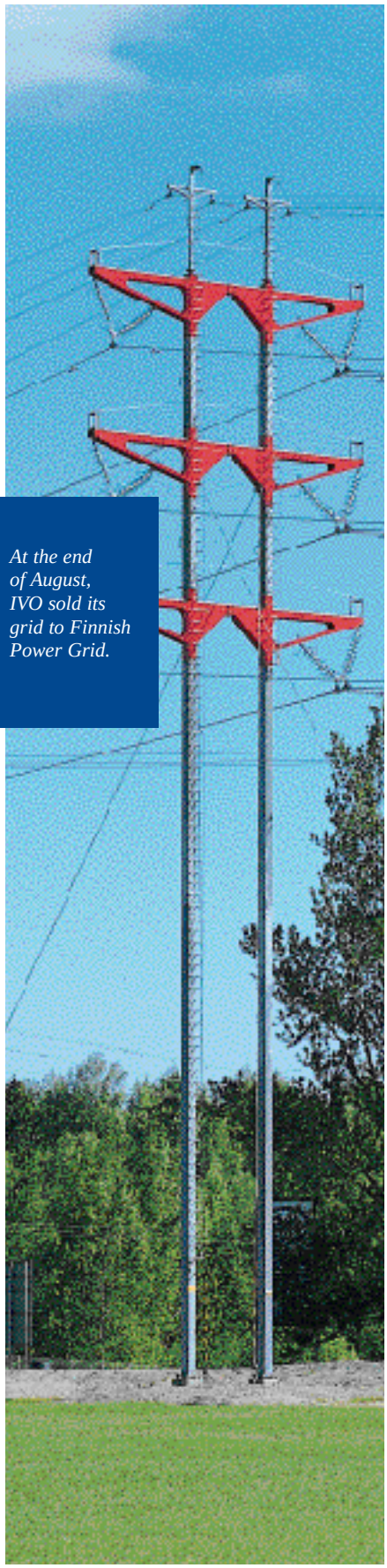
SHORT-TERM OUTLOOK

Our market position provides a solid basis for future development. This is supported by our targeted investment in the development and marketing of the metering systems, equipment and services which the changing energy markets call for.

The demand for metering systems is expected to grow, particularly in the Nordic countries, and that for electronic meters in central Europe and Australia. Despite increasing competition and rapidly-changing market conditions, turnover is expected to increase by about 10% in 1998, with profits being maintained at the present level.

The measuring needs of energy companies and industry are best met with advanced systems.

GRID SERVICES



At the end of August, IVO sold its grid to Finnish Power Grid.

KEY FIGURES

	1997[1)]	1996
Turnover, FIM million	671	1,101
Operating profit, FIM million	347	610
– % of turnover	52	55
Investment, FIM million	143	122
Number of employees as at December 31	–	232

1) The business sector was sold to Finnish Power Grid Plc on August 31, 1997.

IVO demerged its grid services in Finland into a separate company in 1992. Until the end of August, IVO Transmission Services Ltd (IVS) was responsible for the grid within Finland and for the alternating current connections from northern Finland to Sweden and Norway; IVO was responsible for other cross-border lines. This business controlled around 90% of the Finnish grid.

On September 1, 1997, Finnish Power Grid Plc (Fingrid), which had been established in November, 1996, by The Ministry of Trade and Industry, IVO and Pohjolan Voima Oy, began operating. At the same time, IVS's and IVO's grid, including the cross-border lines, was sold to the new company, which now controls, uses and develops the whole of Finland's grid and the electricity transmission connections to the neighbouring countries. IVO owns 25% of the shares and 33% of the voting rights in the new company. The rest of the company is owned by the State of Finland, Pohjolan Voima and 11 insurance companies.

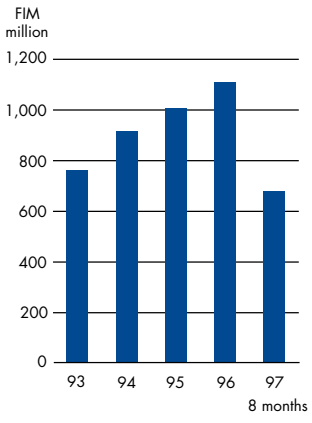
Transmission, which has been demerged as a separate business in Norway, Sweden and Finland, contributes to creating the necessary environment for a joint Nordic electricity market. In most EU countries, transmission is still an integral part of power companies, but the trend, albeit slow, is towards demerger.

TURNOVER AND RESULT

Grid Services' turnover for the eight months to August 31, totalled FIM 671 million (FIM 1,101 million for the 12 months of 1996). Operating profit was FIM 347 million (FIM 610 million).

Proceeds from the sale of the grid were FIM 5,448 million. In IVO Group's financial statements, the profit of FIM 3,485 million from the sale was entered under extraordinary items. A tax concession of FIM 621 million was granted on this deal. FIM 456 million of taxes was entered in the profit and loss account for the grid transaction.

GRID SERVICES TURNOVER



IMATRAN VOIMA OY
BOARD OF DIRECTORS' REPORT

IVO Group grew steadily and our position in the Nordic domestic market continued to improve significantly. The major structural changes included the sale of the grid and the cross-border lines, and the allocation of most of the sales proceeds from these deals to acquisitions from the small-scale consumer markets of electricity and heat. IVO's ownership in the Swedish company Gullspång Kraft AB exceeded 90%, and Länsivoima Oy became IVO's subsidiary.

Investigations into joint development of Imatran Voima Oy and Neste Oy were initiated at the beginning of the summer, and they were concluded in December, when the Cabinet Economic Policy Committee made a decision about the establishment of a holding company. IVO's and Neste's shares are intended to be transferred to this new holding company. Parliament's approval will be necessary for this arrangement.

Because of the normalisation of rainfall in the Nordic countries and abundant generation capacity, the market price of electricity remained low throughout the year.

Changes in the energy market created new business opportunities for the IVO Group even outside the domestic market, and all the business sectors developed well.

Despite the exceptionally active year, the investment of FIM 7.3 billion, the financing arrangements required by the investments and the sale of fixed assets, IVO Group's growth was balanced. The result improved and continued to be good, as in the previous year.

TURNOVER

IVO Group's turnover was FIM 13,775 million, up 15% on 1996's FIM 11,937 million. The majority of this growth came from the Gullspång and Länsivoima groups, the results of which are included for the entire period, unlike in the previous year. The Energy business showed the most significant growth (22%), followed by Operation and Maintenance (18%) and Engineering (9%).

Turnover from electricity sales increased by 23%, to FIM 9,815 million, up from FIM 7,990 million in the previous year. Sales volume increased by 17% on the previous year, to 48.1 TWh. A total of 58% of turnover from electricity sales came from Finland, where turnover increased by 22%, FIM 1,009 million, primarily as a result of Länsivoima Group's sales. The volume of electricity sold in Finland increased by 15%, to 30.6 TWh. In Norway and Sweden, IVO Group sold a total of 17.5 TWh of electricity, up by 22% on the previous year. Electricity sales accounted for 71% of IVO Group's total turnover.

Of IVO Group's turnover, 56% came from Finland and 35% from the other Nordic countries. Turnover from exports and overseas operations totalled FIM 6,097 million, up from FIM 5,050 million in the previous year. It accounted for 40% of turnover in the Energy business, for 58% in the Engineering business, and for 81% in the Energy Measurement business.

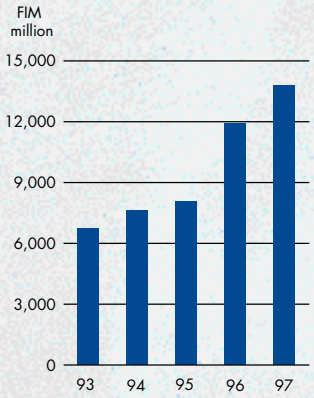
TURNOVER BY MARKET AREA

FIM million	1997	1996	Change
Finland	7,678	6,887	+ 791
Other Nordic countries	4,764	3,849	+ 915
Russia and eastern Europe	612	515	+ 97
Western Europe	348	302	+ 46
Other market areas	373	384	– 11
Total	13,775	11,937	+1,838

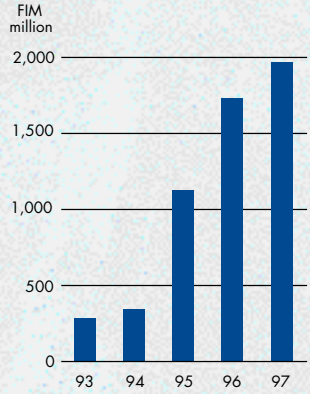
RESULT

Operating profit improved by FIM 549 million, to FIM 2,591 million. Operating profit of the continuing business sectors increased by 50%, to FIM 1,933 million. The Gullspång and Länsivoima groups were the most important contributors to the increase of FIM 609 million in the Energy business's operating profit. In Finland, increased sales and lower procurement costs resulted in higher profits from electricity sales, but this was counteracted by the low price quoted in the exchange and decreased sales to the Norwegian-Swedish electricity exchange. Other factors which contributed to the positive trend in the operating profit included a marked improvement in the Engineering business's result, and profits from the sales of shares in UPM-Kymmene Corporation (FIM 135 million) and Telivo Ltd, and shares owned by UVCC II Parallel Fund, a US development fund in the energy sector. The profits from these sales are included in other operating income.

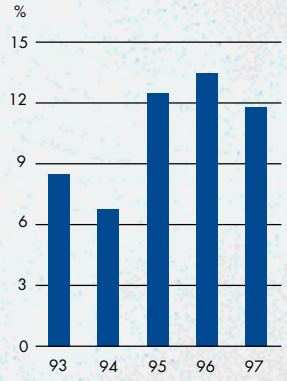
TURNOVER



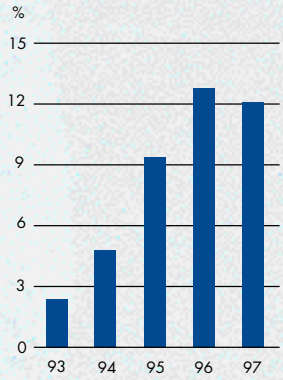
PROFIT BEFORE EXTRAORDINARY ITEMS



RETURN ON CAPITAL EMPLOYED



RETURN ON EQUITY



The operating profit of the Grid Services business, for the eight-month period before it was sold, decreased on the previous year's full-year profit by FIM 263 million.

Net financing expenses increased by FIM 312 million, to FIM 618 million. Net interest expenses increased by 42%, to FIM 614 million, as a result of major investments made during the year. FIM 24 million of exchange losses were included, against FIM 92 million of exchange gains which were included in the profit in the previous year. Exchange gains on long-term loans entered in the balance sheet reduced from FIM 197 million to FIM 117 million.

Profit before extraordinary items, minority interests and tax was FIM 1,973 million, up 14%, FIM 237 million, on 1996. Profit was 14% of turnover (1996 15%), while tax for the regular business operations amounted to FIM 514 million. Profit before minority interests, extraordinary items and tax on extraordinary items improved by FIM 283 million, to FIM 1,459 million. The minority interest share of the result increased to FIM 252 million, up from FIM 115 million.

FIM 567 million for the liability for nuclear waste disposal was included in extraordinary charges. The liability is fully covered in the accounts, since the forecast development of the liability and the interest income of the fund for the subsequent three years have been taken into account.

The FIM 3,485 million profit from the sale of the grid is included in extraordinary income. A tax concession of FIM 621 million in connection with this transaction decreased the total amount of tax for the grid deal, FIM 456 million, entered in the profit and loss account. Direct tax amounted to FIM 1,132 million; FIM 321 million from the deferred tax provision was entered as income. IVO Group's profit for the financial year was FIM 3,845 million.

Significant investments resulted in an increase in the balance sheet, to FIM 34.0 billion (FIM 28.2 billion). Return on capital employed was 11.8% (13.5%), while return on equity was 12.1% (12.9%). Profit/share increased to FIM 13.26, up from FIM 11.63. Equity/total capital ratio increased to 40%, up from 38%. Debt/equity ratio decreased by 20 percentage points, to 67%.

INVESTMENT AND FINANCING

IVO Group's investment was at a record high, FIM 7,306 million (FIM 4,555 million), 80% of which was invested in acquiring shares. FIM 6,853 million was invested in the Energy business: FIM 2,381 million in Finland and FIM 4,219 million in Sweden.

Kemijoki Oy's shares were acquired from the State of Finland for FIM 1,567 million. IVO's ownership of Kemijoki Oy's hydropower shares increased to 61.6% (42.8%) and of the share capital to 16.9% (16.1%). In addition, Länsivoima Oy's shares were acquired for FIM 286 million, and Finnish Power Grid Plc's (Fingrid) shares were subscribed for FIM 163 million. Other large investments in Finland included the Kirkniemi power plant, Vuosaari B plant together with Helsingin Energia, and the burner conversions in the third unit of the Inkoo power plant.

In Sweden, Gullspång's shares were acquired for a total of FIM 3,519 million, and, in Hungary, FIM 136 million was invested in a minority interest in Budapesti Erömü Rt.

Income from the sale of fixed assets, in-

TURNOVER BY BUSINESS SECTOR

FIM million	1-12/97	1-12/96	Change	1-3/97	4-6/97	7-9/97	10-12/97	10-12/96
Energy[1)]	10,896	8,937	1,959	3,187	2,364	2,209	3,136	2,832
Operation and Maintenance	1,092	930	162	220	238	249	385	316
Engineering	2,152	1,974	178	454	566	487	645	719
Energy Measurement	413	386	27	89	108	95	121	96
Other operations[2)]	317	329	– 12	61	74	67	115	124
Sales between business sectors	– 1,393	– 1,248	– 145	– 311	– 338	– 273	– 471	– 479
Continuing business, total	13,477	11,308	2,169	3,700	3,012	2,834	3,931	3,608
Discontinued business[3)]	298	629	– 331	171	102	24	1	95
Total	13,775	11,937[4)]	1,838	3,871	3,114	2,858	3,932	3,703

1) Includes Gullspång Group´s turnover from April 1, 1996, and Länsivoima Group´s turnover from January 1, 1997.
2) Includes Infrarödteknik Group, other operations, Group-level R&D operations, environmental protection, Corporate services, and Corporate staff.
3) Includes grid services and the other operations sold.
4) The processing of electricity distribution fees was changed in 1997; this figure includes the corresponding change.

OPERATING PROFIT BY BUSINESS SECTOR

FIM million	1-12/97	1-12/96	Change	1-3/97	4-6/97	7-9/97	10-12/97	10-12/96
Energy[1)]	1,899	1,290	609	726	437	175	561	336
Operation and Maintenance	88	92	– 4	46	– 7	9	40	14
Engineering	80	29	51	11	12	– 11	68	16
Energy Measurement	32	34	– 2	6	14	3	9	3
Other operations and internal items[2)]	– 166	– 153	– 13	– 43	– 67	– 50	– 6	– 54
Continuing business, total	1,933	1,292	641	746	389	126	672	315
Discontinued business[3)]	658	750	– 92	190	108	179	181	201
Total	2,591	2,042	549	936	497	305	853	516

1) Includes operating profit of Gullspång Group from April 1, 1996 and the operating profit of Länsivoima Group from January 1, 1997.
2) Includes other operations, Group administration, Group-level R&D operations and eliminations from the operating profit.
3) Includes the sale of the grid, the other operations sold and significant profits from the sales of shares.

cluding FIM 5,448 million from the grid sale, totalled FIM 6,118 million. Cash flow from operating activities, FIM 2,055 million, covered the FIM 1,188 million financing for net investments. The Group's interest-bearing net liabilities decreased by FIM 488 million, to FIM 8,912 million.

In June, IVO and 19 international banks agreed on a flexible syndicated revolving credit facility of DEM 760 million (about FIM 2.3 billion), which can be withdrawn or repaid within seven years. This loan arrangement creates more scope for possible future investments.

DIVIDEND

The parent company's share capital is FIM 912 million, 95.6% of which is owned by the State of Finland and 4.4% by the Social Insurance Institution. The proposed dividend of FIM 292 million is 24% of net profit of the Group, less minority interests and 32% of the share capital.

REORGANISATION OF THE BUSINESS OPERATIONS

IVO Group continued to expand its operations substantially in the Nordic domestic market. In January, its shareholding in Länsivoima, the second-largest electricity company in Finland, increased to 65.1% after redemption procedures, stipulated in the Articles of Association, had been exercised. At the beginning of September, Uudenmaan Energia Oy became a subsidiary of Länsivoima, when Länsivoima bought IVO's 50% shareholding.

In June, IVO bought the Swedish company Vattenfall AB's shares in Gullspång. Towards the end of the year, it also bought the Gullspång shares owned by the Swedish company Graningeverkens AB (publ) and the city of Lidköping. As part of these transactions, Vattenfall leased Länsivoima's share of Etelä-Pohjanmaan Voima Oy and Graninge leased a little under 10% of Kemijoki Oy's hydropower shares which were owned by IVO. In addition, IVO sold 49% of Pamilo Oy's shares to Vattenfall on January 1, 1998. In the share issue in June, IVO subscribed Gullspång's shares in proportion to its ownership. At the end of the year, IVO Group owned 92.9% of Gullspång's share capital and 95.0% of the voting rights. At the beginning of 1998, IVO has acquired new shares through the exchange. At the end of January 1998, IVO assigned all its Gullspång shares to IVO Energi, which initiated a redemption procedure for the acquisition of the balance.

Gullspång acquired all the shares of Ljusnarsbergs Energi AB and Tivedsenergi AB. In addition, Gullspång acquired 49% of the shares of Katrineholm Energi AB. All of these companies operate in electricity distribution and supply.

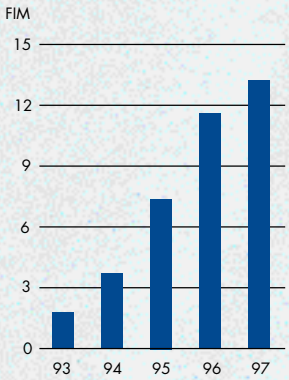
The Group also continued to expand its business activities in Hungary. IVO, together with the Japanese company Tomen Corporation, acquired the majority of the shares of Budapesti Erömü, one of the largest power companies in Hungary. At the end of the year, IVO owned 42.7% of the company's shares.

At the end of August, IVO Group's grid business was sold to Finnish Power Grid, which began operations on September 1. IVO has 25% of the shares and 33% of the voting rights in the new company. In December, a decision was made to incorporate IVO Transmission Services Ltd with IVO.

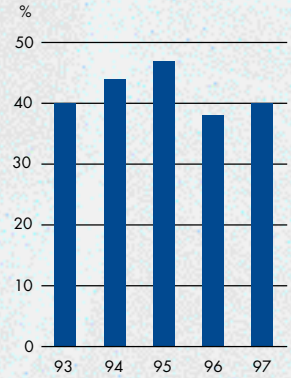
In October, IVO sold its 25% share in the teleoperator Telivo Ltd, the present Telia Finland Oy, to the Swedish company Telia AB.

IVO Technology Centre's energy measurement business was set up as an independent unit at the beginning of

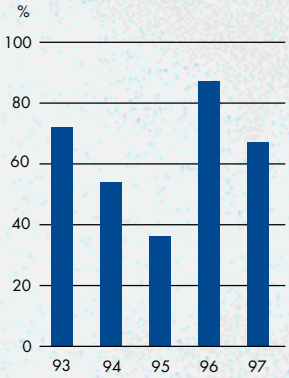
PROFIT/SHARE



EQUITY/TOTAL CAPITAL



DEBT/EQUITY

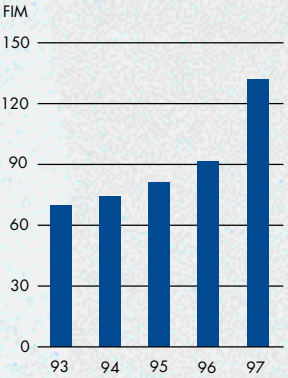


INVESTMENT BY BUSINESS SECTOR

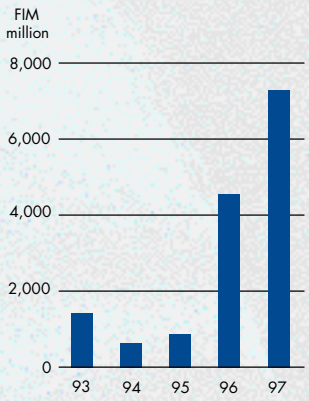
FIM million	1997	1996	Change
Energy	6,853	4,299	+2,554
Operation and Maintenance	35	21	+ 14
Engineering	35	90	– 55
Energy Measurement	44	19	+ 25
Other operations[1)]	249	27	+ 222
Internal items	– 53	– 44	– 9
Continuing business, total	7,163	4,412	+2,751
Discontinued business	143	143	0
Total	7,306	4,555	+2,751

1) Includes Infrarödteknik Group, other operations, Group-level R&D operations, environmental protection, Corporate services, Corporate staff, and investment in Finnish Power Grid Plc's shares.

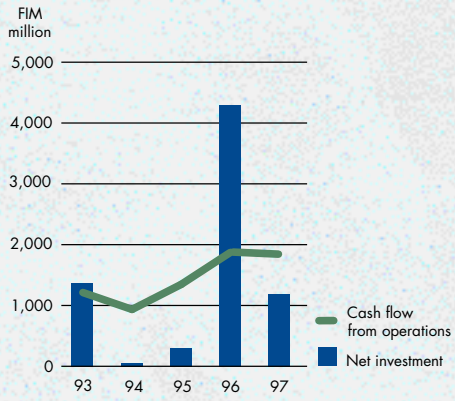
SHAREHOLDERS' EQUITY/SHARE



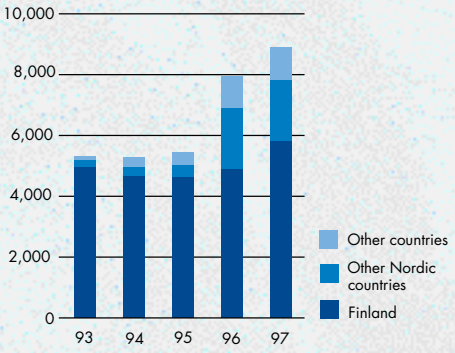
GROSS INVESTMENT



NET INVESTMENT AND CASH FLOW FROM OPERATIONS



NUMBER OF EMPLOYEES AS AT DECEMBER 31



November. The ultimate goal is to establish a joint Nordic company to offer energy measuring services. A letter of intent to this effect was signed between IVO and Länsivoima in Finland, Gullspång, Stockholm Energi AB and the municipality of Karlstad in Sweden and Trondheim Energiverk AS in Norway. In November, IVO, Stockholm Energi and Trondheim Energiverk established Birka Norden AB, which provides its customers with services related to the energy trade portfolio and risk management and which sells electricity in its own name. The customers of Birka Norden comprise electricity companies and other companies which have a large or medium-size electricity demand.

In December, IVO and the city of Stockholm began negotiations to merge Stockholm Energi with Gullspång.

At the end of February 1998, it was decided to demerge IVO Power Engineering Ltd's power transmission engineering business and its subsidiaries. They will become a separate company on January 1, 1999. The existing power plant engineering and power transmission engineering have different client bases and require different types of technical expertise. In addition, power transmission engineering is increasingly moving towards the maintenance business and has the potential for co-operation with electricity and telecommunication companies.

IVO–NESTE GROUP LTD

A Ministry of Trade and Industry investigation about State ownership of IVO and Neste began in June and was completed in December, when the Cabinet Economic Policy Committee approved the Ministry's proposal for the establishment of a new energy group. In January 1998, the Ministry of Trade and Industry established a holding company, the preliminary name of which is IVO-Neste Group Ltd. The Ministry of Trade and Industry subscribed for the entire FIM 10 million share capital of the new company.

Secretary General Matti Vuoria was appointed executive Chairman of IVO-Neste Group, President and CEO Krister Ahlström was appointed Deputy Chairman. Other Board members are Jaakko Ihamuotila (full-time), Chairman and CEO; L.J. Jouhki, President and CEO; Heikki Marttinen, Chairman and CEO; Heikki Pentti, Chairman of the Board; and Gerhard Wendt, PhD. Heikki Marttinen, Chairman and CEO of the IVO Group, was elected President and CEO of the holding company.

It is intended that all IVO and Neste shares will be transferred to the holding company at a later stage. The transfer of the State's shares to this company must be approved by Parliament; discussions about the proposal began in mid-February 1998.

RESEARCH AND DEVELOPMENT

IVO Group invested FIM 226 million, 1.6% of turnover, in research and product development.

The IVO Technology Centre, formerly the Research and Development Division, began operations at the beginning of the year. The centre, which comprises four business units (Power Plant Technologies, Energy Systems, Energy Measurement Services and Technology Products), employs 270 people.

IVO's research and product development focused on combined heat and power generation, the operation and maintenance of power plants, and electricity distribution and supply. Other issues included increased efficiency in the use of electricity and heat, environmental competitiveness, and the application of information technology in various areas of energy production. The IVO Technology Centre participated in several European Union research projects, signed a further contract with the US research institute EPRI on participation in extensive research programmes, and extended its co-operation with the Japanese company Babcock-Hitachi K.K in the development of flue gas cleaning technologies.

The IVO Clean Technology programme was initiated at the beginning of 1998. This covers IVO Group's entire environmental engineering activities and aims at developing and applying increasingly environmentally-friendly energy generation technologies. The Group's environmental expertise is particularly valuable in the development of technologies for eastern European and South East Asian markets for the reduction of the environmental effect of energy generation.

ENVIRONMENTAL PROTECTION

Environmental protection is based on an environmental policy which is common to the entire IVO Group. The power plants are equipped with the best available environmental protection technology.

The high quality of the Group's environmental protection is accomplished by continuously improving its systems. In-house training and communication are used to maintain the environmental expertise of the employees, and investments in research and development, and in quality and environmental systems, are made to ensure that the Group will be able to meet the increasingly demanding environmental challenges of future.

IVO Group's environmental policy and environmental protection operations are explained in detail in a separate environmental report, which is published each year.

GROUP MANAGEMENT

At its December 1996 meeting, IVO's Supervisory Board elected new members for its Board of Directors for the period 1997-2000. The members of the Board are Kalevi Numminen (65), President and CEO, until March 31, 1997; Kalervo Nurmimäki (60), Senior Executive Vice President; Anders Palmgren (57), Senior Executive Vice President; Kari Huopalahti (51), Executive Vice President; Heikki Marttinen (51), Executive Vice President; Gerhard Wendt, PhD, (64); and Harri Piehl (58), President of JP Operations Management Ltd Oy, who joined the Board to replace Ingmar Häggblom, MSc (Eng). After Kalevi Numminen, President and CEO, retired, Director Tapio Kuula (40) joined the Board at the beginning of April. In November, it was decided at an extraordinary general meeting that the number of Directors would be increased from seven to eight. As a result, Director General Bo Göran Eriksson (54), Head of the Trade Department at the Ministry of Trade and Industry, was invited to join the Board of Directors.

At the beginning of April, Heikki Marttinen accepted the duties of the Chairman of the Board and CEO, after Kalevi Numminen had retired. At the end of February 1998, Heikki Marttinen asked to be released from this position in order to concentrate on his new duties as President and CEO of IVO-Neste Group. At the same time, Senior Executive Vice President Kalervo Nurmimäki was nominated as IVO's new CEO.

In June, the Supervisory Board re-elected Member of Parliament Kimmo Sasi (46) to be the Chairman of the Supervisory Board. Party Secretary Kari Laitinen (48) became Deputy Chairman.

HUMAN RESOURCES

At the year end, the IVO Group employed 8,901 people, including those on fixed-term contracts, against the previous year's figure of 7,942. The increase was principally as a result of the incorporation of Länsivoima into the Group. Of the employees, 65% work in Finland, 23% in other Nordic countries, and 12% in other countries.

The number of staff in the parent company was 1,367 at the year end, 55 more than in the previous year.

NUMBER OF EMPLOYEES BY BUSINESS SECTOR AS AT DECEMBER 31

	1997	1996
Energy	3,018	2,309
Operation and Maintenance	2,465	2,077
Engineering	2,136	2,107
Energy Measurement	610	550
Other operations	672	899
Total	8,901	7,942

The Group's businesses and divisions continued human resource planning and development based on the changing needs of the business sectors. Motivo 2000, a three-year project to assess and improve employees' working capacity and well-being, was introduced at the beginning of the year.

Group co-operation systems were extended to cover the European companies of the IVO Group. The IVO European Forum's first meeting was arranged in Finland in December.

The IVO Technology Academy began operations at the beginning of the year and supported the post-graduate studies of 23 IVO employees. Eight of the students are studying for a doctor's degree.

SHORT-TERM OUTLOOK

The continuing changes in the energy market create promising opportunities for the various IVO Group companies. In the Nordic countries, it appears that further growth and development are possible, particularly in electricity distribution and supply. New, efficient and competitive means of maintaining electricity networks are being discovered. This trend increases the business risks faced by conventional electricity companies and, as a result, encourages the formation of alliances and other co-operative arrangements between companies.

Negotiations concerning the merger of Stockholm Energi and Gullspång continue. The new company would be the third-largest energy company in Sweden. It would, together with IVO, have more than 1.2 million customers in the Nordic countries. In central Finland, closer energy co-operation between IVO and Jyväskylä Energy Ltd has been negotiated and, in central parts of the province of Uusimaa, the Group is negotiating the acquisition of the majority of shares in Tuusulanjärvi Energy Ltd.

The combined heat and power generation at industrial plants and in municipalities provides us with potential for growth, both in the Nordic countries and in central Europe. Stricter environmental requirements are increasing the competitiveness of combined heat and power. The outlook for contracted operation and maintenance is also improving.

The uncertain economic situation in South East Asia is delaying IVO's ongoing projects and protracting negotiations on new projects. The situation is being monitored carefully, although the Group's business risks in South East Asia are not currently significant.

The Year 2000 information technology issue has been identified in the IVO Group, and work to eliminate any problems is underway.

Warm weather at the beginning of 1998 resulted in IVO Group's electricity sales continuing to be lower than in the corresponding period of the previous year. Rainfall in the Nordic countries is almost normal and this, together with the amount of capacity available, means that prices in the exchange will remain very low for the next few months.

Profit for 1998 for the continuing business is expected to remain at the previous year's level.

IVO-Neste Group will be able to extend its shareholder base and to be listed on the stock exchange after both IVO and Neste shares will be transferred to the new company. Before this, IVO's series of shares will be made uniform by arranging a special issue directed to the Social Insurance Institution, in which IVO's preference shares owned by the Social Insurance Institution will be transferred to ordinary shares. The listing of IVO-Neste Group is expected in 1998.

BOARD OF DIRECTORS' PROPOSAL FOR ALLOCATION OF PROFIT

The consolidated balance sheet shows unrestricted equity of FIM 11,039,980,000, of which FIM 3,922,335,000 is voluntary reserves and accumulated depreciation difference reserve from which deferred tax provision has been deducted. Distributable unrestricted equity totals FIM 6,349,348,965.70.

The parent company's unrestricted equity totals	6,349,348,965.70
The Board of Directors proposes the following to the General Meeting	
- 32% dividend on share capital	291,803,974.40
- donation to the Imatran Voima Foundation	150,000.00
- donations and other contributions by the Board of Directors	1,500,000.00
- carried over to the retained profit account	6,055,894,991.30
The parent company's unrestricted equity as at December 31, 1997	6,349,348,965.70

Helsinki, March 6, 1998

Heikki Marttinen

Kalervo Nurmimäki — Anders Palmgren

Kari Huopalahti — Tapio Kuula

Gerhard Wendt — Harri Piehl

Bo Göran Eriksson

ACCOUNTING POLICIES

Consolidated financial statements

The consolidated financial statements include all subsidiaries in which, on December 31, 1997, the parent company held, directly or indirectly, more than 50% of the voting rights attached to the shares, and all the associated companies in which the parent company held, either directly or indirectly, between 20% and 50% of the voting rights attached to the shares and in which it held, directly or indirectly, a minimum of 20% of the shares. Subsidiaries and associated companies acquired during the financial year are included in the consolidated financial statements from the date of acquisition and companies sold during the financial year up to the date of sale. Holdings in property companies are not included in the consolidated financial statements. Inclusion of these holdings is not necessary to give a true and fair view of the Group's result and financial position.

More detailed information about subsidiaries and associated companies is given below, under Shareholdings.

Holdings in subsidiary companies

The consolidated financial statements are prepared based on the fair value of assets at the time of acquisition. The acquisition cost of subsidiaries' shares has been eliminated against the shareholders' equities of the balance sheet at the time of acquisition. The consolidation difference asset generated in the elimination has been allocated to the subsidiary's fixed assets as far as the market value of the fixed assets exceeded the book value at the time of acquisition. The rest of the acquisition cost of the shares is entered as group goodwill in the consolidated balance sheets. Items allocated to fixed assets are depreciated in accordance with the relevant depreciation plan. Group goodwill is amortised over its estimated useful life. The portion of the acquisition price of subsidiary shares that is below the shareholders' equity, the Group reserve, is entered as income in equal amounts over a period of ten years.

Intra-Group transactions and operating profits

Intra-Group transactions, unrealised profits in respect of intra-Group contracts, intra-Group receivables and liabilities, and intra-Group profit allocation are eliminated.

Minority interests

Minority interests are removed from Group equity, from those reserves and depreciation difference reserve from which tax liabilities have been deducted, and from the result. They are presented as a separate item in the profit and loss account and balance sheets.

Associated companies

Associated companies are included using the equity method. In accordance with the Group shareholdings, the share of the result for the financial year in respect of associated companies, the operations of which are linked to the Group, is presented as a separate item after the turnover, and the shares of the results for the financial year of the other associated companies are included under financial items.

Exchange differences on translation

In the Group's financial statements, the profit and loss accounts of overseas Group companies are translated to Finnish marks at the average rate for the financial year; the balance sheets are translated at the Bank of Finland's official exchange rates on the date of the financial statements. Exchange differences on translation are included in unrestricted equity. Exchange gains and losses resulting from the loans that cover the currency risks of equity investments have been entered against the exchange differences on translation.

Deferred tax provision

The accumulated voluntary reserves and the depreciation difference reserve minus tax liabilities have been included in the Group's unrestricted equity. Deferred tax provision is calculated on the basis of voluntary reserves and the depreciation difference reserve of the separate companies. Tax liabilities are shown net of imputed tax refund claims relating to significant internal margins of the Group and other significant items not included in the taxable income. The tax rate of each country has been used in the calculation. Deferred tax provision is presented as a separate item under long-term liabilities.

Items denominated in foreign currency

Receivables and liabilities denominated in foreign currencies are translated to Finnish marks at the Bank of Finland's official exchange rates on the date of the financial statements. Exceptions to this are receivables and liabilities covered by forward contracts, which are valued at the rate specified in the contract and where the interest is allocated throughout the term of the contract. Exchange differences in foreign currency forward contracts, made with the intention of hedging, have been used to correct the exchange difference of the corresponding item to be hedged. Exchange losses in respect of long-term loans are entered in the profit and loss account; exchange gains are entered in the balance sheet as liabilities under valuation items, where they are recognised as income on payment of the final instalments at the latest. Exchange gains from foreign currency deposits and loans receivable are entered in the balance sheet under valuation items.

Derivative agreements

The effects of the derivative agreements used in power trading are entered in accordance with the purpose of each agreement. The purpose is determined at the time the deal is concluded. The result of the derivative agreements made with the intention of hedging is entered in the balance sheet at the same time as the hedged transaction. Derivative agreements other than those made with the intention of hedging are valued according to the principle of the lowest value, either at the acquisition price or at the market value. This is why the losses are entered in the result immediately, before they are realised, but unrealised profits are not entered in the result. Derivative agreements are considered to be part of normal electricity sales, and their result is entered in the operating profit.

Interest income from the derivative agreements made with the intention of hedging has been accrued for the term-to-maturity. Interest losses from derivative agreements made with any other intention have been entered as direct cost.

Financial risk management

The Group's financial risks result from cash flows denominated in foreign currencies, exchange rate and interest rate risks of loans and liquid funds, and from equity investments made in overseas subsidiaries and associated companies. The risks of cash flows denominated in foreign currencies are covered primarily with forward contracts. If necessary, the difference between loans and liquid funds denominated in foreign currencies is hedged with forward and option contracts, if the business operations do not form natural hedging. The interest rate risk of liquid funds and loans is managed with both fixed and floating rate instruments. If necessary, the loans and liquid funds are also hedged with forward rate agreements and bond forward contracts. Equity investments denominated in foreign currencies are partly hedged with foreign currency loans. Counterparty risks are decreased so that only leading Finnish and foreign banks and financial institutions are accepted as partners.

Procurement contracts of production companies

The sales and procurement contracts of production companies have been estimated. Losses have been entered as expenses if the purchase price is higher than the estimated sale price.

Valuation of fixed assets

Fixed assets are capitalised at direct cost. Depreciation according to plan is calculated as straight-line depreciation over the useful economic life of the fixed asset.

The depreciation periods are as follows:	Years
Other long-term expenditure	3-10
Hydro-electric power plant buildings and structures	40-50
Hydro-electric power plant machinery	40
Buildings, structures and machinery of other power plant types	25
Substation buildings	40
Substation structures and machinery	30
Other separate buildings	5-50
Separate structures and separate investments in environmental protection	15-40
Transmission lines	15-40
Right of use of line areas	30
Other rights of use according to useful economic life, maximum	10
Heavy machinery and transport equipment	5-10
Machinery and equipment	3-15
Group goodwill	5-20
Peat bogs according to use	

Research and development costs

Research and development costs are entered as annual expenses, excluding buildings used for the research and development operations.

Valuation of current assets (inventories)

Inventories are valued on the fifo basis, at lower of market value or replacement cost. Variable costs have been included in the value of current inventory assets.

Cash and cash equivalents, current asset (monetary) investments

The cash and cash equivalents include cash in hand, bank accounts and liquid financing instruments. Assets invested in financing instruments other than the financial institutions' own financing instruments or financing instruments guaranteed by the financial institutions have been entered under loans receivable. The current asset (monetary) investments include shares and holdings. Securities quoted in the market and comparable assets have been valued at the original acquisition price or at a lower probable sales price.

Income recognition of long-term projects

Income from long-term projects is recognised according to percentage of completion which, in turn, is calculated on the basis of costs incurred and an estimate of further costs to completion. An obligatory reserve is made for expected losses from long-term projects, as well as for costs arising during the warranty period.

Pension funding costs and pension liabilities

Pension liabilities are fully covered and entered as pension costs and as loans from pension funds.

PROFIT AND LOSS ACCOUNTS

FIM 1,000		Group Jan 1 – Dec 31, 1997	Group Jan 1 – Dec 31, 1996	Parent company Jan 1 – Dec 31, 1997	Parent company Jan 1 –Dec 31, 1996
Turnover	(1)	**13,775,375**	11,937,090	**5,808,738**	6,552,611
Other operating income	(2)	**501,665**	202,248	**352,242**	208,727
Share of associated companies' results		**82,846**	84,867	**–**	–
Expenses	(3)	**–10,572,021**	– 9,200,027	**– 4,411,769**	– 5,040,079
Operating profit before depreciation		**3,787,865**	3,024,178	**1,749,211**	1,721,259
Depreciation	(4)	**– 1,197,298**	– 982,059	**– 574,963**	– 628,638
Operating profit		**2,590,567**	2,042,119	**1,174,248**	1,092,621
Financing income and expenses	(5)	**– 617,681**	– 305,931	**– 106,063**	– 85,028
Profit before tax, minority interests and extraordinary items		**1,972,886**	1,736,188	**1,068,185**	1,007,593
Regular business operations					
Increase (-), decrease (+) in depreciation difference reserve		**–**	–	**214,630**	243,706
Decrease in voluntary reserves (+)		**–**	–	**410,258**	39,703
Direct tax	(6)	**– 773,493**	– 591,114	**– 457,155**	– 383,627
Change in deferred tax provision	(7)	**259,595**	31,071	**–**	–
Profit before minority interests, extraordinary items and tax on the above items		**1,458,988**	1,176,145	**1,235,918**	907,375
Minority interest share of result		**– 251,844**	– 114,866	**–**	–
Profit before extraordinary items and tax on the above items		**1,207,144**	1,061,279	**1,235,918**	907,375
Extraordinary items					
Extraordinary income and charges	(8)	**2,935,640**	28,119	**2,697,042**	357,784
Increase (-), decrease (+) in depreciation difference reserve		**–**	–	**313,117**	9,284
Direct tax	(6)	**– 358,496**	– 7,873	**– 501,724**	– 100,064
Change in deferred tax provision	(7)	**60,935**	–	**–**	–
Profit for the financial year		**3,845,223**	1,081,525	**3,744,353**	1,174,379

The figures in brackets refer to notes to the financial statements.

CASH FLOW STATEMENTS

FIM million	Group 1997	Group 1996	Parent company 1997	Parent company 1996
Operating activities				
Cash flow from operations				
Operating profit before depreciation	**3,788**	3,024	**1,749**	1,721
Profit from disposal of fixed assets and associated companies' results included in the operating profit before depreciation	**– 533**	– 252	**– 307**	– 164
Financing items	**– 575**	– 257	**– 135**	– 62
Tax	**– 773**	– 599	**– 646**	– 484
	1,907	1,916	**661**	1,011
Changes in working capital				
Current assets (inventories) (increase -)	**– 172**	– 34	**– 133**	32
Short-term receivables (increase -)	**196**	– 366	**– 42**	32
Interest-free current liabilities (increase +)	**124**	853	**333**	385
	148	453	**158**	449
Cash flow from operating activities	**2,055**	2,369	**819**	1,460
Investing activities				
Gross investments	**– 7,306**	– 4,555	**– 6,838**	– 4,033
Income from disposal of fixed assets	**6,118**	262	**4,373**	224
Net investments	**– 1,188**	– 4,293	**– 2,465**	– 3,809
Tax on the sale of the grid	**– 358**	–	**– 313**	–
Cash flow before financing activities	**509**	– 1,924	**– 1,959**	– 2,349
Financing activities				
Increase (-) in loans receivable and securities in current assets	**– 418**	– 136	**128**	– 998
Increase (+) in long-term loans	**5,707**	644	**4,290**	198
Repayment of long-term loans (-)	**– 2,902**	– 472	**– 581**	– 296
Increase (+) in interest-bearing current liabilities	**– 1,907**	1,206	**– 1,768**	2,000
Net profit transfer (from Group +)	**–**	–	**859**	299
Dividends and other profit allocation	**– 336**	– 229	**– 212**	– 140
Share issue in subsidiaries	**419**	–	**–**	–
Other financial items	**–**	–	**116**	1
Cash flow from financing activities	**563**	1,013	**2,832**	1,064
Increase (+), decrease (-) in cash as shown in cash flow statement	**1,072**	– 911	**873**	– 1,285
Adjustment items	**13**	– 2	**7**	4
Increase (+), decrease (-) in cash as shown in balance sheets	**1,085**	– 913	**880**	– 1,281

The items of the cash flow statements cannot be calculated directly from the balance sheet items owing, among other conditions, to the acquisition of subsidiaries and changes in the exchange rates.
Investments include the acquisition cost of shares in subsidiaries. Items after the date of acquisition only are included in the change in working capital, liabilities and loans receivable.

BALANCE SHEETS

FIM 1,000		Group		Parent company	
Assets		**Dec 31, 1997**	Dec 31, 1996	**Dec 31, 1997**	Dec 31, 1996
Fixed assets and other long-term investments	(9)				
Intangible assets					
Goodwill		**102,532**	53,866	**–**	–
Group goodwill		**17,418**	50,780	**–**	–
Other long-term expenditure		**688,102**	496,349	**601,356**	369,564
Advance payments		**154**	4,462	**–**	–
		808,206	605,457	**601,356**	369,564
Tangible assets					
Land and water areas		**3,187,152**	3,197,542	**550,131**	546,876
Buildings and structures		**3,493,468**	2,664,019	**1,576,002**	1,648,950
Machinery and equipment		**11,177,710**	10,679,272	**4,361,486**	5,395,452
Other tangible assets		**17,751**	22,977	**15,394**	15,692
Advance payments and contracts in progress		**271,655**	629,377	**38,715**	368,638
		18,147,736	17,193,187	**6,541,728**	7,975,608
Fixed asset investments and other long-term investments					
Shares and holdings in associated companies		**3,060,883**	2,491,551	**1,249,598**	1,498,599
Other shares and holdings		**4,254,076**	1,929,529	**10,375,559**	4,104,986
Loans receivable		**570,895**	469,192	**1,279,149**	1,226,804
Other investments		**523,503**	547,860	**241**	36,188
		8,409,357	5,438,132	**12,904,547**	6,866,577
Fixed assets and other long-term investments, total		**27,365,299**	23,236,776	**20,047,631**	15,211,749
Current assets (inventories and monetary)	(10)				
Current assets (inventories)					
Fuels		**916,864**	827,613	**889,303**	767,941
Materials and supplies		**243,118**	178,290	**76,940**	71,855
Unfinished products		**10,703**	9,364	**2,176**	2,011
Finished products		**28,215**	25,430	**740**	659
Other current assets		**148,347**	116,977	**–**	–
Advance payments		**29,146**	30,461	**23,878**	17,850
		1,376,393	1,188,135	**993,037**	860,316
Receivables					
Accounts receivable		**2,165,809**	2,014,111	**882,927**	879,388
Loans receivable		**383,630**	11,464	**674,405**	683,531
Prepayments and accrued income		**558,558**	638,287	**205,052**	566,369
Other receivables		**69,434**	122,094	**6,251**	2,444
		3,177,431	2,785,956	**1,768,635**	2,131,732
Current assets (monetary) investments					
Shares and holdings		**1,337**	5,296	**–**	–
Cash and cash equivalents		**2,042,549**	958,704	**1,258,359**	415,867
Assets, total		**33,963,009**	28,174,867	**24,067,662**	18,619,664

The figures in brackets refer to notes to the financial statements.

FIM 1,000		Group		Parent company	
Liabilities and shareholders' equity		**Dec 31, 1997**	Dec 31, 1996	**Dec 31, 1997**	Dec 31, 1996
Shareholders' equity	(11)				
Restricted equity					
Share capital		**911,887**	911,887	**911,887**	911,887
Share premium		**30,000**	30,000	**–**	–
Reserve fund		**44,000**	4,000	**44,000**	44,000
Other restricted equity		**2,717**	2,541	**–**	–
		988,604	988,428	**955,887**	955,887
Unrestricted equity					
Retained profit		**7,194,757**	6,283,436	**2,604,996**	1,643,101
Profit for the financial year		**3,845,223**	1,081,525	**3,744,353**	1,174,379
		11,039,980	7,364,961	**6,349,349**	2,817,480
Subordinated loans		**8,221**	8,221	**–**	–
Shareholders' equity, total		**12,036,805**	8,361,610	**7,305,236**	3,773,367
Minority interests		**1,328,405**	2,393,949	**–**	–
Reserves					
Accumulated depreciation difference reserve	(12)	**–**	–	**4,957,826**	5,479,758
Voluntary reserves	(12)	**–**	–	**–**	409,367
Obligatory reserves		**44,041**	24,475	**6,500**	–
Valuation items	(13)				
Exchange gains		**116,860**	197,121	**118,635**	230,088
Liabilities	(14)				
Long-term liabilities					
Bonds		**2,490,327**	2,245,440	**1,528,498**	1,632,641
Convertible bonds		**47,120**	–	**–**	–
Loans from financial institutions		**3,862,025**	1,854,920	**1,029,450**	10,000
Loans from pension institutions		**878,599**	1,079,861	**812,557**	856,980
Advance payments received		**410,356**	–	**–**	–
Deferred tax provision	(15)	**2,637,708**	2,724,583	**–**	–
Other long-term liabilities		**5,059,939**	1,790,407	**4,432,762**	1,612,865
		15,386,074	9,695,211	**7,803,267**	4,112,486
Current liabilities	(10)				
Loans from financial institutions		**69,268**	3,866,721	**10,000**	2,123,845
Loans from pension institutions		**23,724**	27,623	**20,296**	22,913
Advance payments received		**278,000**	161,596	**1,118**	1,241
Accounts payable		**1,105,370**	1,163,736	**627,882**	678,146
Accruals		**1,762,914**	1,664,830	**1,276,423**	974,216
Other current liabilities	(16)	**1,811,548**	617,995	**1,940,479**	814,237
		5,050,824	7,502,501	**3,876,198**	4,614,598
Liabilities, total		**20,436,898**	17,197,712	**11,679,465**	8,727,084
Liabilities and shareholders' equity, total		**33,963,009**	28,174,867	**24,067,662**	18,619,664

FIM million	Group 1997	Group 1996	Parent company 1997	Parent company 1996
(1) Effect on turnover of income recognition from contracts in progress				
Turnover from contracts in progress entered as income according to the percentage of completion				
For the financial year	**629.7**	662.5		
For previous financial years	**615.9**	365.6		
Total	**1,245.6**	1,028.1		
(2) Other operating income				
Profit from disposal of fixed assets	**452.6**	169.5	**308.1**	164.9
Other operating income*	**49.1**	32.7	**44.1**	43.8
	501.7	202.2	**352.2**	208.7
(3) Expenses				
Purchases of electricity and fuel, transmission charges	**5,631.2**	4,980.3	**2,993.6**	3,461.4
Other purchases during the financial year	**1,083.4**	839.2	**82.0**	106.2
Increase in inventories (+)	**– 189.6**	68.6	**– 126.7**	30.6
External services	**718.0**	659.0	**543.6**	607.1
Staff costs	**1,905.4**	1,596.6	**346.1**	330.4
Rents	**67.2**	56.1	**20.5**	20.8
Other expenses	**1,356.4**	1,000.2	**552.7**	483.6
	10,572.0	9,200.0	**4,411.8**	5,040.1
Staff costs				
Wages	**1,483.5**	1,250.4	**269.2**	256.9
Pension costs	**224.0**	151.0	**44.4**	38.6
Other wage-related staff costs	**198.0**	195.2	**32.5**	34.9
Staff costs included in the profit and loss account	**1,905.5**	1,596.6	**346.1**	330.4
Salaries and fees				
Supervisory Board, Boards and managing directors	**28.8**	28.4	**5.2**	4.8
Other personnel	**1,454.7**	1,222.0	**264.0**	252.1
	1,483.5	1,250.4	**269.2**	256.9
Pension costs				
Supervisory Board, Boards and managing directors	**13.9**	12.1	**1.4**	1.4
Other personnel	**210.1**	138.9	**43.0**	37.2
	224.0	151.0	**44.4**	38.6
Other wage-related staff costs				
Supervisory Board, Boards and managing directors	**3.0**	2.8	**1.4**	1.3
Other personnel	**195.0**	192.4	**31.1**	33.6
	198.0	195.2	**32.5**	34.9
Average number of employees	**8,915**	7,421	**1,374**	1,352
Number of employees as at December 31	**8,901**	7,942	**1,367**	1,312
(4) Depreciation				
Depreciation according to plan				
Goodwill	**18.4**	10.3		
Other long-term expenditure	**72.4**	54.7	**39.8**	36.3
Buildings and structures	**174.2**	198.3	**128.1**	154.2
Machinery and equipment	**922.5**	711.8	**407.1**	438.1
Total	**1,187.5**	975.1	**575.0**	628.6
Group goodwill	**13.5**	8.4	**–**	–
Income recognition of Group reserve	**– 3.7**	– 1.4	**–**	–
	1,197.3	982.1	**575.0**	628.6
Change in depreciation difference reserve, increase (+), decrease (-)				
Other long-term expenditure	**– 30.6**	2.6	**30.2**	16.4
Buildings and structures	**31.8**	19.5	**– 35.7**	22.6
Machinery and equipment	**803.6**	– 319.9	**– 522.2**	– 292.0
	804.8	– 297.8	**– 527.7**	– 253.0
(5) Financing income and expenses				
Dividend income	**14.4**	16.2	**207.1**	81.7
Interest income from long-term investments	**52.2**	35.1	**137.7**	73.2
Other interest income	**108.6**	95.5	**42.8**	74.0
Other financing income	**13.5**	23.6	**33.9**	22.9
Exchange differences	**– 24.2**	92.0	**– 15.7**	93.3
Shares of associated companies' results	**1.9**	1.1	**–**	–
Interest expenses	**– 775.3**	– 564.2	**– 505.2**	– 425.4
Other financing expenses	**– 8.8**	– 5.2	**– 5.7**	– 4.7
Investment write-downs	**–**	–	**– 1.0**	–
	– 617.7	– 305.9	**– 106.1**	– 85.0
Net financing expenses, % of turnover	**4.5**	2.5	**1.8**	1.3

* Principally rental revenue.

FIM million	Group 1997	Group 1996	Parent company 1997	Parent company 1996
Intra-Group financing income and expenses				
Financing income from Group companies				
Dividend income			**199.5**	69.3
Interest income from long-term investments			**99.2**	59.2
Other interest income			**1.2**	11.1
Other financing income			**0.9**	1.0
			300.8	140.6
Financing expenses paid to Group companies				
Interest expenses			**13.7**	29.2
(6) Direct tax				
Direct tax on regular business operations				
For the financial year	**– 771.6**	– 592.1	**– 457.2**	– 383.6
For previous financial years	**– 1.9**	1.0	**0.0**	–
Direct tax on extraordinary items	**– 358.5**	– 7.9	**– 501.7**	– 100.1
	– 1,132.0	– 599.0	**– 958.9**	– 483.7
(7) Change in deferred tax provision				
For voluntary reserves of the regular business operations	**296.5**	51.9		
Change in tax refund claim for regular business operations	**– 36.9**	– 20.8		
For voluntary reserves of extraordinary items	**94.8**	–		
Change in tax refund claim for extraordinary items	**– 33.9**	–		
	320.5	31.1		
(8) Extraordinary income and charges				
Extraordinary income				
Profit from the sale of the grid	**3,484.8**	–	**2,693.4**	–
Other profits from the disposal of fixed assets	**–**	28.1	**–**	15.6
Profit transfer from the Group	**–**	–	**564.8**	352.2
Other extraordinary income	**17.5**	–	**9.9**	7.3
	3,502.3	28.1	**3,268.1**	375.1
Extraordinary charges				
Profit transfers to the Group	**–**	–	**4.4**	17.3
Liability covered for nuclear waste disposal	**566.7**	–	**566.7**	–
	566.7	0.0	**571.1**	17.3
Extraordinary income and charges	**2,935.6**	28.1	**2,697.0**	357.8
(9) Fixed assets and other long-term investments				
Intangible and tangible assets				
Goodwill				
At cost Jan 1	**67.4**	66.6		
Exchange difference on translation	**1.3**	– 2.8		
Additions	**153.4**	3.6		
Accumulated depreciation according to plan	**– 119.6**	– 13.5		
Balance sheet value Dec 31	**102.5**	53.9		
Group goodwill				
At cost Jan 1	**107.0**	106.1		
Additions	**16.5**	0.8		
Deductions	**– 66.3**	0.0		
Accumulated depreciation according to plan	**– 28.9**	– 43.5		
Balance sheet value Dec 31	**28.3**	63.4		
Group reserve				
At cost Jan 1	**15.2**	9.9		
Additions	**0.0**	5.3		
Accumulated depreciation according to plan	**– 4.3**	– 2.6		
Balance sheet value Dec 31	**10.9**	12.6		
Group goodwill in the balance sheet	**17.4**	50.8		
Other long-term expenditure				
At cost Jan 1	**1,112.0**	1,090.1	**909.8**	908.3
Exchange differences on translation	**0.2**	– 0.2	**–**	–
Additions	**462.6**	39.3	**283.4**	7.8
Sales and other deductions	**– 442.1**	– 17.2	**– 207.6**	– 6.3
Accumulated depreciation according to plan	**– 444.6**	– 615.6	**– 384.2**	– 540.2
Balance sheet value Dec 31	**688.1**	496.4	**601.4**	369.6

FIM million	Group 1997	Group 1996	Parent company 1997	Parent company 1996
Land and water areas				
At cost Jan 1	**3,220.4**	658.3	**546.9**	544.9
Exchange difference on translation	**41.7**	0.2	**–**	–
Additions	**52.2**	2,595.3	**3.9**	4.0
Sales and other deductions	**– 102.5**	– 33.4	**– 0.7**	– 2.0
Accumulated depreciation according to plan	**– 24.6**	– 22.9	**–**	–
Balance sheet value Dec 31	**3,187.2**	3,197.5	**550.1**	546.9
Revaluations included in land and water areas Jan 1	**86.5**	66.3	**10.0**	10.0
Exchange difference on translation	**0.4**	–	**–**	–
Additions	**6.0**	20.2	**–**	–
Deductions	**– 56.3**	–	**–**	–
Revaluations included in land and water areas Dec 31	**36.6**	86.5	**10.0**	10.0
Buildings and structures				
At cost Jan 1	**5,073.7**	3,945.3	**3,663.2**	3,604.0
Exchange difference on translation	**9.8**	0.8	**–**	–
Additions	**1,178.2**	1,164.2	**102.2**	62.8
Sales and other deductions	**– 210.7**	– 36.6	**– 93.7**	– 3.6
Accumulated depreciation according to plan	**– 2,557.5**	– 2,409.7	**– 2,095.7**	– 2,014.3
Balance sheet value Dec 31	**3,493.5**	2,664.0	**1,576.0**	1,648.9
Revaluations included in acquisition cost of buildings Jan 1	**218.4**	199.2	**199.2**	199.2
Exchange difference on translation	**0.3**	–	**–**	–
Additions	**3.3**	19.2	**–**	–
Deductions	**– 16.2**	–	**–**	–
Revaluations included in acquisition cost of buildings Dec 31	**205.8**	218.4	**199.2**	199.2
Machinery and equipment				
At cost Jan 1	**19,240.9**	12,886.0	**11,710.8**	11,722.7
Exchange difference on translation	**81.8**	2.3	**–**	–
Additions	**3,931.0**	6,766.1	**514.3**	172.5
Sales and other deductions	**– 3,620.4**	– 413.5	**– 2,769.2**	– 184.4
Accumulated depreciation according to plan	**– 8,455.6**	– 8,561.6	**– 5,094.4**	– 6,315.4
Balance sheet value Dec 31	**11,177.7**	10,679.3	**4,361.5**	5,395.4
Revaluations included in acquisition cost of machinery and equipment Jan 1	**–**	–		
Additions	**11.9**	–		
Revaluations included in acquisition cost of machinery and equipment Dec 31	**11.9**	–		
Other tangible assets				
At cost Jan 1	**38.7**	36.3	**15.9**	15.5
Exchange difference on translation	**– 0.1**	0.5	**–**	–
Additions	**1.4**	1.9	**0.1**	0.4
Sales and other deductions	**– 19.1**	0.0	**–**	–
Accumulated depreciation according to plan	**– 3.1**	– 15.7	**– 0.6**	– 0.2
Balance sheet value Dec 31	**17.8**	23.0	**15.4**	15.7

The acquisition cost of fixed assets in the acquired companies is included in the Group's acquisition costs, and the accumulated depreciation is included in the Group's accumulated depreciation.

Taxation values of fixed assets				
Land and water areas	**2,833.8**	2,596.0	**458.2**	466.4
Buildings and structures	**4,489.5**	4,432.1	**2,999.8**	3,026.3
Shares and holdings				
Shares in subsidiaries			**8,473.5**	3,839.9
Other shares and holdings	**3,525.3**	3,448.2	**1,293.9**	1,390.7
	10,848.6	10,476.3	**13,225.4**	8,723.3

If taxation value has not been available, book value has been presented.

Long-term investments in Group and associated companies				
Group companies				
Shares			**8,628.8**	3,987.2
Loans receivable			**1,238.1**	1,175.7
			9,866.9	5,162.9
Associated companies				
Shares			**1,249.6**	1,498.6
Loans receivable			**15.0**	23.3
			1,264.6	1,521.9

FIM million	Group 1997	Group 1996	Parent company 1997	Parent company 1996
(10) Current assets (inventories and monetary)				
Receivables falling due after one year or more				
Accounts receivable	**1.4**	1.4	**–**	–
Prepayments and accrued income	**73.3**	83.5	**43.4**	83.5
	74.7	84.9	**43.4**	83.5
Receivables from Group companies				
Accounts receivable			**91.9**	164.1
Loans receivable			**497.2**	676.2
Prepayments and accrued income			**45.6**	362.7
Other receivables			**5.3**	2.1
			640.0	1,205.1
Receivables from associated companies				
Accounts receivable			**56.0**	36.6
Loans receivable			**5.6**	5.4
Prepayments and accrued income			**0.0**	0.9
			61.6	42.9
Loans receivable from Group management	**1.4**	–	**1.4**	–

Treatment of balance sheet items relating to income from projects in progress

Net amount on a project basis of contracts in progress, advance payments made and prepayments and accrued income, and advance payments received and accruals, relating to income from contracts in progress, is included in the balance sheet in prepayments and accrued income or in accruals separately for each project.

Contracts in progress included in current assets (inventories)	**0.1**	3.8
Advance payments for current assets (inventories)	**166.9**	285.6
Prepayments and accrued income	**1,044.4**	767.3
Deductions in current assets (inventories and monetary)	**1,211.4**	1,056.7
Advance payments received	**1,044.4**	937.7
Accruals	**167.0**	119.0
Deductions in liabilities	**1,211.4**	1,056.7

(11) Shareholders' equity				
Restricted equity				
Share capital Jan 1 and Dec 31	**911.9**	911.9	**911.9**	911.9
Share premium Jan 1 and Dec 31	**30.0**	30.0	**–**	–
Reserve fund Jan 1 and Dec 31	**44.0**	44.0	**44.0**	44.0
Other restricted equity Jan 1	**2.5**	2.5	**–**	–
Change	**0.2**	–	**–**	–
Other restricted equity Dec 31	**2.7**	2.5		
Exchange difference on translation Jan 1	**–**	– 9.1	**–**	–
Change	**–**	10.7	**–**	–
Exchange difference on translation Dec 31	**–**	1.6	**–**	–
Carried over to exchange difference on translation for unrestricted equity	**–**	– 1.6	**–**	–
Restricted equity Dec 31	**988.6**	988.4	**955.9**	955.9
Unrestricted equity				
Retained profit Jan 1	**7,365.0**	6,422.5	**2,817.5**	1,782.6
Dividend paid	**– 209.7**	– 136.7	**– 209.7**	– 136.8
Donations and other contributions	**– 2.9**	– 2.9	**– 2.8**	– 2.7
Carried over to other restricted equity	**– 0.2**	–	**–**	–
Carried over from exchange difference on translation for restricted equity	**–**	1.6	**–**	–
Exchange difference on translation for shareholders' equity	**42.6**	– 1.0	**–**	–
Profit for the financial year	**3,845.2**	1,081.5	**3,744.4**	1,174.4
Unrestricted equity Dec 31	**11,040.0**	7,365.0	**6,349.3**	2,817.5
Subordinated loans*	**8.2**	8.2	**–**	–
Shareholders' equity Dec 31	**12,036.8**	8,361.6	**7,305.2**	3,773.4
Distributable funds included in unrestricted equity	**6,349.3**	2,688.1	**6,349.3**	2,688.1

Share capital by share classification, FIM

Preferred shares	1,106,583	10.00 each	11,065,830.00
Ordinary shares	90,082,159	10.00 each	900,821,590.00

* No interest is paid for the loan. The lender is Jyväskylä Energy Ltd, to which the loan is repaid by changing it to Jyväskylän Energiantuotanto Oy's shares on Dec 31, 2000 at the latest.

FIM million	Group 1997	Group 1996	Parent company 1997	Parent company 1996
(12) Accumulated depreciation difference reserve and voluntary reserves				
Accumulated depreciation in excess of plan				
Goodwill	**3.2**	0.9		–
Other long-term expenditure	**213.8**	191.6	**201.4**	171.2
Buildings	**661.6**	647.0	**332.8**	362.7
Machinery and equipment	**7,576.8**	7,413.2	**4,423.6**	4,945.9
	8,455.4	8,252.7	**4,957.8**	5,479.8
Other voluntary reserves Jan 1	**2,052.5**	524.6	**409.4**	444.2
Change	**– 448.3**	1,528.0	**– 409.4**	– 34.8
Other voluntary reserves Dec 31	**1,604.2**	2,052.6	**0.0**	409.4

In the Group, voluntary reserves and accumulated depreciation difference reserve are divided between shareholders' equity and deferred tax provision.

(13) Valuation items				
Exchange gains Jan 1	**197.1**	133.0	**230.1**	135.9
Change	**– 80.2**	64.1	**– 111.5**	94.2
Exchange gains Dec 31	**116.9**	197.1	**118.6**	230.1
(14) Liabilities				
Liabilities falling due after five years or more				
Bonds	**1,264.9**	1,296.2	**1,059.0**	1,296.2
Loans from financial institutions	**2,442.3**	1,630.7	**–**	–
Loans from pension funds	**796.4**	850.5	**744.6**	780.3
Other long-term liabilities	**1,973.0**	1,600.8	**2,837.9**	1,573.6
	6,476.6	5,378.2	**4,641.5**	3,650.1

Bonds, debentures and other notes		Capital Dec 31, 1997 local currency units, million	Annual instalment local currency units, million	Capital Dec 31, 1997 local currency units, million	Annual instalment local currency units, million
Other notes					
1988-98	DEM	50.0	bullet loan	50.0	bullet loan
1991-2001	USD	35.0	bullet loan	35.0	bullet loan
1991-2002/11	USD	80.0	8.0	80.0	8.0
1991-2011	USD	35.0	bullet loan	35.0	bullet loan
1992-2002	USD	50.0	bullet loan	50.0	bullet loan
1992-2005	USD	45.0	bullet loan	45.0	bullet loan
1992-2007	USD	60.0	bullet loan	60.0	bullet loan
1973-98	SEK	1.5	1.5		
1974-99	SEK	2.9	1.4		
1993-2003	SEK	300.0	bullet loan		
1996-99	SEK	200.0	bullet loan		
1996-2001	SEK	200.0	bullet loan		
1996-99	SEK	200.0	bullet loan		
1997-2000	SEK	200.0	bullet loan		
1997-99	SEK	300.0	bullet loan		
1983-98	SEK	3.8	3.8		

Liabilities in respect of Group companies				
Advance payments			**0.2**	1.2
Other long-term liabilities			**1.3**	1.3
Accounts payable			**153.3**	287.2
Accruals			**7.0**	26.8
Other current liabilities			**683.3**	543.8
			845.1	860.3
Liabilities in respect of associated companies				
Other long-term liabilities			**618.1**	577.8
Accounts payable			**102.3**	105.9
Accruals			**36.5**	37.5
Other current liabilities			**3.7**	0.8
			760.6	722.0
Long-term liabilities				
Long-term interest-bearing liabilities	**10,787.1**	6,794.9	**6,735.7**	4,102.8
Long-term interest-free liabilities	**1,961.3**	175.7	**1,067.5**	9.7
Deferred tax provision	**2,637.7**	2,724.6	**–**	–
	15,386.1	9,695.2	**7,803.2**	4,112.5
Current liabilities				
Current interest-bearing liabilities	**1,122.0**	4,044.9	**1,738.3**	2,838.6
Current interest-free liabilities	**3,928.8**	3,457.6	**2,137.9**	1,776.0
	5,050.8	7,502.5	**3,876.2**	4,614.6

FIM million	Group 1997	Share	Group 1996	Share	Parent company 1997	Share	Parent company 1996	Share
Interest-bearing liabilities								
Loans in Finnish marks	**4,491.1**	38%	2,861.9	26%	**4,740.2**	56%	3,065.1	44%
Foreign currency loans	**7,418.0**	62%	7,977.9	74%	**3,733.8**	44%	3,876.3	56%
	11,909.1		10,839.8		**8,474.0**		6,941.4	
(15) Deferred tax provision								
Tax liabilities for voluntary reserve and accumulated depreciation difference reserve	**2,833.3**		2,849.4					
Imputed tax refund claim	**– 195.6**		– 124.8					
	2,637.7		2,724.6					
(16) Other current liabilities								
Annual instalments	**800.6**		113.4		**796.8**		110.9	
Other interest-bearing current liabilities	**228.4**		37.2		**911.2**		580.9	
Other current interest-free liabilities	**782.5**		467.4		**232.5**		122.4	
	1,811.5		618.0		**1,940.5**		814.2	
Obligations								
FOR OWN LIABILITIES								
Pledged shares								
Pledge for short-term financing of share acquisitions	**1,254.4**		1,975.9		**1,254.4**		1,975.9	
Kemijoki Oy's shares (book value) as security for the loan (FIM 1,168.8 million) for the Nuclear Waste Disposal Fund of Finland	**2.3**		3.0		**2.3**		3.0	
Others	**497.3**		371.6		**12.0**		7.2	
Mortgages on land and buildings								
Mortgages issued to the State of Finland as security for payment of the nuclear waste disposal fee	**1,332.0**		1,383.0		**1,332.0**		1,383.0	
Other mortgages on land and buildings	**314.9**		292.9		**251.8**		246.8	
Other mortgages	**370.0**		76.2		**–**		–	
Guarantees	**310.1**		24.1		**232.5**		23.2	
Other obligations	**1,128.8**		41.8		**1,085.0**		–	
FOR GROUP COMPANIES' LIABILITIES								
Guarantees	**629.4**		710.2		**643.8**		693.6	
ON BEHALF OF ASSOCIATED COMPANIES								
Guarantee on behalf of Teollisuuden Voima Oy to the Nuclear Waste Disposal Fund	**206.3**		199.4		**206.3**		199.4	
Guarantees on behalf of other associated companies	**85.8**		36.4		**66.4**		7.4	
ON BEHALF OF OTHERS								
Pledges	**0.2**		9.5		**0.2**		–	
Mortgages on land areas and buildings	**3.3**		18.8		**–**		–	
Other mortgages	**20.4**		10.2		**–**		–	
Guarantees	**1,174.5**		1,068.2		**5.4**		305.0	
Total								
Pledges	**1,754.2**		2,360.0		**1,268.9**		1,986.1	
Mortgages	**2,040.6**		1,781.1		**1,583.8**		1,629.8	
Guarantees	**2,406.1**		2,038.3		**1,154.4**		1,228.5	
Other obligations	**1,128.8**		41.8		**1,085.0**		–	
Liability for nuclear waste disposal	**2,624.4**		2,594.3		**2,624.4**		2,594.3	
Share of reserves in the Nuclear Waste Disposal Fund	**– 1,647.9**		– 1,375.9		**– 1,647.9**		– 1,375.9	
Liabilities in the balance sheet								
Annual fee	**– 208.4** *		– 182.5 *		**– 208.4** *		– 182.5 *	
Extraordinary items entered	**– 566.7** *		0.0 *		**– 566.7** *		0.0 *	
The liability not entered Dec 31, 1997 corresponds to interest income of the fund for the three subsequent years	**201.4** *		1,035.9 *		**201.4** *		1,035.9 *	
* Mortgaged bearer papers as security.								
Leasing obligations								
Falling due in the year after the financial year	**11.5**		9.6		**1.0**		0.8	
Falling due later	**22.7**		43.1		**1.4**		1.3	

Management pension commitments

The CEO of the parent company and other senior management are eligible for retirement at the age of 60.

Derivative instruments FIM million	Nominal value Dec 31, 1997	Market value Dec 31, 1997	Amount not entered as income in financial statements Dec 31, 1997	Nominal value Dec 31, 1996	Market value Dec 31, 1996	Amount not entered as income in financial statements Dec 31, 1996
Group						
Interest rate derivatives						
Forward agreements	–	–	–	–	1	1
Purchased	–	–	–	100	–	–
Sold	–	–	–	160	–	–
Option agreements	–	–	– 1	–	–	–
Purchased	120	–	–	–	–	–
Interest rate swaps	2,750	– 62	– 62	2,324	– 111	– 111
Foreign exchange derivatives						
Forward agreements	–	60	–	–	77	2
Purchased	514	–	–	744	–	–
Sold	730	–	–	935	–	–
Currency swaps*	1,914	111	**	1,850	– 67	**
Parent company						
Interest rate derivatives						
Forward agreements	–	–	–	–	1	1
Purchased	–	–	–	100	–	–
Sold	–	–	–	160	–	–
Interest rate swaps	2,388	– 62	– 62	2,301	– 110	– 110
Foreign exchange derivatives						
Forward agreements	–	63	2	–	75	–
Purchased	856	–	–	1,062	–	–
Sold	766	–	–	986	–	–
Currency swaps*	1,914	111	**	1,850	– 67	**

* Includes agreements also given under interest rate swaps.

** Currency swaps are related to the Group's long-term loans. In the Group, the net amount of FIM 117 million (FIM 197 million in 1996) had not been entered as income on December 31, 1997 for exchange differences relating to long-term loans and currency swaps.

Valuation of derivatives

The values of the financing instruments alone cannot give a correct picture of the Group's risks. The derivatives are given at gross values, and their market value is based on the current value of the cash flows resulting from them, and in case of option agreements on valuation models.

Information on Imatran Voima Oy required by the Electricity Market Act

ELECTRICITY SALES

Imatran Voima Oy's electricity sales also includes electricity procurement from the generation units at cost price, and electricity procurement from outside the company. Electricity sales are responsible for electricity distribution fees. The coverage of the liability for nuclear waste disposal has been exceptionally entered under extraordinary charges of Imatran Voima Oy's production operations.

Allocation of overall costs

Overall costs have been allocated according to the matching principle. Capital structure of the initial balance sheet has been derived from the ratio of Imatran Voima Oy's shareholders' equity to long-term liabilities.

Valuation of fixed assets

Fixed assets have been valued in accordance with the principles followed in the IVO Group.

Distribution of profits from the combined heat and power (CHP)

Fuel costs and other operating costs of CHP plants have been allocated at power plants in the same proportion as would have been incurred if power and heat had been generated at separate plants.

PROFIT AND LOSS ACCOUNT

FIM million	Jan 1 – Dec 31, 1997
Turnover	4,661.3
Other operating income	1.8
Expenses	
Electricity procurement and transmission fees	4,308.0
Purchases during the financial year	3.1
Staff costs	46.4
Rents	0.3
Other expenses	91.6
Operating profit before depreciation	213.7
Depreciation	5.2
Operating profit	208.5
Financing income and charges	8.9
Profit before reserves and tax	217.4
Increase (-), decrease (+) in depreciation difference reserve	– 5.8
Direct tax	– 59.3
Profit for the financial year	152.3

Energy volumes and prices of the power and heat generated at the company's own CHP plants

	Energy volume	Average price
Electricity	3,141 GWh	FIM 147/MWh
Heat	9,100 GWh	FIM 72/MWh

GRID OPERATIONS

Grid operations include Imatran Voima Oy's cross-border lines and regional networks. The cross-border lines were sold on August 31, 1997. The profits from the sale of the cross-border lines and regional networks are included in extraordinary income. The figures for the reference year include the transmission lines from northern Finland to Sweden and Norway for the first six months of the year.

Allocation of overall costs

Overall costs have been allocated according to the matching principle. Capital structure of the initial balance sheet has been derived from the ratio of Imatran Voima Oy's shareholders' equity to long-term liabilities.

Valuation of fixed assets

Fixed assets have been valued in accordance with the principles followed in the IVO Group.

Return on capital employed 16%

Return on capital employed % =

$$100 \times \frac{\text{profit before extraordinary items plus interest and other financial expenses}}{\text{capital employed (average for the year)}}$$

Capital employed = interest-bearing liabilities plus shareholders' equity plus reserves.

Employees

The grid operations had no employees. The necessary services have been bought in.

Investments

Machinery and equipment FIM 0.4 million.

PROFIT AND LOSS ACCOUNT

FIM million	**Jan 1 – Dec 31, 1997**	Jan 1 – Dec 31, 1996
Turnover	**160.8**	254.9
Other operating income	**7.3**	0.5
Expenses		
Electricity procurement and transmission fees	**75.4**	117.6
Other expenses	**0.4**	4.5
Operating profit before depreciation	**92.3**	133.3
Depreciation	**14.4**	19.1
Operating profit	**77.9**	114.2
Financing income and charges	**8.6**	– 0.2
Profit before extraordinary items, reserves and tax	**86.5**	114.0
Extraordinary income and charges	**220.4**	5.0
Profit before reserves and tax	**306.9**	119.0
Increase (-), decrease (+) in depreciation difference reserve	**346.8**	15.7
Direct tax	**– 183.1**	– 37.7
Profit for the financial year	**470.6**	97.0

BALANCE SHEET

FIM million Assets	**Dec 31, 1997**	Dec 31, 1996
Fixed assets and other long-term investments		
Intangible assets		
Other long-term expenditure	**2.7**	3.8
Tangible assets		
Buildings and structures	**0.6**	16.5
Machinery and equipment	**6.2**	366.8
	6.8	383.3
Current assets (inventories and monetary)		
Accounts receivable	**2.8**	28.7
Cash and cash equivalents	**495.8**	83.1
	498.6	111.8
Assets, total	**508.1**	498.9

FIM million Liabilities and shareholders' equity	**Dec 31, 1997**	Dec 31, 1996
Shareholders' equity		
Calculated equity	**25.1**	25.1
Profit for the financial year	**470.6**	97.0
	495.7	122.1
Reserves		
Accumulated depreciation difference reserve	**9.7**	356.5
Current liabilities		
Accounts payable	**2.6**	20.2
Other current liabilities	**0.1**	0.1
	2.7	20.3
Liabilities and shareholders' equity, total	**508.1**	498.9

SHAREHOLDINGS AS AT DECEMBER 31, 1997

SUBSIDIARIES	Size of Group shareholding %	Size of Group voting right %	Size of parent company holding %	Number of shares		Nominal value FIM 1,000/currency	Book value FIM 1,000
ENERGY							
Finervo Oy	100,0	100.0	100.0	450		450	6,220
Gullspång Kraft AB, Sweden[1)]	92.9	95.0	89.0	82,050,591	SEK	410,253	6,964,407
Arvika Fjärrvärme AB, Sweden	60.0	60.0		3,000	SEK	3,000	2,059
Brännälven Kraft AB, Sweden	6.8	35.4		40,000	SEK	10,000	166,771
Cajero AB, former Västkraft, Sweden	100.0	100.0		2,000	SEK	2,000	521,990
Gullspång Försäljning AB, Sweden	100.0	100.0		2,000	SEK	2,000	1,373
Gullspång Nät AB, Sweden	100.0	100.0		30	SEK	300	2,430,186
Gullspång Nät Hälsingland AB, Sweden	100.0	100.0		500	SEK	200	320,768
Gullspång Nät SEV AB, Sweden	100.0	100.0		3,100	SEK	310	1,651,235
Gullspång Nät Småland AB, Sweden	100.0	100.0		500,000	SEK	50,000	549,040
Gullspång Nät Yngeredsfors AB, Sweden	100.0	100.0		800,000	SEK	80,000	823,560
Gullspång Produktion AB, Sweden	100.0	100.0		2,500	SEK	2,500	1,716
Gullspång Service AB, Sweden	100.0	100.0		1,000	SEK	100	69
Gullspång Värme AB, Sweden	100.0	100.0		2,000	SEK	2,000	37,208
HemEI Gullspång AB, Sweden	100.0	100.0		1,000	SEK	100	72
Hällefors Värmeproduktion AB, Sweden	95.0	95.0		950	SEK	950	990
Hällefors Energiteknik AB, Sweden	95.0	95.0		200	SEK	200	2,087
AB Hälsingekraft, Sweden	100.0	100.0		149,000	SEK	149,000	662,551
Hudiksvalls Energiverk AB, Sweden	100.0	100.0		2,000	SEK	2,000	55,627
AB Hudik Kraft, Sweden	100.0	100.0		12,000	SEK	12,000	30,864
Hudiksvalls Energihandel AB, Sweden	100.0	100.0		2,000	SEK	2,000	1,373
Karåsen Kraft AB, Sweden	100.0	100.0		816,000	SEK	81,600	91,955
Ljusnarsbergs Energi AB, Sweden	100.0	100.0		50,000	SEK	5,000	22,281
Ljusnarsbergs Kraft AB, Sweden	100.0	100.0		1,000	SEK	100	69
Mullhyttans Elektriska AB, Sweden	99.3	99.3		1,114	SEK	56	264
NGI Naturgasinvest AB, Sweden	62.4	62.4		6,249	SEK	625	514
Nybroviken Kraft AB, Sweden	10.1	52.9		990,000	SEK	99,000	8,222
Parteboda Kraft AB, Sweden	10.1	52.9		1,000	SEK	100	219,648
SEV Holding AB, Sweden	100.0	100.0		1,000	SEK	100	172
AB Skandinaviska Elverk, Sweden	100.0	100.0		2,000,000	SEK	200,000	2,539,310
Skandinavisk Eltrading AS, Norway	100.0	100.0		100,000	NOK	10,000	7,148
Sundshagsfors Kraft AB, Sweden	100.0	100.0		5,700	SEK	5,700	7,007
Tivedsenergi AB, Sweden	100.0	100.0		100	SEK	1,000	11,942
Tivedsenergi Försäljnings AB, Sweden	100.0	100.0		1,000	SEK	1,000	686
Uddeholm Kraft AB, Sweden	100.0	100.0		5,953,332	SEK	595,333	898,207
Voxnan Kraft AB, Sweden	10.1	52.9		1,000	SEK	100	884,432
Värmlandskraft – OKG-delägarna AB, Sweden	73.0	73.0		420	SEK	420	81,601
Värmlandsenergi AB, Sweden	100.0	100.0		53,613,270	SEK	536,133	752,997
Värmlands Värme AB, Sweden	70.0	70.0		700	SEK	700	1,923
Västkraft AB, former Cajero, Sweden	100.0	100.0		500	SEK	50	34
Östernärkes Kraft AB, Sweden	46.9	50.3		15,297	SEK	1,530	30,981
Östernärkes Kraftförsäljning AB, Sweden	46.9	50.3		500	SEK	500	343
Imatran Voima Australia Pty. Ltd, Australia	100.0	100.0	100.0	12	AUD	0	3
Imatran Voima Holding B.V., the Netherlands	100.0	100.0	100.0	51	NLG	51	236,484
Imatran Voima Properties B.V., the Netherlands	100.0	100.0		41	NLG	41	1,429
Imatran Voima Malaysia B.V., the Netherlands	100.0	100.0	100.0	13,456	NLG	13,456	66,421
Imatrankosken Voima Oy	100.0	100.0	100.0	100		100	660
IVO Australia Pty. Ltd, Australia	100.0	100.0	100.0	12	AUD	0	3
IVO Cogen SDN BHD, Malaysia	70.0	70.0	70.0	70	MYR	70	0
IVO Energi AB, Sweden	100.0	100.0	100.0	100	SEK	50,000	156,101
Lidköping Energi AB, Sweden	100.0	100.0		500	SEK	500	17,844
Vänerenergi AB, Sweden	100.0	100.0		12,800	SEK	1,280	1,373
IVO Energia AS, former Baltic Power Estonia Ltd, Estonia	100.0	100.0	100.0	101	EEK	1,010	771
IVO Energieanlagen GmbH, Germany	100.0	100.0	100.0	4	DEM	600	1,805
IVO Energy Limited, England	100.0	100.0	100.0	5,382,000	GBP	5,382	42,713
CLB Limited, England	100.0	100.0		719,000	GBP	719	0
CLB Transducers Limited, England	100.0	100.0		2	GBP	0	0
IVO Energy Trading Limited, England	100.0	100.0		2	GBP	0	0
IVO Energy Developments Ltd, England	100.0	100.0		300,000	GBP	300	2,698
Jyväskylän Energiantuotanto Oy	60.0	60.0	60.0	600		600	600
Killin Voima Oy	60.0	60.0	60.0	660		660	660
Koskivo Oy	100.0	100.0	100.0	100		100	660
Linnankosken Voima Oy	100.0	100.0	100.0	100		100	660
Länsivoima Oy[2)]	65.1	65.1	65.1	4,246,608		42,466	890,825
Hanerga Oy	100.0	100.0		5,000		500	1,276
Jyllinkosken Sähkö Oy	100.0	100.0		2,000		2,000	5,500
KPPV-Sijoitus Oy	100.0	100.0		20,500		205	1,225
Lounais-Suomen Lämpö Oy	100.0	100.0		300		15	25
Lounais-Suomen Sähkö Oy	100.0	100.0		2,000		2,000	7,955
Länsitec Oy, former Hyperno Oy	100.0	100.0		2,000		2,000	4,196
Länsiverkot Oy	100.0	100.0		5.000		5,000	10,004
Megavoima Oy	100.0	100.0		1,000		1,000	3,561
Merikarvian Sähkö Oy	100.0	100.0		526		117	14,000
Oy Tersil Ab	100.0	100.0		15,000		1,500	16,350

1) Market value FIM 7,095,226,396 (stock quotation on December 31, 1997).
2) Market value FIM 1,099,871,472 (stock quotation on December 31, 1997).

SUBSIDIARIES	Size of Group shareholding %	Size of Group voting right %	Size of parent company holding %	Number of shares		Nominal value FIM 1,000/currency	Book value FIM 1,000
Oy Tertrade Ab	100.0	100.0		15,000		1,500	14,420
Uudenmaan Energia Oy	50.0	50.0		2,500		2,500	5,000
Varsinais-Suomen Sähkö Oy	100.0	100.0		212		21	38
Kiinteistö Oy Sähkökoto	100.0	100.0		60		60	62
Mansikkalan Voima Oy	100.0	100.0	100.0	100		100	660
Rajapatsaan Voima Oy	100.0	100.0	100.0	100		100	660
Saimaanrannan Voima Oy	100.0	100.0	100.0	100		100	750
Tainionkosken Voima Oy	100.0	100.0	100.0	100		100	660
Voimayhtiö Oulujoki Oy	100.0	100.0	100.0	15		15	15
Vuoksen Voima Oy	100.0	100.0	100.0	100		100	660
OPERATION AND MAINTENANCE							
IVO Generation Services Ltd	100.0	100.0	100.0	5,000		50,000	50,000
Etelä-Hämeen Kunnossapito Oy	60.0	60.0		3,000		150	1,088
Hämeen Kunnossapito Oy	100.0	100.0		3,000		300	4,376
IVO Service Länsi-Suomi Oy	100.0	100.0		2,000		200	569
IVO Service Pirkanmaa Oy	100.0	100.0		3,000		300	300
Keski-Suomen Kunnossapito Oy	100.0	100.0		3,000		300	582
Kymen Kunnossapito Oy	51.2	51.2		384		384	7,198
Kymenseudun Kunnossapito Oy	100.0	100.0		180		18	18
Lohjan Kunnossapito Oy	100.0	100.0		4,000		400	462
Pohjanmaan Kunnossapito Oy	100.0	100.0		180		18	18
Pohjolan Kunnossapito Oy	100.0	100.0		180		18	18
Raaseporin Kunnossapito Oy	100.0	100.0		3,000		300	2,083
Salpaus-Kunnossapito Oy	100.0	100.0		3,000		300	300
Support-Service Oy	100.0	100.0		100		200	1,957
Uudenmaan Kunnossapito Oy	100.0	100.0		3,000		300	995
Montivo Kft., Hungary	51.0	51.0		1,020	HUF	10,200	447
IVO Generation Services (UK) Ltd, England[1)]	100.0	100.0		50,000	GBP	50	450
Imatran Voima IVO-Sendi Prima Sdn Bhd, Malaysia	100.0	100.0		2	MYR	0	0
ENGINEERING							
IVO Power Engineering Ltd	100.0	100.0	100.0	11,000		110,000	111,350
AO Enerecon, Russia	100.0	100.0		100	RUR	16	239
AS Estivo, Estonia	100.0	100.0		100	EEK	1,000	429
ETV Eröterv Rt., Hungary	75.0	75.0		48,465	HUF	485	15,873
ERBE Eröterv Kft., Hungary	100.0	100.0		-	HUF	1,000	27
ETM Kft., Hungary	100.0	100.0		-	HUF	12,000	216
Finnish Railway Engineering Oy	100.0	100.0		160		1,600	800
IS-Plan Oy	91.0	91.0		273		273	277
IVO-EKO s.r.o., Czech Republic	51.0	51.0		51	CSK	51	10
IVO Energy Consulting (Tianjin) Co. Ltd, China	100.0	100.0			USD	200	1,045
IVO Polska Sp.zo.o., Poland	100.0	100.0		447	PLZ	45	83
Insinööritoimisto Niilo Liukkonen Oy	64.6	64.6		310		78	1,263
AS Linjebygg, Norway	57.1	57.1		7,667	NOK	2,492	10,585
Hallingdal Linjebygg AS, Norway	100.0	100.0		10	NOK	100	148
Impregnertbygg AS, Norway	100.0	100.0		51	NOK	51	38
Linjebygg Centroamerica, Costa Rica	100.0	100.0		10	CRC	100	3
Vestneslinjer AS, Norway	100.0	100.0		8,000	NOK	800	955
Selion Oy	100.0	100.0		2,000		2,000	2,000
Selion Technologies Inc, USA	100.0	100.0			USD	110	502
Sähköradat Oy (Electric Rails Ltd)	100.0	100.0		600		6,000	6,036
Transelectric AB, Sweden	100.0	100.0		6,000	SEK	6,000	3,967
Kraftkonsult WSW AB, Sweden	100.0	100.0		1,000	SEK	100	80
Transelectric Vägbelysning AB, Sweden	100.0	100.0		3,000	SEK	300	247
Åsbro Impregnering AB, Sweden	100.0	100.0		40,000	SEK	4,000	3,294
Transmast Ltd	60.0	60.0		180		1,800	1,829
Transmast AB, Sweden	100.0	100.0		1,000	SEK	1,000	683
Transmast SIA, Latvia	100.0	100.0		20	LVL	2	18
Transmast SPb, Russia	100.0	100.0			RUR	1,640	281
Transmast Technique Ltd, Thailand	49.0	100.0			THB	980	132
IVO Power Engineering (UK) Limited, England[1)]	100.0	100.0		100	GBP	0	1
IVO CM Services Ltd, England[1)]	100.0	100.0		2	GBP	0	0
ENERGY MEASUREMENT							
Enermet Oy	100.0	100.0	100.0	400,000		40,000	136,628
Enermet A/S, Denmark	100.0	100.0		500	DKK	500	182
Enermet B.V., the Netherlands	100.0	100.0		40	NLG	40	97
Enermet AS, Norway	100.0	100.0		500	NOK	500	31
Enermet AB, Sweden	100.0	100.0		10,000	SEK	1,000	1,736
Enermet A.G., Switzerland	100.0	100.0		5,000	CHF	5,000	18,535
Enermet GmbH, Germany	100.0	100.0		1	DEM	2,000	6,083
Enermet Ltd, New Zealand	100.0	100.0		600,000	NZD	600	21,625
Enermet Pty. Ltd, Australia	100.0	100.0		626,750	AUD	1,254	14,070

1) Parent company IVO Energy Limited.

SUBSIDIARIES	Size of Group shareholding %	Size of Group voting right %	Size of parent company holding %	Number of shares		Nominal value FIM 1,000/currency	Book value FIM 1,000
OTHER OPERATIONS							
Energistit Oy	93.6	93.6	93.6	730		15	3
Infrarödteknik Aktiebolag, Sweden	100.0	100.0	100.0	25,000	SEK	2,500	21,000
Institutet för Materialutveckling AB, Sweden	100.0	100.0		500	SEK	50	32
IRT Finland Oy	100.0	100.0				100	100
IRT France SARL., France	100.0	100.0			FRF	250	235
IRT Prozesswärmetechnik GmbH, Germany	100.0	100.0			DEM	200	481
IVO Transmission Services Ltd	100.0	100.0	100.0	5,000		50,000	50,000
Tekivo Finance Oy	100.0	100.0	100.0	15		15	15
Ve-Ki Oy	100.0	100.0	100.0	800		800	5,701
Kiinteistö Oy IVOn Vanhakaupunki	100.0	100.0	100.0	1,600		16,000	64,000
Osakeyhtiö Malminkatu 16	100.0	100.0	100.0	1,600		160	115,780
ASSOCIATED COMPANIES							
ENERGY							
Birka Kraft AB, Sweden	50.0	50.0		6,500	SEK	6,500	19,903
Birka Norden AB, Sweden	33.3	33.3	33.3	2,000	SEK	2,000	1,377
Budapesti Erömü Rt., Hungary	42.7	42.7		571,629	HUF	5,716,290	135,726
Gullspång Group							
AB Aroskraft, Sweden	39.2	39.2		17,638	SEK	17,638	95,412
Blåsjöns Kraft AB, Sweden	50.0	50.0		6,000	SEK	6,000	159,255
Frostvikenkraft AB, Sweden	50.0	50.0		500	SEK	50	34
Gulsele AB, Sweden	50.0	50.0		120,000	SEK	120,000	420,443
Härjeåns Kraft AB, Sweden	46.2	46.2		31,558	SEK	3,156	45,131
Katrineholm Energi AB, Sweden	49.0	49.0		66,150	SEK	6,615	116,671
Kraftdata AB, Sweden	37.5	37.5		3,750	SEK	375	1,029
Kraftfinans AS, Norja	33.3	33.3		500	NOK		3,653
Laxå Värme AB, former VKAF–K, Sweden	40.0	40.0		800	SEK	800	549
AB Ljusnans Samkörning, Sweden	40.0	40.0		40	SEK	40	27
Stensjöns Kraft AB, Sweden	50.0	50.0		220,000	SEK	11,000	267,887
Ångefallens Kraft AB, Sweden	50.0	50.0		5,000	SEK	500	53,608
Helsingin Seudun Lämpövoima Oy	50.0	50.0	50.0	500		2,500	2,500
Humber Power Limited, England	22.5	22.5		142,132	GBP	142	1,278
Inerkol Oy	22.2	22.2	22.2	100		100	100
Keuruun Sähkö Oy	34.9	34.9	34.9	1,744		17	14,530
Koillis-Pohjan Sähkö Oy	25.0	25.0	25.0	10,890		109	109
Laem Chabang Power Company Limited, Thailand	20.0	20.0		2,000,000	THB	20,000	937
Lahden Lämpövoima Oy	50.0	50.0	50.0	800		8,000	8,000
Lappeenrannan Lämpövoima Oy	50.0	50.0	50.0	1,800		18,000	18,000
Länsivoima Group							
Etelä-Pohjanmaan Voima Oy	27.9	27.9		1,319		13,190	169,286
Jalasjärven Lämpö Oy	31.6	31.6		60		300	300
Kurikan Kaukolämpö Oy	25.0	25.0		75		375	375
Oy Kaskisten Lämpö – Kaskö Värme Ab	30.0	30.0		150		150	150
Paimion Lämpökeskus Oy	50.0	50.0		650		325	325
Pöytyän Lämpökeskus Oy	50.0	50.0		200		100	461
Sallilan Sähkölaitos Oy	46.0	46.0		10,647		532	48,598
Terki Oy	50.0	50.0		7,500		7,500	7,500
Ulvilan Lämpö Oy	22.0	22.0		0		0	104
Länsi-Suomen Polttoöljy Oy	22.2	22.2	22.2	1,200		120	932
Nordisk Gaskraft Aktiebolag, Sweden	50.0	50.0	50.0	2,400	SEK	2,400	1,568
Olkiluodon Vesi Oy	50.0	50.0	50.0	50		50	50
Oy Lovlämpö – Lovvärme Ab	20.0	20.0	20.0	6		0	0
Pamilo Oy	49.0	49.0	49.0	265,580		26,558	148,126
Perusvoima Oy	50.0	50.0	50.0	3		30	30
Posiva Oy	40.0	40.0	40.0	4,000		4,000	4,000
Radtek Oy	30.0	30.0	30.0	30		30	900
Regional Power Generators Ltd, England	25.0	25.0		2,500	GBP	3	22
Finnish Peatlands Information Centre Ltd	50.0	50.0	50.0	60		3,000	2,508
Finnish Power Balance Ltd	34.0	34.0	34.0	340		340	680
Teollisuuden Voima Oy	26.6	26.6	26.6	189,877,285		189,877	741,166
Turun Seudun Kaukolämpö Oy	50.0	50.0	50.0	1,000		1,000	1,000
Tuusulanjärvi Energy Ltd	30.0	30.0	30.0	147,000		14,700	29,400
ZAO Leivo, Russia	50.0	50.0	50.0	55	RUR	5,830	5,580
Uudenmaan Sähköverkko Oy	50.0	50.0	50.0	500,000		5,000	10,000
Vesivoimalaitosten Konehuolto Oy[1)]	50.0	50.0	43.8	2,000		50	50
Winnington Combined Heat and Power Ltd, England	33.3	33.3		1	GBP	0	0
ZAO Vyborg TEC, Russia	20.0	20.0	20.0				10
							2,539,280
OPERATION AND MAINTENANCE							
Kotkan Putkityö Oy	50.0	50.0	50.0	50		50	4,572
Budapesti Karbantartási Szolgáltató Kft., Hungary	50.0	50.0					268
							4,840
ENGINEERING							
Finnish Barents Group Oy	50.0	50.0		100		100	100
ZAO Irmet, Russia	49.0	49.0			RUR	41	37
KWH-IVO China Holdings Limited, Malaysia	33.3	33.3		740,000	USD	740	3,341
Unipole Orman Urünleri Ticaret AS, Turkey	33.1	33.1		330,000	TL	3,300	459
Wagner–Biro Kft., Hungary	37.5	37.5			HUF	5,500	146
Verkonrakentaja Wire Oy	50.0	50.0		50		250	1,819
							5,902

1) Imatran Voima Oy's ownership 44%, and IVO Power Engineering Ltd's ownership 6%.

ASSOCIATED COMPANIES

	Size of Group shareholding %	Size of Group voting right %	Size of parent company holding %	Number of shares		Nominal value FIM 1,000/currency	Book value FIM 1,000
OTHER OPERATIONS							
EGlas Oy	45.1	45.1	45.1	3,315		1,658	1,658
Finnish Power Grid Plc	25.1	33.4	25.1	834		83,400	166,800
Utility Competetive Advantage Fund, L.L.C., U.S.A.	20.0	20.0	20.0		USD	10,000	54,153
UVCC II Parallel Fund, L.P., U.S.A.	33.3	33.3	33.3		USD	4,832	18,883
Shares in housing and real estate companies							18,085
							259,579
Share of associated companies' cumulative results							251,282
Total of associated companies in the Group balance sheet							3,060,883

OTHER SHAREHOLDINGS

ENERGY							
The Cogeneration Public Company Limited, Thailand	11.2			59,576,522	TAB	595,765	93,028
Gullspång Group							
Arendals Fossekompani AS, Norway	1.1			26,367	NOK	284	5,087
Karlshamnsverkets Kraftgrupp AB, Sweden	18.0			27,000	SEK	2,700	123,443
Karskär Energi AB, Sweden	8.9			2,670	SEK	27	3,334
Korsselbränna AB, Sweden	16.2			51,840	SEK	5,184	227,443
Mellansvensk Kraftgrupp AB, Sweden[1]	28.2			20,006	SEK	20,006	607,685
Ockelbo Kraft AB, Sweden	14.8			4,434	SEK	4,000	2,745
OKG AB, Sweden	19.6			56,250	SEK	5,625	1,215,704
Värmlandskraft–Forsmarksdelägarna AB, Sweden	13.2			30	SEK	30	40,752
Älvkraft i Värmland AB, Sweden[2]	23.8			750,000	SEK	75,000	51,473
Imatran Seudun Sähkö Oy[3]	12.4			13,307		399	11,036
Kemijoki Oy	16.9		16.9	412,907		41,219	1,638,580
Ab Korsnäs Vindkraftpark –							
Korsnäsin Tuulivoimapuisto Oy	8.0		8.0	1,100		550	550
Lenenergo, Russia	2.7		2.7	20,953,333	RUR	20,953	68,268
Länsivoima Group							
Kauhajoen Lämpöhuolto Oy	19.0			125		125	125
Leppäkosken Sähkö Oy	0.7			1,127		12	1,158
Paneliankosken Voima Oy	2.1			896		27	535
Vakka-Suomen Voima Oy	16.7			14,194		213	13,809
Powertek Berhad, Malaysia	6.7			15,367,600	MYR	15,368	63,943
Union Power Development Company Limited, Thailand	14.9			1,260,000	THB	126,000	16,646
							4,185,344
OPERATION AND MAINTENANCE							
Polartest Oy	15.0			750		187	341
ENGINEERING							
Are Oy	10.7			80		800	4,500
Fintherm Praha AS, Czech Republic	12.0			600	CSK	6,000	1,156
ZAO Peterpipe SP, Russia	7.0			175	RUR	2	2
Suomen Imsveto Oy	17.6			15		45	53
							5,711
OTHER OPERATIONS							
Oy Datatie Ab	1.7		1.7	20		100	305
Ekokem Oy Ab	0.1		0.1	16		32	32
Haapavesi Science Park							
(Haapaveden Teknologiakylä Oy)	0.7		0.7	20		20	20
Hadwaco Oy	8.0		8.0	160		160	656
Imatran Seudun Kehitysyhtiö Oy				6		60	60
Innopoli Oy	3.6		3.6	33,000		3,300	3,550
Kiinteistösijoitus Oy Citycon[4]	9.7		9.7	947,700		9,477	4,739
Keuruu Industrial Laser Technologies Oy	10.0		10.0	50		50	50
Merita Pankki Ltd[5]	0.0		0.0	33,764		338	529
Oulu Technopolis Ltd	0.6		0.6	3,380		169	199
Oy Radiolinja Ab	0.1		0.1	64		320	320
Rauma Oy[6]	0.1		0.1	35,358		354	3,809
Sampo Insurance Company Ltd[7]	0.4			266,508		1,333	2,087
Housing and real estate companies							25,280
Shares and shareholdings in telephone companies							2,844
Other shares and shareholdings							18,442
							62,922
Other shares and shareholdings, and shares in other investments, total							4,254,318

1) The company owns shares entitling it to part of the electricity generated by the Forsmark nuclear power plant in Sweden. According to the Articles of Association, the purpose of this company is not to yield profit; it sells the received electricity on to its shareholders at a price that covers the company's costs. The ownership share of Gullspång Kraft AB is 24% and that of IVO Energi AB 4%.
2) Group share of voting rights 44.1%. Right to a share of the generated power in proportion to the ownership, but no right to the company's profit.
3) Group share of voting rights 14.6%.
4) Market value FIM 7,581,600 (stock quotation on December 31, 1997).
5) Market value FIM 1,006,167 (stock quotation on December 31, 1997).
6) Market value FIM 3,005,430 (stock quotation on December 31, 1997).
7) Market value FIM 47,171,916 (stock quotation on December 31, 1997).

GROUP KEY FIGURES IN 1993 – 1997

		1993	1994	1995	1996	**1997**
Scope of operations						
Turnover	FIM million	6,744	7,602	8,055	11,937	**13,775**
- change	%	15	11	6	48	**15**
Exports and operations outside Finland	FIM million	766	1,148	1,214	5,050	**6,097**
- of turnover	%	11	15	15	42	**44**
Capital employed as at December 31	FIM million	12,558	12,104	12,259	21,792	**25,391**
Balance sheet total	FIM million	16,046	15,702	16,167	28,175	**33,963**
Investments, gross	FIM million	1,432	643	878	4,555	**7,306**
- of turnover	%	21	8	11	38	**53**
Research and development expenses	FIM million	131	128	146	170	**226**
- of turnover	%	2	2	2	1	**2**
Average number of employees		5,556	5,458	5,650	7,421	**8,915**
Profitability						
Operating profit	FIM million	923	737	1,337	2,042	**2,591**
- of turnover	%	14	10	17	17	**19**
Profit before extraordinary items and tax	FIM million	284	347	1,129	1,736	**1,973**
- of turnover	%	4	5	14	15	**14**
Net profit	FIM million	160	318	683	1,176	**1,459**
- of turnover	%	2	4	8	10	**11**
Return on capital employed	%	8.7	6.8	12.5	13.5	**11.8**
Return on equity	%	2.5	4.8	9.5	12.9	**12.1**
Financing and economic position						
Liabilities	FIM million	7,953	7,206	6,914	14,695	**17,960**
Net interest-bearing liabilities	FIM million	4,622	3,711	2,697	9,400	**8,912**
- of turnover	%	69	49	33	79	**65**
Net financing expenses	FIM million	640	390	208	306	**618**
- of turnover	%	9.5	5.1	2.6	2.6	**4.5**
Net interest expenses	FIM million	380	344	256	433	**614**
- of turnover	%	5.6	4.5	3.2	3.6	**4.5**
Share capital	FIM million	912	912	912	912	**912**
Other shareholders' equity and minority interests	FIM million	5,482	5,915	6,580	9,844	**12,453**
Equity/total capital	%	40	44	47	38	**40**
Debt/equity	%	72	54	36	87	**67**
Cash flow from operations	FIM million	1,256	978	1,390	1,916	**1,907**
Cash flow from operating activities	FIM million	1,556	840	1,573	2,369	**2,055**
Cash flow before financing activities	FIM million	178	784	1,265	– 1,924	**509**
Dividends	FIM million	109	109	137	210	**292** *
Key figures per share						
Profit/share	FIM	1.78	3.47	7.40	11.63	**13.26**
Shareholders' equity/share	FIM	69.57	74.31	81.26	91.70	**132.00**
Dividend/share	FIM	1.20	1.20	1.50	2.30	**3.20** *
- dividend on the basis of the profit	%	73	48	21	20	**24**
Number of shares as at December 31		91,188,742	91,188,742	91,188,742	91,188,742	**91,188,742**

* Board of Directors' proposal to the Annual General Meeting.

FORMULAE FOR KEY FIGURES

Capital employed = total assets less interest-free liabilities

Net profit = profit before extraordinary items, tax and minority interests less direct tax for the financial year*, plus/minus change in deferred tax provision*

Net interest-bearing liabilities = interest-bearing liabilities less cash less other interest-bearing current assets (monetary)

Cash flow from operations
Cash flow from operating activities
Cash flow before financing activities
} = the key figures have been calculated in the same way as in the cash flow statement

$$\text{Return on capital employed \%} = \frac{\text{profit before extraordinary items, tax and minority interests plus interest and other financial expenses}}{\text{balance sheet total less interest-free liabilities (average for the year)}} \times 100$$

$$\text{Return on equity \%} = \frac{\text{profit before extraordinary items, tax and minority interests less tax for the financial year* plus/minus change in deferred tax provision*}}{\text{shareholders' equity plus minority interests (average for the year)}} \times 100$$

$$\text{Equity/total capital \%} = \frac{\text{shareholders' equity plus minority interests}}{\text{balance sheet total less advance payments received}} \times 100$$

$$\text{Debt/equity \%} = \frac{\text{net interest-bearing liabilities}}{\text{shareholders' equity plus minority interests}} \times 100$$

$$\text{Profit/share FIM} = \frac{\text{profit before extraordinary items, tax and minority interests plus/minus minority interests less tax for the financial year* plus/minus change in deferred tax provision*}}{\text{number of shares}}$$

$$\text{Shareholders' equity/share FIM} = \frac{\text{shareholders' equity}}{\text{number of shares}}$$

$$\text{Dividend/share FIM} = \frac{\text{dividends distributed}}{\text{number of shares}}$$

* Does not include the share of tax and deferred tax provision which concerns extraordinary items.

REPORT OF THE AUDITOR

To the shareholders of Imatran Voima Oy

We have audited the accounts, the accounting records and the corporate governance of Imatran Voima Oy for the 1997 financial year. The accounts prepared by the Board of Directors and the Chairman and CEO include, both for the Group and the parent company, a report on operations, a profit and loss account, a balance sheet and notes to the accounts. Based on our audit we express an opinion on these accounts and on corporate governance.

We have audited, in accordance with Finnish auditing standards, the accounting records and the accounts, the disclosures and the presentation of information, including the accounting policies, in the accounts. The purpose of this audit is to obtain assurance about whether the accounts are free from material misstatements and imperfections. The purpose of the audit of corporate governance is to examine that the Supervisory Board, the members of the Board of Directors and the Chairman and CEO have legally complied with the rules of the Companies Act.

In our opinion the accounts have been prepared in accordance with the regulations of the Accounting Act and other legislation and regulations relevant to the preparation of the accounts, and give a true and fair view of the parent company's, and the Group's, results from operations and their financial position in accordance with the legislation and regulations. The profit of the parent company for the financial year is FIM 3,744,353,290.37 and the profit of the Group FIM 3,845,223,000. The accounts including the Group accounts may be approved, and the Supervisory Board, the members of the Board of Directors and the Chairman and CEO of the parent company may be discharged from liability for the financial year examined by us. The proposal of the Board of Directors concerning the disposition of the unrestricted shareholders' equity according to the balance sheet is in accordance with the Companies' Act.

We have audited the profit and loss accounts, balance sheets and additional information shown under notes to the financial statements. In our opinion they have been prepared in accordance with the regulations of the Electricity Market Act and other legislation and regulations given on the basis of the Electricity Market Act.

Helsinki, March 9, 1998

SVH Coopers & Lybrand Oy
Authorised Public Accountants

Pekka Kaasalainen
Authorised Public Accountant

STATEMENT OF THE SUPERVISORY BOARD

The Supervisory Board has examined Imatran Voima Oy's profit and loss account, balance sheets, notes to the financial statements, the Board of Directors' report, the consolidated financial statements and the auditors' report for 1997. The Supervisory Board has no comments to make on these. The Supervisory Board recommends that the profit and loss account, the balance sheets, and the consolidated profit and loss account and balance sheets be adopted and concurs with the Board of Directors' proposal for the allocation of profit.

The terms of office of Kari Laitinen, Deputy Chairman of the Supervisory Board, and members Rose-Marie Björkenheim, Leena Luhtanen and Taisto Turunen, the representative of the Ministry of Trade and Industry, are due to expire.

Helsinki, March 12, 1998

Kimmo Sasi
Markku Autti
Timo Järvilahti
Leena Luhtanen
Taisto Turunen
Kari Laitinen
Rose-Marie Björkenheim
Osmo Kurola
Pekka Tuomisto
Esko Vainionpää

IVO GROUP
MANAGEMENT OF THE BUSINESS SECTORS

ENERGY

IMATRAN VOIMA OY
Power Generation
Antti Autio
Risto Mäntynen
Eero Auranne
Teemu Järvenpää
Esko Salosaari

Electricity Sales
Rauno Kallonen

Strategy Planning
Heikki Haavisto

LÄNSIVOIMA OY
Manu Muukkonen
Tapio Lehtisalo
Hanerga Oy
Eugen Stenström
Jyllinkosken Sähkö Oy
Markku Jalonen
Lounais-Suomen Sähkö Oy
Tapio Lehtisalo
Länsitec Oy
Jukka Salmela
Länsiverkot Oy
Kari Koivuranta
Megavoima Oy
Markku Jalonen
Uudenmaan Energia Oy
Erkki Puheloinen

IVO ENERGI AB, Sweden
Gösta Lindh

IVO ENERGIA AS, Estonia
Are Veski

IVO ENERGY LIMITED, England
John Deane

IVO ENERGIEANLAGEN GmbH, Germany
Håvard Nymoen, acting

GULLSPÅNG KRAFT AB, Sweden
Christer Samuelsson, until May 31, 1998
Gösta Lindh, from June 1, 1998
Gustav Sandström
Gullspång Försäljning AB
Annette Brodin
Gullspång Nät AB
Anders Lehman
Gullspång Produktion AB
Matias Kling
Gullspång Service AB
Göran Burestam-Linder
Gullspång Värme AB
Gösta Lindh, in addition to his regular duties

OPERATION AND MAINTENANCE

IVO GENERATION SERVICES LTD
Pekka Päätiläinen
Esa Lecklin

IVO GENERATION SERVICES (UK) LTD, England
Pekka Österlund

IVO SENDI PRIMA SDN BHD, Malaysia
Sakari Majanen

MONTIVO KFT., Hungary
László Szárits

ENGINEERING

IVO POWER ENGINEERING LTD
Jaakko J. Laine, until April 30, 1998
Veikko Anttila, acting, May 1 – Dec 31, 1998
Jorma Karppinen
Heikki Lamminaho

ETV-ERÖTERV Rt., Hungary
Pál Zarándy

AS LINJEBYGG, Norway
Bjarne Hammer

ELECTRIC RAILS LTD
Pekka Salo

TRANSELECTRIC AB, Sweden
Martin Dahlgren

TRANSMAST LTD
Heikki Miettinen

ENERGY MEASUREMENT

ENERMET OY
Esa Pennanen

OTHER BUSINESS SECTORS

INFRARÖDTEKNIK AB, Sweden
Staffan Ekelund

BUSINESS SUPPORT

IMATRAN VOIMA OY
IVO Technology Centre
Pekka Salminen

Environmental Protection
Heikki Niininen

Corporate Services
Eero Maijala

CORPORATE STAFF

IMATRAN VOIMA OY
Corporate Energy Policy
Jouko Mikola

Corporate Human Resources
Antti Aho

Corporate Legal Affairs
Juhani Santaholma

Corporate Treasury
Kaj Lindström

Corporate Internal Auditing
Jarmo Uusitalo

Corporate Financing
Irja Vekkilä

Corporate Communications
Antti Ruuskanen

Corporate Planning
Pekka Leskelä

IVO GROUP ADDRESSES

IMATRAN VOIMA OY

Malminkatu office
Malminkatu 16, Helsinki
mailing address 00019 IVO, Finland
tel. +358 9 85 611
fax +358 9 566 6235
http://www.ivogroup.com
MANAGEMENT
fax +358 9 694 6654
CORPORATE STAFF
fax +358 9 694 4481
STRATEGY PLANNING
fax +358 9 694 1145
ELECTRICITY SALES
fax +358 9 8561 6334
ELECTRICITY DISTRIBUTION AND SUPPLY
fax +358 9 8561 6028

Myyrmäki office
Rajatorpantie 8, Vantaa
mailing address 01019 IVO, Finland
tel. +358 9 85 611
fax +358 9 566 6235
POWER GENERATION
fax +358 9 8561 4477
IVO TECHNOLOGY CENTRE
fax +358 9 563 2225
ENVIRONMENTAL PROTECTION
fax +358 9 566 8151
CORPORATE SERVICES
fax +358 9 566 6235
ENERGY MANAGEMENT CENTRE
tel. +358 9 8561 3520
fax +358 9 8561 3538

LOVIISA POWER PLANT
PO Box 23
FIN-07901 Loviisa
tel. +358 19 5501
fax +358 19 550 4435

SUBSIDIARIES

ENERGY

GULLSPÅNG KRAFT AB
Stubbengatan 2
PO Box 1643
S-70 116 Örebro
Sweden
tel. +46 19 218 100
fax +46 19 262 423
GULLSPÅNG FÖRSÄLJNING AB
tel. +46 8 407 2350
GULLSPÅNG NÄT AB
tel. +46 54 558 300
GULLSPÅNG PRODUKTION AB
tel. +46 19 218 100
GULLSPÅNG SERVICE AB
tel. +46 8 407 2350
GULLSPÅNG VÄRME AB
tel. +46 19 218 100

IVO ENERGI AB
Biblioteksgatan 29, 2 tr.
PO Box 5186
S-102 44 Stockholm
Sweden
tel. +46 8 440 3700
fax +46 8 611 6735

IVO ENERGIA AS
Lennuki 22
EE0001 Tallinn
Estonia
tel. +372 6 277 250
fax +372 6 277 259

IVO ENERGIEANLAGEN GmbH
Neuer Dovenhof
Brandstwiete 1
20457 Hamburg
Germany
tel. +49 40 309 6190
fax +49 40 3096 1925

IVO ENERGY LIMITED
101 Wigmore Street
London W1H 9AB
United Kingdom
tel. +44 171 616 1500
fax +44 171 616 1515

IVO ENERGY TRADING LIMITED
IVO CM SERVICES LTD
IVO POWER ENGINEERING (UK) LTD

JYVÄSKYLÄN ENERGIAN-TUOTANTO OY
Kuokkalantie 4
PO Box 382
FIN-40101 Jyväskylä
tel. +358 14 36 141
fax +358 14 273 913

KILLIN VOIMA OY
PO Box 25
FIN-34801 Virrat
tel. +358 3 485 511
fax +358 3 485 5300

LÄNSIVOIMA OY
Sähköyhtiöntie 2-6
PO Box 23
FIN-21531 Paimio
tel. +358 2 474 701
fax +358 2 474 7222
HANERGA OY
tel. +358 19 221 822
fax +358 19 221 821
JYLLINKOSKEN SÄHKÖ OY
tel. +358 6 455 0111
fax +358 6 455 1333
LOUNAIS-SUOMEN SÄHKÖ OY
tel. +358 2 474 711
fax +358 2 474 7370
LÄNSITEC OY
tel. +358 2 474 777
fax +358 2 474 7417
LÄNSIVERKOT OY
tel. +358 2 474 766
fax +358 2 474 7151
MEGAVOIMA OY
tel. +358 3 514 2151
fax +358 3 514 2083
UUDENMAAN ENERGIA OY
tel. +358 9 222 031
fax +358 9 2220 3293

OPERATION AND MAINTENANCE

IVO GENERATION SERVICES LTD
Myyrmäki office
Rajatorpantie 8, Vantaa
mailing address 01019 IVO, Finland
tel. +358 9 85 611
fax +358 9 8561 2770
SUPPORT SERVICES
O&M SUPPORT CENTRE

IVO O&M
HAAPAVESI POWER PLANT
tel. +358 8 67 211
IMATRA POWER PLANT
tel. +358 5 43 911
INKOO POWER PLANT
tel. +358 9 856 441
JOENSUU POWER PLANT
tel. +358 13 71 211
KAUTTUA POWER PLANT
tel. +358 2 8393 2280
KOKKOLA POWER PLANT
tel. +358 6 828 6888
MERI-PORI POWER PLANT
tel. +358 2 71 111
NAANTALI POWER PLANT
tel. +358 2 81 411
OULUJOKI POWER PLANTS
tel. +358 8 67 111
RAUHALAHTI POWER PLANT
tel. +358 14 36 141
VANAJA POWER PLANT
tel. +358 3 46 111

IVO SERVICE
MYYRMÄKI OFFICE
Rajatorpantie 8, Vantaa
mailing address 01019 IVO, Finland
tel. +358 9 85 611
fax +358 9 8561 2780
IVO SERVICE HÄME
tel. +358 3 535 7211
IVO SERVICE SOUTHEAST FINLAND
tel. +358 5 328 0891
IVO SERVICE CENTRAL FINLAND
tel. +358 14 36 141
IVO SERVICE WESTERN FINLAND
tel. +358 2 436 1500
IVO SERVICE NORTHERN FINLAND
tel. +358 8 67 111
IVO SERVICE UUSIMAA
tel. +358 9 8561 2901
IVO SERVICE POWER
tel. +358 9 85 611

IVO GENERATION SERVICES (UK) LTD
101 Wigmore Street
GB-London W1H 9AB
United Kingdom
tel. +44 171 616 1500
fax +44 171 616 1515
PETERBOROUGH POWER STATION
tel. +44 1733 898 460
GLANFORD BRIGG GENERATING STATION
tel. +44 1652 651 951
SOUTH HUMBER BANK POWER STATION
tel. +44 1469 577 236

IVO SENDI PRIMA SDN BHD
2nd Floor, Wisma Chinese Chamber
258 Jalan Ampang
50450 Kuala Lumpur
Malaysia
tel. +60 3 456 1959
fax +60 3 456 1948
TELUK GONG POWER STATION
tel. +60 6 384 1782

MONTIVO KFT.
Olimpia u. 3.
H-2440 Százhalombatta
Hungary
tel./fax +36 23 551 312

BUDAPESTI KARBANTARTÁSI SZOLGÁLTATÓ KFT.
Budafoki út 52
H-1117 Budapest
tel. +36 1 203 0939
fax +36 1 463 8030

ENGINEERING

IVO POWER ENGINEERING LTD
Myyrmäki office
Rajatorpantie 8, Vantaa
mailing address 01019 IVO, Finland
tel. +358 9 856 1567
fax +358 9 566 8204

AS ESTIVO
Lai tn. 27
EE0001 Tallinn
Estonia
tel. +372 6 411 691
fax +372 6 313 185

ETV-ERÖTERV Rt.
Angyal u. 1-3
Pf 111
H-1450 Budapest
Hungary
tel. +36 1 218 5555
fax +36 1 215 5585

IVO POLSKA Sp. zo.o.
ul. Nugat 3, 2nd Floor, Suite 27
02-776 Warszawa
Poland
tel. +48 22 648 9780
fax +48 22 648 9783

AS LINJEBYGG
Fannestrandvn. 54
N-6400 Molde
Norway
tel. +47 71 243 000
fax +47 71 243 100

SELION OY
Rajatorpantie 8, Vantaa
mailing address 01019 IVO, Finland
tel. +358 40 551 7437
fax +358 9 566 8593

SELION TECHNOLOGIES INC.
42 Susan Lane
Meriden, CT 06460
U.S.A.

ELECTRIC RAILS LTD
Rajatorpantie 8, Vantaa
mailing address 01019 IVO, Finland
tel. +358 9 856 1580
fax +358 9 507 1163

TRANSELECTRIC AB
Svarvargatan 11
PO Box 49074
S-100 28 Stockholm
Sweden
tel. +46 8 652 0750
fax +46 8 654 5143

TRANSMAST LTD
Kopparnäs
FIN-10160 Degerby UL
tel. +358 9 856 421
fax +358 9 221 3431

ENERGY MEASUREMENT

ENERMET OY
FIN-40420 Jyskä
tel. +358 14 660 100
fax +358 14 264 027
ENERMET AB, Sweden
tel. +46 8 5143 0900
ENERMET A/S, Denmark
tel. +45 43 998 006
ENERMET AS, Norway
tel. +47 66 983 950
ENERMET B.V., the Netherlands
tel. +31 3324 62 770
ENERMET GmbH, Germany
tel. +49 203 769 300
ENERMET AG, Switzerland
tel. +41 1 954 8111
ENERMET PTY. LTD, Australia
tel. +61 7 3287 5200
ENERMET LTD, New Zealand
tel. +64 9 478 4200

OTHER BUSINESS

INFRARÖDTEKNIK AB
Regementsgatan 39
PO Box 1530
S-462 28 Vänersborg
Sweden
tel. +46 521 281 000
fax +46 521 66 909
IRT FINLAND OY
tel. +358 9 455 5544
IRT FRANCE SARL., France
tel. +33 1 6906 1900
IRT PROZESSWÄRMETECHNIK GmbH, Germany
tel. +49 4202 6077

REPRESENTATIVE OFFICES

CHINA
East Lake Villas, Office Block, 5th Floor
35 Dongzhimenwai Dajie
Beijing 100027
China
tel. +86 10 6466 9441
fax +86 10 6466 9477

CZECH REPUBLIC
Nitranská 6
100 00 Prague 10
Czech Republic
tel. +420 2 2425 0969
fax +420 2 2425 4327

ETHIOPIA
PO Box 5329
Addis Ababa
Ethiopia
tel./fax +251 1 611 599

HUNGARY
Vadászforduló u. 27
H-1221 Budapest
Hungary
tel. +36 1 228 1640
fax +36 1 228 1639

INDONESIA
The Landmark Centre, Tower A,
16th Floor, Suite 1605
Jl. Jend. Sudirman No. 1
Jakarta 12910
Indonesia
tel. +62 21 573 2030
fax +62 21 573 2011

LATVIA
Noliktavas 5
LV-1010 Riga
Latvia
tel. +371 7 323 086
fax +371 7 323 509

MALAYSIA
2nd Floor, Wisma Chinese Chamber
258 Jalan Ampang
50450 Kuala Lumpur
Malaysia
tel. +60 3 456 1959
fax +60 3 456 1948

RUSSIA
Representative office, St Petersburg
mailing address 01019 IVO, Finland
Naberezhnaya reki Karpovki, 19/5
197022 St Petersburg
Russian Federation
tel. +358 3037 69248
fax +358 3037 69202
tel./fax +7 812 234 4334
Representative office, Moscow
mailing address 01019 IVO, Finland
Mamonovskij per. 4/1
103001 Moscow
Russian Federation
tel. +7 095 209 6856
fax +7 095 956 3425

THAILAND
24th Floor, Two Pacific Place
142 Sukhumvit Road
Klongtoey
Bangkok 10110
Thailand
tel. +66 2 653 2174
fax +66 2 653 2177

UNITED ARAB EMIRATES
PO Box 41057
Abu Dhabi
United Arab Emirates
tel. +971 2 721 060
fax +971 2 721 860

Grey Production Oy/Frenckell 1998

IVO GROUP

FINLAND

Imatran Voima Oy
- Enermet Oy
- IRT Finland Oy
- IVO Power Engineering Ltd
  - Selion Oy
  - Electric Rails Ltd
  - Transmast Ltd
- IVO Generation Services Ltd
- Jyväskylän Energiantuotanto Oy
- Killin Voima Oy
- Länsivoima Oy
  - Hanerga Oy
  - Jyllinkosken Sähkö Oy
  - Lounais-Suomen Sähkö Oy
  - Länsitec Oy
  - Länsiverkot Oy
  - Megavoima Oy
  - Uudenmaan Energia Oy

SWEDEN

Enermet AB
Gullspång Kraft AB
- Gullspång Försäljning AB
- Gullspång Nät AB
- Gullspång Produktion AB
- Gullspång Service AB
- Gullspång Värme AB

Infrarödteknik AB
IVO Energi AB
Transelectric AB
Transmast AB

NORWAY

Enermet AS
AS Linjebygg

DENMARK

Enermet A/S

UNITED KINGDOM

IVO Energy Limited
IVO CM Services Ltd
IVO Energy Trading Limited
IVO Generation Services (UK) Ltd
IVO Power Engineering (UK) Ltd

THE NETHERLANDS

Enermet B.V.

LATVIA

IVO Group, Riga office

POLAND

IVO Polska Sp. zo.o.

FRANCE

IRT France SARL.

GERMANY

Enermet GmbH
IRT Prozesswärmetechnik GmbH
IVO Energieanlagen GmbH

SWITZERLAND

Enermet AG

CZECH REPUBLIC

IVO Group, Prague office

HUNGARY

Budapesti Karbantartási Szolgáltató Kft.
ETV-Eröterv Rt.
Montivo Kft.
IVO Group, Budapest office

RUSSIA

IVO Group, Representative office in Moscow
IVO Group, Representative office
in St Petersburg
Transmast SPb

ESTONIA

AS Estivo
IVO Energia AS

UNITED ARAB EMIRATES

IVO Group, Abu Dhabi office

AUSTRALIA

Enermet Pty. Ltd

ETHIOPIA

IVO Group, Addis Ababa office

INDONESIA

IVO Group, Djakarta office

CHINA

IVO Group, Representative office in Beijing

MALAYSIA

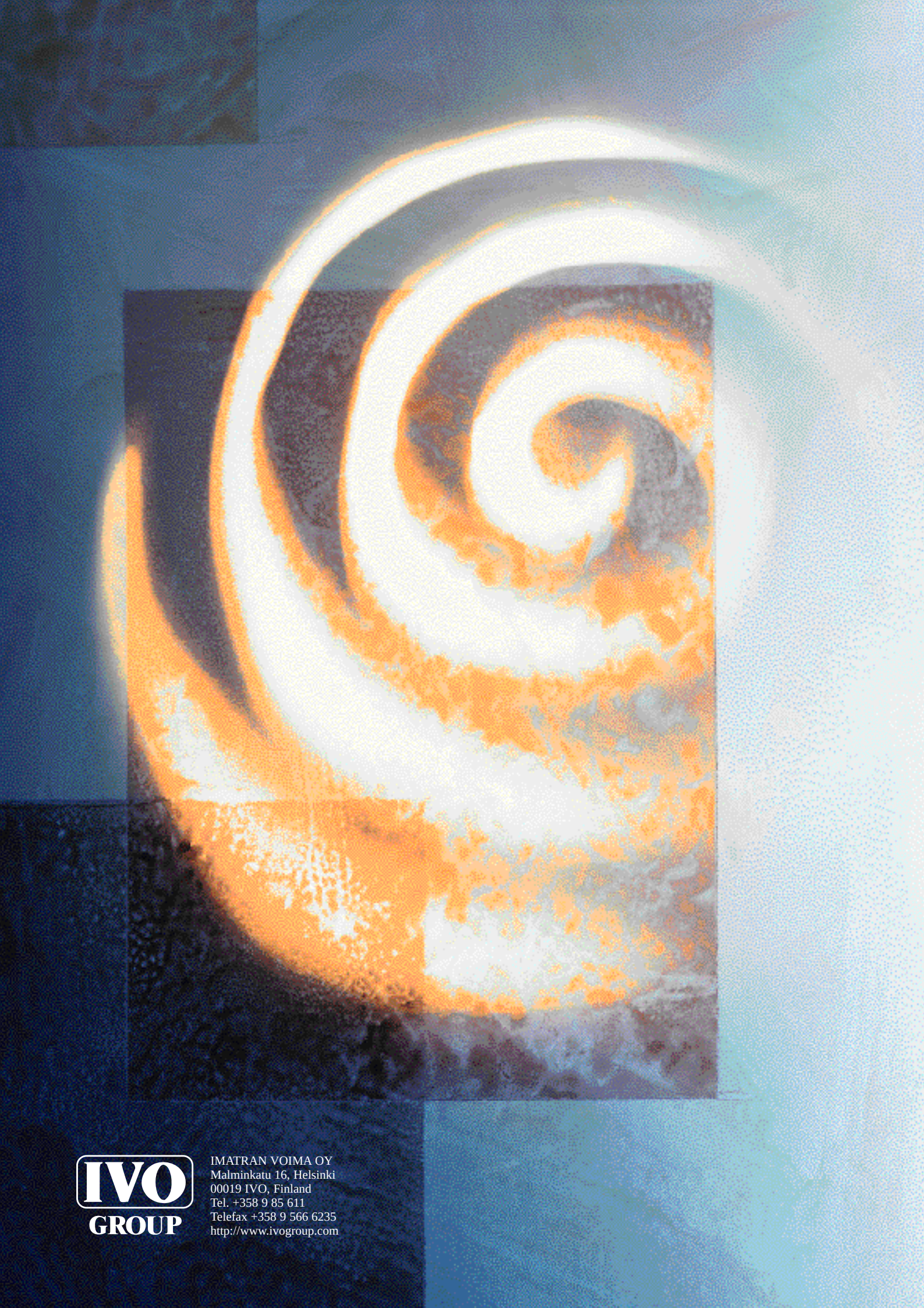
IVO Group, Kuala Lumpur office
IVO Sendi Prima Sdn Bhd

THAILAND

IVO Group, Bangkok office

NEW ZEALAND

Enermet Ltd



IVO GROUP

IMATRAN VOIMA OY
Malminkatu 16, Helsinki
00019 IVO, Finland
Tel. +358 9 85 611
Telefax +358 9 566 6235
http://www.ivogroup.com