

ANNUAL REPORT




LÄNSIVOIMA

1997, a Year of Energy



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To the shareholders:

Länsivoima Oy's Annual General Meeting will be held on Friday, March the 20th, 1998 at 4:30 pm in Rantasipi Turku, Pispalantie 7, Turku, Finland

Financial information

Länsivoima will issue three interim reports in 1998:

on May 8, 1998 for
Jan. 1 – March 31, 1998
on August 7, 1998 for
Jan. 1 – June 30, 1998
on November 6, 1998 for
Jan. 1 – September 30, 1998

The reports can be ordered from:
Länsivoima Oy, P.O. Box 23
FIN-21531 Paimio, Finland
or by phone +358 2 474 701.

The original annual report was written in Finnish, and the English version is a translation.

SYMBOLS

Energy and power
1 TW(h) terawatt(hour) =
1 000 000 000 kW(h)
1 GW(h) gigawatt(hour) =
1 000 000 kW(h)
1 MW(h) megawatt(hour) =
1 000 kW(h)

I = current, unit A = ampere
U = voltage, unit V = volt



YEAR 1997

The Länsivoima Group was well prepared to meet the challenges of expanded deregulation of the electricity markets at the beginning of 1997. Despite fiercer competition, we were able to increase our market share profitably. Our financial performance was good, improving on the previous year. The Group's profitability also remained on a good level and equity ratio increased.

Energy business

Some of the increase in the Group's electricity sales volume and number of customers is attributable to Uudenmaan Energia Oy, which became part of the Group at the beginning of September. Länsivoima Oy has been active in competitive electricity bidding. Approximately one fifth of the total sales volume last year resulted from competitive bidding. The market share of the Länsivoima Group was about 11 per cent of total retail sales of electricity in Finland.

The separation of network operations and electricity sales, which was originally put into effect in 1996, was continued as the electricity sales operations of the Group subsidiaries were transferred to the parent company, Länsivoima Oy. By centralizing our operations we were able to improve our efficiency and gained nationwide visibility for our electricity sales. The same objective is behind our membership in the national IVO Partners marketing chain, which started its activities recently. The structure of the Group's electricity acquisition was modified at the turn of the year to better meet the requirements set by fluctuating markets and future needs.

Network operations

Network operations are the Group's most capital-intensive sector, its balance sheet total amounting to some FIM 2000 million. Länsivoima's market share in the transmission over distribution networks is some 9 %. As a regional network operator Länsivoima is the biggest in Finland. The profitability of electricity transmission results both from sound cost control and effective utilization of our significant capital. In this Länsivoima has been able to take advantage of the volume increases of the past years. Good planning, long-term investment policy and efficient structures provide a solid basis for the future of network operations.

At the end of the year, construction and maintenance of networks were transferred in their entirety to Länsivoima's subsidiary Länsitec Oy, which offers its wide-ranging expertise and services to external customers as well. This transfer also involved a change in the employment of some 300 people at Länsivoima.

The measurement activities, for which the network companies are now responsible, will be reorganized into a separate

business managed by a joint Nordic company owned by six shareholders. The new company will offer various measurement, data transmission and maintenance services within the energy sector in the Nordic countries.

Focus of operations and outlook for 1998

The Länsivoima Group started the year 1998 with a new structure and revised operation models and is ready to operate profitably in a constantly changing operating environment.

As the electricity market keeps evolving, energy business expects the share of its sales volume obtained through competitive bidding to exceed the share of one fifth achieved in 1997. The efficient restructuring of electricity acquisition at Länsivoima as well as the wide variety of electricity sources and the high volume provide the Group with better opportunities to optimize internal resources and to increase its market share.

The arrangements implemented in network operations help further improve the utilization of capital and increase the efficiency of operations in electricity transmission both in the distribution networks and in the regional networks which have been considerably expanded during the past few years.

The construction and maintenance of networks, which now form a separate business area of their own, has good potential for success thanks to the sound expertise and entrepreneurship. The new company, Länsitec Oy, was further strengthened in January through a shareholding by IVO Power Engineering Ltd., which has gained wide experience of operations on international markets as well.

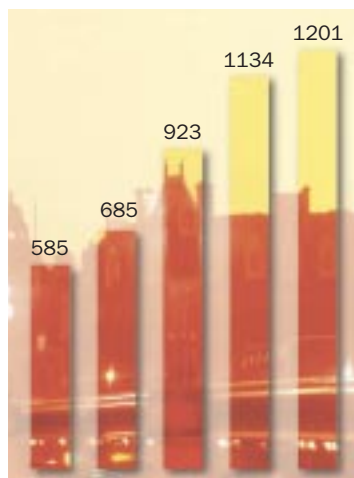
Efficient cooperation between these three focal areas and our expertise ensure that the Länsivoima Group is ready to meet the challenges of the year 1998 in a profitable way.

The Group's financial and human resources provide a good basis for enhancing our position in all three business areas, network operations, energy business, and construction and maintenance. We can also expand our operations profitably through company or business acquisitions and various alliances.

I should like to express my thanks to our customers, partners and suppliers for their beneficial cooperation which provides a solid basis for profitable business operations also in 1998. Many thanks also to our staff for the success in 1997, during which we needed their capacity and skills to respond to the changes on the electricity market and to carry through the many internal rearrangements within the Group.

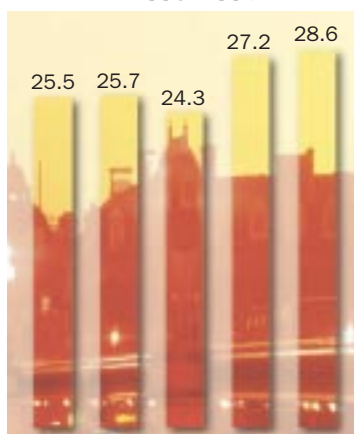
Manu Muukkonen
Managing Director

Group turnover in 1993–1997, FIM million



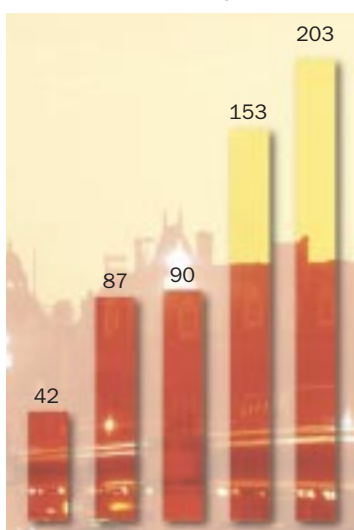
1993 1994 1995 1996 1997

Group operating margin (%) in 1993–1997



1993 1994 1995 1996 1997

Group profit before taxes, FIM million



1993 1994 1995 1996* 1997*

The figures for years 1996 and 1997 have been adjusted to conform to the accounting principles of the Imatran Voima Group.

Group operations

The Group's operations are divided into energy business, network operation, and construction and maintenance of networks. Energy business operations are responsible for the acquisition and sale of Group electricity. Network operations answer for the transmission of electricity to customers. Construction and maintenance of networks deals with the construction and maintenance of networks which are the responsibility of network companies in the Länsivoima Group and offers its services to external customers as well.

Competition on the electricity market was extended to a wider customer base at the start of the financial year as the 500 kW power limit defined in the Electricity Market Act was removed. The Group's electricity sales increased from over three terawatt hours to 3.6 terawatt hours. Some of the growth in sales is attributable to the electricity sales of Uudenmaan Energia Oy which became part of the Group at the start of September. The share of sales obtained through competitive bidding was less than one fifth. The volume of electricity sold by the Länsivoima Group was about 11 per cent of total retail sales of electricity in Finland, the number of customers totaling 330 000 or some 12 per cent of all electricity customers in Finland.

The amount of electricity transmitted in the regional networks of the Länsivoima Group to other network companies and consumers was 6 322 GWh. This is 11 % more than the previous year. The market share of Länsivoima in distribution networks in Finland is some 9 %. The electricity consumption in the Group's distribution area was some 2 940 GWh, an increase of 1.7 % on year 1996.

Financial year

The Group's financial year is the calendar year.

Changes in ownership structure

As of January 14th, 1997, Länsivoima Oy is a subsidiary of Imatran Voima Oy. The Group membership is based on the rise in the shareholding by Imatran Voima Oy which exceeded 45 per cent on November 13, 1996. As the holding exceeded the 33 1/3 limit, Imatran Voima Oy was obliged to redeem, at the shareholders' request, the shareholders' shares according to the articles of association of Länsivoima Oy. As the redemption procedure ended on January 13, 1997, Imatran Voima Oy's hold-

ing rose to 62.9 per cent. Because the Imatran Voima Oy holding exceeded the 50 per cent limit, Imatran Voima Oy again became obliged to redeem Länsivoima Oy shareholders' shares at their request. This latter redemption procedure ended on March 5, 1997, whereat Imatran Voima Oy's holding increased to 65.1 per cent.

The redemption procedure is also described under section Share capital, shareholders and directors' interests.

Trends in results and changes in corporate structures

Energy business

The turnover of energy business totaled FIM 707 million, the operating profit being FIM 64 million (9 per cent of turnover) and profit before extraordinary items and taxes over FIM 49 million.

The Group's electricity acquisition was 3 720 GWh, an increase of 556 GWh, or 18 per cent on 1996. Uudenmaan Energia Oy, which has been part of the Group since September 1, 1997, as well as more open competition during the financial year contributed favorably to the growth. The growth was slowed down by the temperatures at the beginning and end of the year which were warmer than the year before.

The structure of electricity acquisition at the Group was changed considerably during the financial year. Länsivoima Oy rented output shares related to nuclear power and hydropower, purchased the Mustionjoki hydropower plants in January 1998 and entered into an electricity supply contract with Imatran Voima Oy. The focus in acquisition will shift towards market-priced electricity as trading will be conducted on the EL-Ex in Finland and on the Nord Pool on the Nordic markets. At the end of 1997, Länsivoima Oy let the acquisition rights attached to the shareholder electricity entitlement at Etelä-Pohjanmaan Voima Oy to Lapuan Sähkö Oy and sold its share of 24.5 per cent in Kymppivoima Oy to other shareholders of Kymppivoima Oy. Kymppivoima Oy, which was founded in 1993, supplies electricity to its owners.

Part of the growth in the electricity sales can be attributed to Uudenmaan Energia Oy, which has been a member of the Länsivoima Group since September 1, 1997. On August 20, 1997, Länsivoima Oy purchased 50 per cent of the shares of Uudenmaan Energia Oy from Imatran Voima Oy. The Group membership is based on a shareholding contract. The volume of Uudenmaan Energia Oy increases Länsivoima

Group's annual electricity acquisition volume by some 1.4 TWh, and the customer base by some 105 000 customers. The company's turnover during financial year 1997 was FIM 266 million and between September 1, 1997 and December 31, 1997 some FIM 99 million.

The electricity sales operations of the Länsivoima Group were transferred to the parent company, Länsivoima Oy, in December 1997. After the rearrangement, Länsivoima Oy bears responsibility for the electricity acquisition and sales of the entire Group. The network companies in the Group will, however, continue to be responsible for local customer services, electricity transfer within their areas and for the planning and implementation of investments required by the distribution networks.

Network operations

The turnover of network operations totaled FIM 512 million, the operating profit being FIM 286 (55 per cent of turnover) and profit before extraordinary items and taxes FIM 143 million. The balance sheet total of network operations was some FIM 2000 million.

During the financial year, the construction and maintenance of networks undertaken by the Group's network companies were reorganized to form a separate business area. The arrangement was started as Länsivoima Oy sold its holding, amounting to one third of the shares, in Suomen Voimatekniikka Oy to Pohjolan Voima Oy and Hämeen Sähkö Oy on November 1, 1997. At the same time, Länsitec Oy which is part of the Länsivoima Group, bought approximately one third of the business operations of Suomen Voimatekniikka Oy. The construction and maintenance of the networks of the Länsivoima Group were transferred to Länsitec Oy in December 1997. Länsitec Oy raised its shareholders' equity with a directed issue on January 21, 1998 to Länsivoima Oy and IVO Power Engineering Ltd. After share subscription IVO Power Engineering will own 35 per cent and Länsivoima Oy 65 per cent of the shares and votes of Länsitec Oy.

Länsivoima Group

The Group's consolidated turnover was FIM 1 201 million, a rise of FIM 67 million, or 6 per cent, on the FIM 1 134 million of the previous year. Changes in energy taxation had a substantial effect on the turnover development. In 1996, the energy tax accounted for by the power producer was included in the

turnover of an electricity retail seller. From the beginning of year 1997, the energy tax was replaced with an electricity tax which is charged on the basis of electricity consumption in conjunction with transfer fees. The tax is treated as an item not included in turnover. The change in the taxation system does not influence the result of the Group.

The consolidated operating margin was FIM 344 million, or somewhat over FIM 35 million higher than the previous year. The operating margin percentage rose from the previous year by nearly 2 percentage points to 29 per cent.

Consolidated net profit before extraordinary items and taxes was FIM 185 million. The increase on the previous year's FIM 144 million was FIM 41 million, or 28 per cent.

An extraordinary item resulting from the standardization of the accounting practices to conform to the accounting principles of Imatran Voima Oy increased the Group's profit by FIM 18 million. The modifications to the accounting practices are explained under section Accounting principles.

The Group's consolidated profit before taxes came to FIM 203 million.

Länsivoima Oy

Länsivoima Oy's turnover during financial year 1997 was FIM 880 million. The decrease from the FIM 952 million of the previous year was FIM 72 million, or eight per cent. Changes in the energy taxation system were the reason for the decrease. The company's operating margin rose to FIM 299 million from the FIM 290 million in 1996, and profit before extraordinary items, reserves and taxes came to FIM 206 million.

Investments

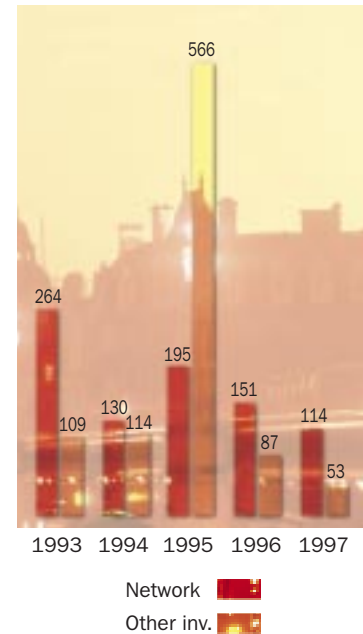
The Group's investments amounted to FIM 167 million. FIM 114 million of this sum was spent on renovating and expanding the transmission and distribution network. The share of business acquisition costs and purchasing of shares was some FIM 35 million of the investments.

The sale of fixed assets totaled FIM 72 million.

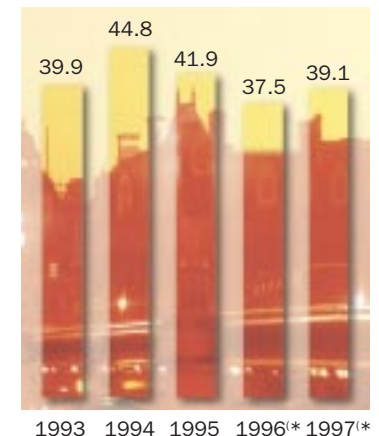
Financing

Consolidated income financing increased by FIM 5 million from FIM 267 million in 1996, to FIM 272 million. The company was able to finance normal maintenance and expansion of the Group's transmission and distribution network using financing from opera-

Group investments in 1993–1997, FIM million



Group equity/total capital, %



The figures for years 1996 and 1997 have been adjusted to conform to the accounting principles of the Imatran Voima Group.

tions and revenue from new connection charges.

Consolidated net financial expenses were FIM 12 million. The decrease from over FIM 23 million in 1996 was FIM 11 million. In proportion to the turnover, the net financial expenses were reduced to 1 per cent of turnover against 2 per cent the year before. A decrease in the indebtedness during financial year 1996 contributed favorably to the change in financial expenses.

Länsivoima Oy has issued an absolute guarantee as security for its subsidiaries' connection charge debt. The connection charge is credited to the customer less the connection dismantling costs when the customer discontinues using the connection. During 1997 a total of FIM 0.5 million was credited in the Länsivoima Group and FIM 29 million in new connection charges was received on new connections and power increases in existing connections. No interest is paid on the connection charge debt, which is shown in the balance sheet and treated as a liability when key figures are calculated.

At the end of the financial year, the Group's equity ratio was 39 per cent. The equity ratio rose by more than one percentage point on the previous financial statement. The Group's net debt was 10 per cent of shareholders' equity, as against 29 per cent the previous year.

Future outlook

The deregulation of the electricity market has been quite rapid. In November 1995 only customers whose power demand exceeded 500 kW were allowed to ask for competitive tenders from electricity suppliers. The power limit was completely removed at the beginning of 1997 and it is expected that the hourly power measurement requirement will be totally abolished from the Electricity Market Act in 1998. After that, all electricity consumers will have a true opportunity to subject electricity suppliers to competitive bidding.

More active competitors and an expansion in the customer potential will further intensify competition on the electricity market. Länsivoima will respond to the challenges set by the electricity market by improving operational efficiency, by developing the organizational structures of electricity trading and by creating alliances. The most recent measures were the transfer of the Group's electricity sales to Länsivoima Oy and the membership in the country-wide marketing chain, IVO Partners. The benefits arising from visibility on a national scale, exper-

tise and chain membership enable the Länsivoima Group to increase its market share in a profitable manner. Rapid changes in the market situation and, in particular, successful acquisition and sales of electricity will have a substantial impact on the result of energy business.

The know-how and financial standing of a network operator must be at an officially approved level. To maintain the electricity transmission on a good and reliable level in the areas covered by the network companies in the Group means that the Länsivoima Group must invest some FIM 80 to 100 million in the refurbishment of the networks. Well-planned and long-term investments in the network and expertise in electricity transfer will ensure a stable cash flow which can be reliably forecast.

The results and market position attained during 1997 provide a solid basis for positive financial performance in 1998. Some of the key factors in Länsivoima's strategy consist of further strengthening of our position in both the sales and transfer of electricity, which can be achieved by business acquisitions and alliances. Our goal is to keep our financial performance stable even as the market fluctuates, and to maintain Länsivoima as a leading company in its business area in Finland.

Share capital, shareholders and directors' interests

Share capital and shares

In accordance with Länsivoima Oy's articles of association, the minimum share capital is FIM 30 000 000 and the maximum FIM 120 000 000, within which limits the share capital can be increased or decreased without amending the articles of association.

The nominal value of a share is FIM 10.

All shares are of the same type and carry equal entitlements.

The company's share capital as entered in the trade register at December 31, 1997 was FIM 65 248 380 and the number of shares 6 524 838. All shares carry the same dividend entitlement for the financial year of 1997.

Company shares have been included in the book-entry system since November 19, 1993.

Share quotation

Länsivoima Oy shares are quoted on Helsinki Stock Exchange. The trading volume in 1997 was 1 398 260 shares

(21.4 % of the total). 1997 share prices were FIM 200 at their lowest and FIM 260 at their highest. The trading price on December 31, 1997 was FIM 259.

Directors' interest

On December 31, 1997, the members of the Board of Directors, managing directors and the deputy managing director of Länsivoima Oy and its subsidiaries owned a total of 220 (0.003 %) company shares. The directors do not hold any promissory notes of the convertible bond issued in 1994.

Convertible bond

In spring 1994, Länsivoima Oy issued a convertible bond with a nominal value of FIM 100.0 million. In conjunction with the bonus issue carried out in December 1995, the Board of Directors of Länsivoima Oy amended the terms of the convertible bond to allow a promissory note with a nominal value of FIM 1 000 to be converted into 4.516 Länsivoima Oy shares each year during the conversion period. Prior to the amendment, one promissory note could be exchanged to 2.258 Länsivoima Oy shares. The amendment is based on subparagraph 14 of the terms of the convertible bond issue. The number of shares can be increased by a maximum of 451 612, which is the equivalent of 6.9 per cent of the number of shares entered in the trade register at December 31, 1997.

The maturity of the convertible bond is seven years and the interest 7.425 per cent per annum. The conversion period is January 2 to May 31 annually and from January 2 to March 21 in 2001. New shares entitle holders to their first dividend for the financial year in which the conversion takes place. No promissory notes had been exchanged for Länsivoima Oy shares by February 27, 1998.

Redemption procedure under section 13 of the articles of association

Imatran Voima Oy's holding of Länsivoima Oy's shares and votes exceeded the 33 1/3 per cent limit following the deals made on November 13, 1996. According to the articles of association of Länsivoima Oy, a shareholder whose holding of the company's total shares or votes conferred by the shares reaches or exceeds 33 1/3 per cent or 50 per cent must, at the shareholders' request, redeem said shareholders' shares and other securi-

ties with share entitlement under the Companies Act, as prescribed in section 13 of the articles of association.

The redemption price is the highest of the following:

1. The weighted average trading price of the share during the last ten trading days on Helsinki Stock Exchange prior to the date on which the company received a notice from the shareholder liable to redeem to the effect that the ownership or vote limit has been attained or exceeded.
2. The average price, weighted by the number of shares, which the shareholder liable to redeem has paid for the shares he has acquired or otherwise received during the last twelve months prior to the date referred to in the previous subparagraph.

The redemption procedure under the Länsivoima Oy articles of association began on December 13, 1996 and ended on January 13, 1997. The redemption price of shares was set at FIM 219.45 in accordance with the first option. The convertible bond was redeemed at a 107 per cent rate. The price was based on convertible bond deals made before the redemption liability arose.

In the redemption procedure, 1 798 shareholders required Imatran Voima Oy to redeem a total of 1 126 050 shares. Imatran Voima Oy's holding consequently rose from about 45 per cent to 62.9 per cent of Länsivoima Oy's shares and votes through the shares bought in the redemption procedure and otherwise. Requests concerning redemption of the Länsivoima Oy convertible bond were made to the value of FIM 49.4 million and this can be converted to 223 000 shares equaling 3.4 per cent of Länsivoima Oy's total shares. As of January 14, 1997 Länsivoima has been an Imatran Voima Oy subsidiary.

As the Imatran Voima Oy holding exceeded the 50 per cent limit, Imatran Voima Oy again became, in accordance with section 13 of the Länsivoima Oy articles of association, obliged to redeem Länsivoima Oy shareholders' shares at their request. A new redemption procedure thus began on February 4, 1997 and ended on March 5, 1997. The redemption price of a share was FIM 219.44 and the convertible bond loan was redeemed at the rate of 107 per cent. In this redemption procedure 340 shareholders required Imatran Voima Oy to redeem a total of 140 884 shares. Imatran Voima Oy's holding increased by 2.2 per cent points to 65.1 per cent of Länsivoima Oy's shares and votes.

Requests concerning redemption of the Länsivoima Oy convertible bond were made to the value of FIM 3.5 million and this can be converted to 15 800 shares equaling 0.2 per cent of Länsivoima Oy's total shares.

Share issues and the authority to allot shares

Länsivoima Oy did not carry out any share issues or issue securities entitling holders to subscribe the company's shares during the financial year.

The Board of Directors holds no valid share issue authorizations entered in the trade register.

The company has not made, nor is it aware of, any shareholder commitments concerning company shares or any other commitments concerning company ownership or voting rights.





Electricity is taken for granted. Competition will change our views about electricity, its producers and the interests of the customer.

Key share figures

	1993	1994	1995	1996	1997
Adjusted earnings per share, FIM	11.79	14.58	12.19	15.76	20.54
Earnings per share, adjusted with dilution effect, FIM					20.84
Equity per share, FIM	102.87	127.87	156.93	137.41	153.64
Share issue-adjusted dividend per share, FIM	1.58	1.90	2.94	6.50	7.20
Dividend per earnings, %	13.4 %	11.9 %	20.3 %	41.3 %	35.0 %
Effective dividend yield, %	1.0 %	1.3 %	2.0 %	3.0 %	2.8 %
Price per earnings	12.8	9.8	11.7	13.5	12.6
Adjusted trend in share price					
- minimum	61.91	132.50	115.00	143.00	200.00
- maximum	167.96	206.35	155.50	230.00	260.00
Market capitalization, FIM million	308.4	776.5	933.1	1 402.8	1 689.9
Trend in shares traded					
- number of shares	864 944	875 916	999 861	4 471 223	1 398 260
- per cent	17.2 %	16.5 %	16.1 %	68.5 %	21.4 %
Adjusted number of shares	5 023 094	5 448 852	6 524 838	6 524 838	6 524 838
Adjusted average number of shares	5 027 582	5 318 974	6 203 762	6 524 838	6 524 838

Figures for years 1996 and 1997 have been adjusted to reflect the accounting principles of the Imatran Voima Group.

The market capitalization was FIM 1 689.9 million on December 31, 1997.

The key figures were calculated in accordance with Financial Supervision guidelines.

Increases in share capital

	Terms of subscription	Subscription price	New shares	Share capital after increase
1993 Directed issue (Oy Terrasilvana Ab shareholders)	7:4 (ordinary shares) 5:2 (preference shares)	306	78 489	23 974 800
1993 Directed issue (Vihdin Sähkö Oy shareholders)	1:7	306	15 106	24 125 860
1994 Rights issue	9:1	230	268 065	26 806 510
1994 Directed issue (Oy Nokia Ab)	1:6	296.97	43 775	27 244 260
1995 Directed issue (Leppäkosken Sähkö Oy, Vakka-Suomen Voima Oy and Sallilan Sähkölaitos Oy shareholders)		270	1 453	27 258 790
1995 Directed issue (City of Hanko)		301.04	36 540	27 624 190
1995 Directed issue (Cities of Kurikka and Närpiö, Municipality of Kauhajoki)	1:1	250	500 000	32 624 190
1995 Bonus issue	1:1		3 262 419	65 248 380

SHAREHOLDERS ON DECEMBER 31, 1997

According to the book-entry securities register, the company had 1 472 shareholders.

Ownership breakdown

Group	1-100	101-1 000	1 001-10 000	10 001-
Number of shareholders	795	585	86	7
Shareholders, %	54.00	39.70	5.80	0.50
Number of shares	30 466	195 738	188 588	6 100 360
Shares, %	0.46	3.00	2.89	93.50

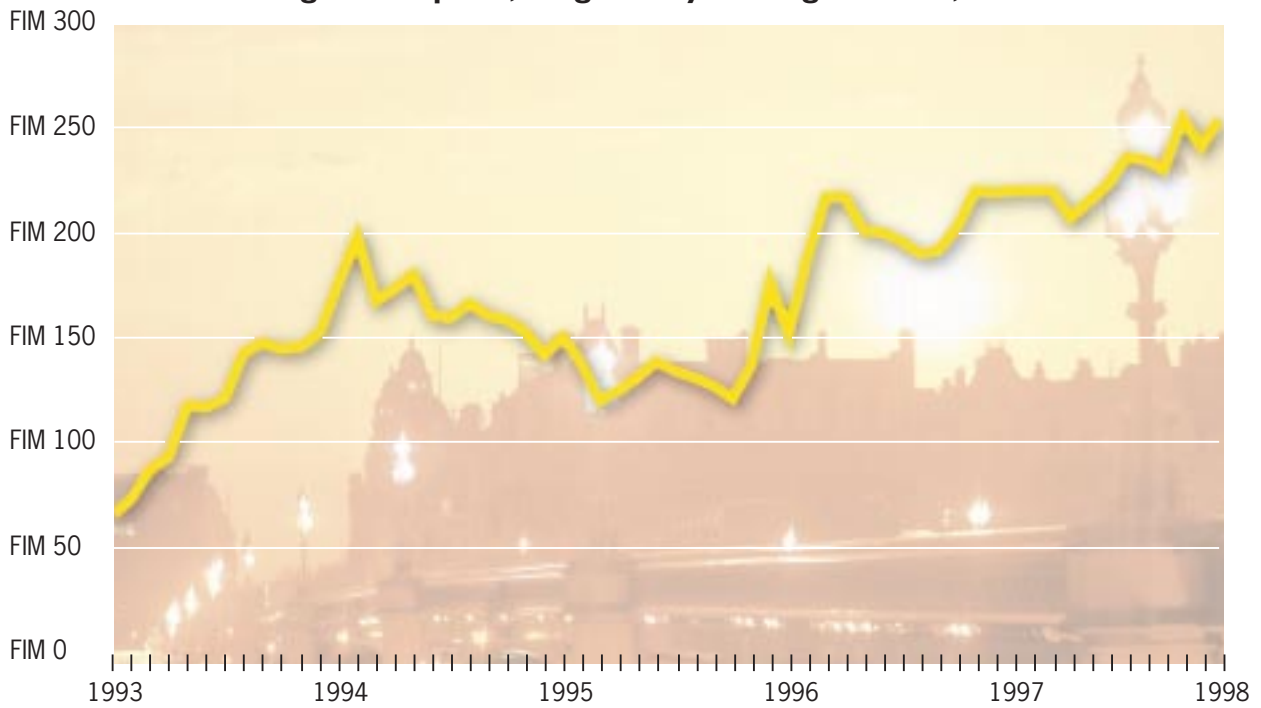
Sectoral breakdown of ownership

	Holdings		Shares	
	Number	%	Number	%
Companies	41	2.79	4 937 192	75.67
Financial and insurance institutions	3	0.20	444 224	6.81
Public sector entities	10	0.68	740 827	11.35
Non-profit organizations	20	1.36	3 184	0.05
Households	1 393	94.63	389 129	5.96
Foreign	5	0.34	596	0.01
Total	1 472	100	6 515 152	99.85
Shares not converted into book entries			9 686	0.15
Number issued			6 524 838	100

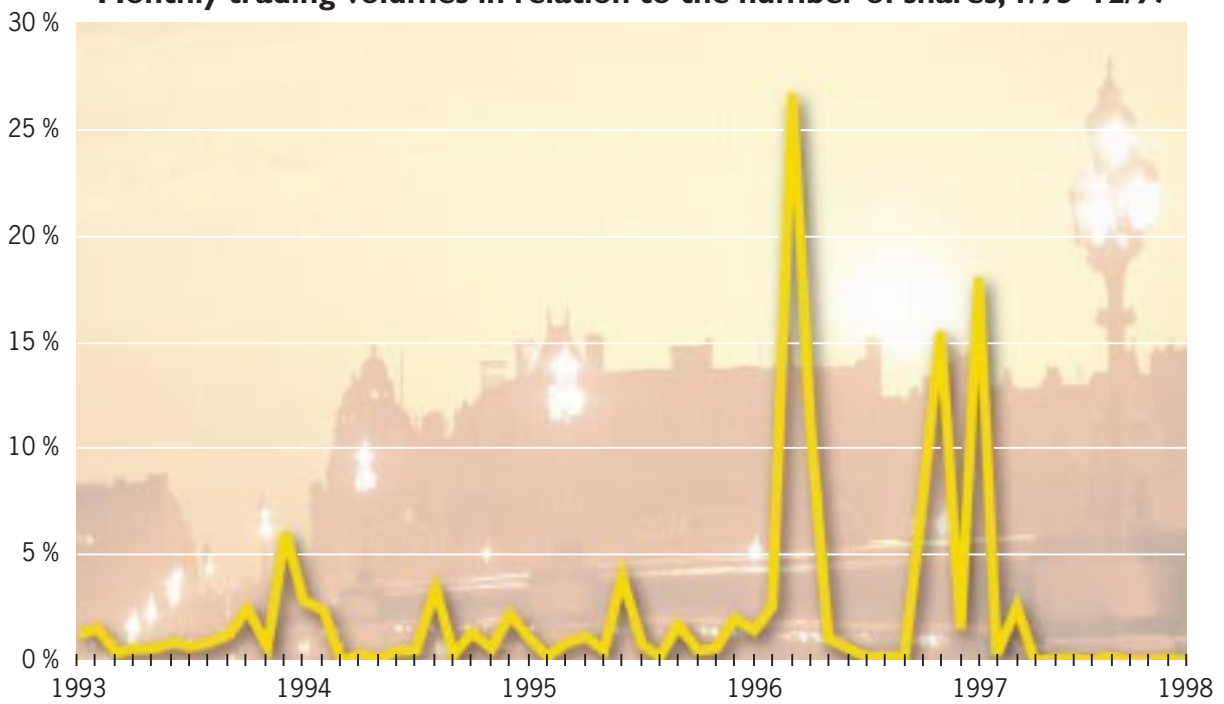
Largest shareholders, December 31, 1997

Name	Holding	
	number of shares	%
Imatran Voima Oy	4 246 608	65.08
Kemijoki Oy	654 800	10.04
City of Kurikka	620 350	9.51
Pension-Varma Mutual Insurance Company	341 727	5.24
Municipality of Kauhajoki	113 824	1.74
Nova Life Insurance Company Ltd.	99 070	1.52
Revon Sähkö Oy	23 981	0.37
Saarelainen Vilho	8 734	0.13
Pakula Pasi	7 000	0.11
Ihala Hanna	6 508	0.10

Average share price, weighted by trading volumes, 1/93–12/97



Monthly trading volumes in relation to the number of shares, 1/93–12/97





People are spending more time on recreational activities, have a wider variety and set higher requirements on them.

Consolidated Income Statement

(FIM 1 000)	Jan. 1 - Dec. 31, 1997	Jan. 1 - Dec. 31, 1996
TURNOVER (1)	1 201 411	1 134 382
Production for own use	109 247	95 116
Other operating income (2)	15 572	14 078
Share of net profit in associated companies	7 361	1
Expenses:		
Materials, supplies and goods:		
Purchases during financial year	739 512	706 972
Increase (-) and decrease (+) in inventories and work in progress	885	-7 711
External services	60 721	63 390
Staff expenses (3)	139 943	132 079
Rents	3 433	3 553
Other expenses	45 261	37 036
	989 756	935 318
OPERATING PROFIT BEFORE DEPRECIATION	343 834	308 260
Depreciation on fixed assets and other long-term expenditure (4)	-145 057	139 853
Goodwill on consolidation	-1 075	-671
OPERATING PROFIT	197 702	167 736
Financing income and expenses:		
Net financing (5)	-12 298	-23 437
PROFIT BEFORE EXTRAORDINARY ITEMS AND TAXES	185 404	144 299
Extraordinary income and expenses:		
Extraordinary income	17 585	8 897
PROFIT BEFORE TAXES	202 989	153 196
Direct tax (7)	-31 146	-18 881
Change in deferred tax provision (7)	-18 305	-22 600
PROFIT FOR THE FINANCIAL YEAR BEFORE MINORITY INTERESTS	153 537	111 715
Minority interests	-1 934	-
CONSOLIDATED PROFIT FOR THE FINANCIAL YEAR	151 603	111 715

The figures in brackets refer to the Notes to the Income Statement and Balance Sheet.

C o n s o l i d a t e d B a l a n c e S h e e t

(FIM 1 000)

December 31, 1997

December 31, 1996

ASSETS**FIXED ASSETS AND OTHER
LONG-TERM INVESTMENTS**

Intangible assets				
Goodwill (9)	75 206		51 245	
Goodwill on consolidation (10)	21 027		7 998	
Other long-term expenditure (11)	56 792	153 025	60 795	120 038
Tangible assets				
Land and water areas (12, 17)	24 570		24 562	
Buildings and structures (13, 17)	115 465		119 291	
Power plants (14)	36 632		37 730	
Transmission and distribution network (16)	1 393 016		1 392 438	
Machinery and equipment (15)	81 361		73 905	
Advance payments and work in progress	21 382		10 549	
Materials and supplies		1 672 426	11 870	1 670 346
Fixed asset investments and other long-term investments (8, 17)				
Associated company shares	170 796		207 680	
Other shares	23 161		22 471	
Other investments	445	194 401	345	230 496
CURRENT ASSETS				
Inventories				
Materials and supplies		303		315
Receivables				
Accounts receivable	229 508		164 615	
Connection charges	289		5 419	
Loans receivable (18)	11 252		11 405	
Prepayments and accrued income	25 514		23 072	
Other receivables	1 428	267 991		204 511
Cash and cash equivalents		294 748		166 193
		2 582 895		2 391 899

The figures in brackets refer to the Notes to the Income Statement and Balance Sheet.

Consolidated Balance Sheet

(FIM 1 000)

December 31, 1997

December 31, 1996

SHAREHOLDERS' EQUITY AND LIABILITIES

SHAREHOLDERS' EQUITY

Restricted equity				
Share capital (20)	65 248		65 248	
Premium fund (21)	221 571	286 819	221 571	286 819
Unrestricted equity				
Contingency reserve fund (23)	3 900		3 900	
Tax fund (22)	1 000		1 000	
Retained earnings (24)	559 160		489 856	
Profit for the financial year (24)	151 603	715 663	111 715	606 471
Total shareholders' equity		1 002 482		893 290

MINORITY INTERESTS

Minority interests	7 577			
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LIABILITIES

Connection charges		679 607		651 334
Long-term liabilities				
Convertible bonds (26)	100 000		100 000	
Loans from financial institutions (26)	244 964		259 927	
Loans from pension institutions			15 775	
Deferred tax provision (25)	213 455	558 420	194 984	570 686
Current liabilities				
Loans from financial institutions	53 647		52 264	
Loans from pension institutions			1 187	
Other long-term debt			4 000	
Accounts payable	139 421		100 853	
Accruals	71 392		102 528	
Other current liabilities	70 350	334 810	15 757	276 589
Total liabilities		1 572 836		1 498 609
		2 582 895		2 391 899

The figures in brackets refer to the Notes to the Income Statement and Balance Sheet.

Cash Flow Statements

(FIM 1 000)	Group Dec. 31, 1997	Group Dec. 31, 1996	Parent company Dec. 31, 1997	Parent company Dec. 31, 1996
OPERATING ACTIVITIES				
Cash flow from operations				
Operating profit	197 702	167 736	167 902	158 461
Depreciation according to plan	146 133	140 524	131 398	131 253
Profit from disposal of fixed assets	-28 810	-7 379	-12 002	-13 962
Financing items	-12 295	-14 540	-24 963	-26 416
Tax	-31 146	-18 881	-35 042	-19 256
	271 584	267 460	227 293	230 080
Changes in working capital	-5 400	-30 227	-93 991	-28 773
CASH FLOW FROM OPERATING ACTIVITIES	266 184	237 233	133 302	201 307
Investments				
Gross investments	-190 028	-153 857	-177 269	-151 730
Income from disposal of fixed assets	93 371	66 701	79 973	71 545
	-96 657	-87 156	-97 296	-80 185
CASH FLOW BEFORE FINANCING ACTIVITIES	169 527	150 077	36 006	121 122
Financing activities				
Increase (-) in loans receivable and securities	153	2 645	856	-383
Increase/decrease in long-term loans	-2 465	11 849	-69 737	-30 649
Dividends and other profit allocation	-42 411	-17 782	20 639	9 838
Other financial items			197 388	-76 634
Cash flow from financing activities	-44 723	-3 288	149 146	-97 828
Adjustment items	3 751	-11 459		
CHANGE IN CASH	128 555	135 330	185 152	23 294
Cash at start of period	-166 193	-30 863	-33 083	-9 789
Cash at end of period	294 748	166 193	218 235	33 083
Change in cash as shown in Balance Sheets	128 555	135 330	185 152	23 294

Income Statement

(FIM 1 000)	Jan. 1 - Dec. 31, 1997	Jan. 1 - Dec. 31, 1996
TURNOVER (1)	879 846	951 972
Production for own use	1 491	14 191
Other operating income (2)	37 416	38 928
Expenses:		
Materials, supplies and goods:		
Purchases during financial year	578 272	648 056
Increase (-)/decrease (+) in inventories and work in progress	12	-116
External services	4 210	25 129
Staff expenses (3)	20 416	24 663
Rents	489	1 120
Other expenses	16 053	16 525
	619 453	715 377
OPERATING PROFIT BEFORE DEPRECIATION	299 300	289 714
Depreciation on fixed assets and other long-term expenditure (4)	-131 398	-131 253
OPERATING PROFIT	167 902	158 460
Financing income and expenses:		
Net financing (5)	-24 962	-31 131
PROFIT BEFORE EXTRAORDINARY ITEMS, RESERVES AND TAXES	142 939	127 329
Extraordinary income and expenses:		
Extraordinary income		4 715
Group contribution received	70 650	29 950
Group contribution given	-7 600	-2 330
	63 050	32 335
PROFIT BEFORE RESERVES AND TAXES	205 989	159 664
Increase (-) in depreciation difference reserve (6)	-76 031	-76 493
Decrease in voluntary reserves (+)	15 568	2 826
Direct tax (7)	-35 042	-19 256
PROFIT FOR THE FINANCIAL YEAR	110 484	66 741

The figures in brackets refer to the Notes to the Income Statement and Balance Sheet.

Balance Sheet

(FIM 1 000)	December 31, 1997		December 31, 1996	
ASSETS				
FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS				
Intangible assets				
Goodwill (9)	64 811		47 568	
Other long-term expenditure (11)	<u>50 354</u>	115 165	<u>53 461</u>	101 028
Tangible assets				
Land and water areas (12, 17)	24 384		24 377	
Buildings and structures (13, 17)	113 838		118 143	
Power plants (14)	37 200		38 297	
Transmission and distribution network (16)	1 397 927		1 395 747	
Machinery and equipment (15)	35 341		34 578	
Advance payments and work in progress	<u>1 319</u>	1 610 009	<u>1 318</u>	1 612 461
Fixed asset investments and other long-term investments (8, 17)				
Shares and holdings	249 719		283 504	
Loans receivable (19)	12 201		12 711	
Other investments	<u>338</u>	262 258	<u>338</u>	296 552
CURRENT ASSETS				
Current assets (inventories)				
Materials and supplies		303		315
Receivables				
Accounts receivable (19)	137 232		11 433	
Loans receivable (18, 19)	7 038		7 894	
Prepayments and accrued income	3 496		4 561	
Other receivables (19)	<u>1 363</u>	149 129	<u>1 363</u>	25 251
Cash and cash equivalents		218 234		<u>33 083</u>
		2 355 098		<u>2 068 689</u>

The figures in brackets refer to the Notes to the Income Statement and Balance Sheet.

Balance Sheet

(FIM 1 000)	December 31, 1997		December 31, 1996	
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Restricted equity				
Share capital (20)	65 248		65 248	
Premium fund (21)	<u>221 571</u>	286 819	<u>221 571</u>	286 819
Unrestricted equity				
Contingency reserve fund (23)	3 900		3 900	
Tax fund (22)	1 000		1 000	
Retained earnings (24)	95 431		71 101	
Profit for the financial year (24)	<u>110 484</u>	210 815	<u>66 741</u>	142 742
Total shareholders' equity		497 634		429 561
RESERVES				
Accumulated depreciation difference reserve		735 795		659 764
Voluntary reserves				
Other reserves				<u>15 568</u>
		735 795		675 331
LIABILITIES				
Long-term liabilities				
Convertible bonds (26)	100 000		100 000	
Loans from financial institutions (26)	205 964		259 927	
Loans from pension institutions			15 775	
Group loans (19)	597 130		400 252	
Other long-term debt	<u>5</u>	903 100	<u>5</u>	775 958
Current liabilities				
Loans from financial institutions	53 647		52 264	
Loans from pension institutions			1 187	
Other long-term debt			4 000	
Accounts payable (19)	88 751		81 308	
Accruals	37 231		34 558	
Other current liabilities (19)	<u>38 941</u>	218 570	<u>14 521</u>	187 838
Total liabilities		1 121 669		<u>963 797</u>
		2 355 098		<u>2 068 689</u>

The figures in brackets refer to the Notes to the Income Statement and Balance Sheet.

ACCOUNTING POLICIES

Consolidated financial statements

The consolidated financial statements include all subsidiaries in which the parent company holds over 50 % of the voting rights attached to the shares, either directly or indirectly. Associated companies include the companies in which the parent company holds between 20 % and 50 % of the voting rights attached to the shares, either directly or indirectly, and in which it holds a minimum of 20 % of the shares, directly or indirectly. 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. The goodwill on consolidation is calculated from the time the company becomes a part of the Group and the company's income statement is incorporated into the consolidated income statement only for the period of consolidation.

Intra-Group receivables and liabilities, intra-Group business transactions, unrealized profits of intra-Group deliveries and intra-Group distribution of profit are eliminated in the consolidated financial statements. Intra-Group ownership is eliminated using the acquisition cost method.

The consolidated financial statements are prepared based on the acquisition cost method. The acquisition cost of subsidiaries' shares has been eliminated against the shareholders' equities of the balance sheets 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 depreciation plan for fixed assets. Group goodwill is amortized over its estimated useful life.

Associated companies are included using the equity method. In accordance with the Group shareholding, 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 before the operating profit. In the consolidated balance sheet, the Group share of the equity accrued to the associated company after the acquisition, less the depreciation on goodwill and the dividend obtained from the associated company, is added to the acquisition cost of the associated com-

pany shares and consolidated non-restricted equity. In the balance sheet notes, the acquisition costs of the associated company shares are entered under the company holding the shares.

Minority interests are removed from Group equity and from the result and they are presented as a separate item.

The accounting principles of the Länsivoima Group have been made consistent with the accounting policies of the Imatran Voima Group. The most essential changes are the following:

- 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. Deferred tax provision is presented as a separate item under long-term liabilities. For the financial statement of December 31, 1996, the adjustment was made directly to the unrestricted equity.
- In the consolidation of associated companies, the equity of an associated company is considered to include voluntary reserves minus deferred tax provision.
- A one-off item was entered in the profit and loss account under extraordinary income resulting from changes in the way associated companies are consolidated.
- The financial statement of the reference period has been adjusted to make the income statements and balance sheets comparable.
- The Group goodwill was valued in asset items in the balance sheet of December 31, 1996.

Inventories

Inventories are valued in the balance sheet at the lower of their direct manufacture or acquisition cost or probable sales price. The acquisition cost of materials and supplies are entered in the balance sheet according to the FIFO method.

Fixed assets and depreciation

The acquisition cost of fixed assets is entered at the direct acquisition or manufacture cost. Losses due to company mergers are allocated to the asset items considered to have caused the loss and to goodwill. Thus merger loss is depreciated over the time set in the plan for that asset. The original acquisition date of the asset and an estimate of its technical life span are considered in determining the depreciation period for these items.

Fixed assets are valued in the bal-

ance sheet at their direct acquisition cost less depreciation according to plan. Fixed assets also include certain revaluations.

Depreciation according to plan is calculated on the historical cost or acquisition cost plus merger loss on a straight-line basis, according to the probable estimated useful economic life of the asset. Depreciation on the fixed assets of merged companies is made in accordance with the practice previously followed in the Group. Depreciation in Group subsidiaries is aligned with Group practice as of the date of consolidation. Annual depreciation rates are as follows:

Buildings	40 years
Transmission and distribution network	20–30 years
Machinery and equipment	4–10 years
Compensation for right of use of line areas	50 years
Goodwill and other capitalized expenditure	4–15 years

Planned depreciation is calculated from the date of acquisition. Sold or scrapped assets are depreciated according to plan up to the moment they are sold or scrapped. The difference between recorded depreciation and depreciation according to plan is entered in the income statements of Group companies as a separate item.

Leasing

Leasing payments are treated as rentals. The Group has no significant leasing agreements.

Pension arrangements

In Länsivoima Oy and its subsidiaries, statutory and voluntary pension security is arranged in an external pension insurance institution. The pension security of Group Board members and managing directors corresponds to that of other company employees.

Taxes

Taxes for the financial year are recorded according to the accrual convention. In the income statement, adjustments made in previous years are presented on the same lines as taxes for the financial year. They are specified in the Notes to the Income Statement.

The companies' accrued taxes, corresponding to the profit for the financial year, are the basis of taxes for the financial year in the consolidated financial statement. In addition to the above, refunds obtained and additional taxes imposed on previous financial years, as well as the timing difference related to taxes in the consolidated financial statements, are also taken into account as a tax adjustment entry.

Notes to the Income Statement and Balance Sheet

(FIM 1 000)	Group 1997	Group 1996	Parent company 1997	Parent company 1996
1. Consolidated turnover				
Länsivoima Oy	879 846	951 972		
Länsiverkot Oy	191 615	32 788		
Lounais-Suomen Sähkö Oy	616 076	662 994		
Jyllinkosken Sähkö Oy	250 078	268 415		
Uudenmaan Energia Oy	98 703			
Länsitec Oy	3 726			
Megavoima Oy	123 723	134 229		
Hanerga Oy	35 207	40 728		
Merikarvian Sähkö Oy	10 599	12 031		
Verkonrakennus Oy		918		
Lounais-Suomen Lämpö Oy		87		
Total	2 209 571	2 104 161		
Group eliminations	1 008 161	969 779		
Total	1 201 411	1 134 382		
2. Other operating income				
Profit from disposal of fixed assets	11 174	8 857	12 267	13 962
Other operating income	4 398	5 221	25 149	24 967
Total	15 572	14 078	37 416	38 928
3. Staff expenses				
Staff expenses				
Salaries	108 379	100 702	15 346	18 618
Pension costs	21 218	20 898	3 375	3 826
Other staff expenses	10 346	10 479	1 695	2 219
	139 943	132 079	20 416	24 663
Fringe benefits	1 374	1 156	530	555
Total	141 317	133 235	20 946	25 218
Board of Directors and Managing Director (incl. in above item)	3 632	3 554	1 499	1 493
Number of staff	The average number of employees in the Group was 655 persons The average number of employees in the parent company was 81 persons			(652 in 1996) (104 in 1996)
4. Depreciation according to plan				
Other long-term expenditure	9 404	7 811	7 649	6 985
Buildings and structures	5 785	5 306	5 705	5 249
Machinery and equipment	14 392	12 638	7 397	7 405
Transmission and distribution network	101 356	98 842	99 350	96 849
Goodwill	14 120	15 256	11 297	14 766
Group goodwill	1 075	671		
Total	146 132	140 524	131 398	131 253
5. Net financing				
Interest income	6 894	4 571	4 131	2 277
Dividend income	304	173	1 336	7 912
Other financing income	2	116		115
Interest expenses	19 398	25 275	30 338	38 417
Other financing expenses	99	3 021	92	3 017
Total	-12 298	-23 437	-24 962	-31 131
Intra-Group financing income and expenses				
Financing income from Group companies				
Dividend income			177	7 573
Interest income from long-term loans			226	381
Financing expenses paid to Group companies				
Interest expenses			11 757	13 165

	Group 1997	Group 1996	Parent company 1997	Parent company 1996
6. Change in depreciation difference reserve				
Other long-term expenditure	-195	232	-865	-762
Buildings and structures	-1 055	2 389	-1 011	2 433
Machines and equipment	4 362	6 136	314	635
Transmission and distribution network	71 974	74 162	71 903	74 190
Goodwill	6 106	623	5 690	-2
Group goodwill	-32			
Total	81 159	83 541	76 031	76 493
7. Direct tax				
Tax for the financial year	30 958	18 602	34 854	18 979
Tax from previous financial years	189	278	188	277
Total	31 146	18 881	35 042	19 256
Change in deferred tax provision	18 305	22 600		

8. Companies owned by the Group and parent company

(FIM 1 000)	Size of Group shareholding %	Size of Group voting right %	Group share of shareholders' equity	Size of parent company shareholding %	Shares/holdings owned by parent company			Profit/loss in the latest financial statements
GROUP COMPANIES					Number of shares	Nominal value FIM	Book value, FIM	
Länsiverkot Oy, Paimio	100	100	14 911	100	5 000	5 000	10 004	1 204
Lounais-Suomen Sähkö Oy, Paimio	100	100	11 644	100	2 000	2 000	7 955	175
Jyllinkosken Sähkö Oy, Kurikka	100	100	8 594	100	2 000	2 000	5 500	235
Megavoima Oy, Vammala	100	100	5 996	100	1 000	1 000	3 561	398
Merikarvian Sähkö Oy, Merikarvia	100	100	6 595	100	526	117	14 000	-137
Lounais-Suomen Lämpö Oy, Paimio	100	100	316	100	300	15	25	-6
Hanerga Oy, Hanko	100	100	2 018	100	5 000	500	1 276	134
Oy Tersil Ab, Paimio	100	100	16 548	100	15 000	1 500	16 350	138
Oy Tertrade Ab, Paimio	100	100	14 592	100	15 000	1 500	14 420	121
Varsinais-Suomen Sähkö Oy, Paimio	100	100	16	100	212	21	38	-1
Länsitec Oy (prev. Hyperno Oy), Paimio	100	100	5 909	100	20 000	2 000	4 196	1 728
KPPV-Sijoitus Oy, Kurikka	100	100	1 543	100	20 500	205	1 225	61
Uudenmaan Energia Oy, Nummela	50	50	7 588	50	2 500	2 500	20 320	3 892
Kiinteistö Oy Sähkökoto, Kurikka	100	100	411	100	60	60	62	0
Total							98 932	

(FIM 1 000)	Size of Group shareholding %	Size of Group voting right %	Group share of shareholders' equity	Size of parent company shareholding %	Shares/holdings owned by parent company			Profit/loss in the latest financial statements	Date financial statement	Length of financial year, months
ASSOCIATED COMPANIES					Number of shares	Nominal value FIM	Book value, FIM			
Paimion Lämpökeskus Oy, Paimio	50	50	2 352	50	650	325	325	1 056	31.12.1997	12
Pöytyän Lämpökeskus Oy, Pöytyä	50	50	265	50	200	100	461	29	31.12.1997	12
Terki Oy, Helsinki	50	50	7 710	50	7 500	7 500	7 500	321 ¹⁾	31.12.1997	12
Sallilan Sähkölaitos Oy, Alastaro	46	46	40 881	18	10 647	532	18 118	4 865	31.12.1997	12
Kymmivoima Oy, Helsinki	0	0	0	0	0	0	0	292 ²⁾	31.12.1997	12
Etelä-Pohjanmaan Voima Oy, Vaasa	28	28	34 416	28	1 319	13 190	103 287	16 667 ²⁾	31.12.1997	12
Jalasjärven Lämpö Oy, Jalasjärvi	32	32	0	32	60	300	300	400 ²⁾	31.12.1997	12
Kurikan Kaukolämpö Oy, Kurikka	25	25	0	25	75	375	375	400 ²⁾	31.12.1997	12
Oy Kaskisten Lämpö-Kaskö Värme Ab	30	30	-132	30	150	150	150	447	31.12.1997	12
Ulvilan Lämpö Oy, Ulvila	22	22	954					190 ²⁾	31.12.1997	12
Total							130 516			

1) Group figure

2) Preliminary financial statement figures

Other shares and holdings owned by the Group

(FIM 1 000)	Shareholding %	Size of parent company shareholding %	Number of shares	Nominal value, FIM	Book value, FIM
Vakka-Suomen Voima Oy	17	17	14 194	213	13 809
Leppäkosken Sähkö Oy	1	1	1 127	11	1 158
Paneliankosken Voima Oy	2	2	896	27	535
Tietosavo Oy	4	4	20 400	204	810
Vaasan Läänin Puhelin Oy			73	6	213
Lounais-Suomen Puhelin Oy			110	33	187
Salon Seudun Puhelin Oy			57	29	129
Muut puhelinosaakkeet					499
Kauhajoen Lämpöhuolto Oy			125	125	125
Kiint. Oy Alavuden Säästökeskus	27	27	327	589	1 030
Bostads Ab Brinkasgården			570	6	203
Bostads Ab Bankgården			161	2	498
Other housing shares					197
Oy Vesirakentaja	24	24	47	24	372
Merita Pankki Oy			10 115	101	296
Öskatan Tuuli - Närpiö Oy	16	16	200	200	200
Other shares and holdings					2 900 ¹⁾
Total					23 161

¹⁾ Share-specific notes complying with the rules on financial statements are disclosed in the official financial statements of the company.

Intangible assets

	Group 1997	Group 1996	Parent company 1997	Parent company 1996
9. Goodwill				
Acquisition cost Jan.1	155 685	155 685	150 785	150 785
Increase Jan. 1 - Dec. 31	38 081		28 540	
Acquisition cost Dec. 31	193 766	155 685	179 325	150 785
Accumulated depreciation according to plan Dec. 31	118 560	104 440	114 515	103 218
Book value Dec. 31	75 206	51 245	64 811	47 568
Cumulative difference between total depreciation and depreciation according to plan Jan. 1	2 953	2 330	2 286	2 289
Increase in depreciation difference reserve Jan. 1 - Dec. 31	6 684	625	5 692	
Decrease in depreciation difference reserve Jan. 1 - Dec. 31	2	2	2	2
Cumulative difference between total depreciation and depreciation according to plan Dec. 31	9 635	2 953	7 976	2 286
10. Group goodwill				
Acquisition cost Jan. 1	11 381	11 381		
Increase Jan. 1 - Dec. 31	14 678			
Acquisition cost Dec. 31	26 059	11 381		
Accumulated depreciation according to plan Dec. 31	5 032	3 383		
Book value Dec. 31	21 027	7 998		

	Group 1997	Group 1996	Parent company 1997	Parent company 1996
11. Other long-term expenditure				
Acquisition cost Jan. 1	86 683	75 679	77 273	72 462
Increase Jan. 1 - Dec. 31	5 530	11 004	4 542	4 811
Decrease Jan. 1 - Dec. 31	117			
Acquisition cost Dec. 31	92 096	86 683	81 815	77 273
Accumulated depreciation according to plan Dec. 31	35 304	25 888	31 461	23 812
Book value Dec. 31	56 792	60 795	50 354	53 461
Cumulative difference between total depreciation and depreciation according to plan Jan. 1	1 300	1 064	-49	713
Increase in depreciation difference reserve Jan. 1 - Dec. 31	436	1 271	351	275
Decrease in depreciation difference reserve Jan. 1 - Dec. 31	1 240	1 035	1 216	1 037
Cumulative difference between total depreciation and depreciation according to plan Dec. 31	495	1 300	-914	-49
Tangible assets				
12. Land and water areas				
Acquisition cost Jan. 1	24 562	24 543	24 377	24 358
Increase Jan. 1 - Dec. 31	65	54	65	54
Decrease Jan. 1 - Dec. 31	57	35	57	35
Acquisition cost Dec. 31	24 570	24 562	24 384	24 377
Revaluation included in acquisition cost of land and water areas				
Revaluation Jan. 1 and Dec. 31	6 000	6 000	6 000	6 000
13. Buildings and structures				
Acquisition cost Jan. 1	158 491	145 866	156 755	144 130
Increase Jan. 1 - Dec. 31	1 428	13 133	869	13 133
Decrease Jan. 1 - Dec. 31	435	508	435	508
Acquisition cost Dec. 31	159 484	158 491	157 190	156 755
Accumulated depreciation according to plan Dec. 31	44 020	39 200	43 352	38 612
Book value Dec. 31	115 465	119 291	113 838	118 143
Cumulative difference between total depreciation and depreciation according to plan Jan. 1	42 973	37 567	41 920	36 471
Increase in depreciation difference reserve Jan. 1 - Dec. 31	33	5 843	33	5 843
Decrease in depreciation difference reserve. Jan. 1 - Dec. 31	1 088	437	1 044	394
Decrease in depreciation difference reserve Jan. 1 - Dec. 31	41 918	42 973	40 909	41 920
Revaluation included in acquisition cost of buildings and structures				
Revaluation Jan. 1 and Dec. 31	3 114	3 114	3 114	3 114
14. Power plant machinery and equipment				
Acquisition cost Jan. 1	41 541	41 504	41 541	41 504
Increase Jan. 1 - Dec. 31	41 541	37	41 541	37
Acquisition cost Dec. 31	41 541	41 541	41 541	41 541
Accumulated depreciation according to plan Dec. 31	4 909	3 811	4 341	3 244
Book value Dec. 31	36 632	37 730	37 200	38 297

	Group 1997	Group 1996	Parent company 1997	Parent company 1996
Cumulative difference between total depreciation and depreciation according to plan Jan. 1	4 080	3 984	4 080	3 984
Increase in depreciation difference reserve Jan. 1 - Dec. 31	52	106	52	106
Decrease in depreciation difference reserve Jan. 1 - Dec. 31	46	<u>10</u>	46	<u>10</u>
Cumulative difference between total depreciation and depreciation according to plan Dec. 31	4 086	4 080	4 086	4 080
Revaluation included in acquisition cost of power plants				
Revaluation Jan. 1 and Dec. 31	177	177	177	177
15. Machinery and equipment				
Acquisition cost Jan. 1	210 421	187 402	128 530	124 238
Increase Jan. 1 - Dec. 31	24 707	24 890	8 091	4 328
Decrease Jan. 1 - Dec. 31	5 549	<u>1 872</u>	124	<u>35</u>
Acquisition cost Dec. 31	229 578	210 421	136 497	128 530
Accumulated depreciation according to plan Dec. 31	148 217	<u>136 516</u>	101 156	<u>93 952</u>
Book value Dec. 31	81 361	73 905	35 341	34 578
Cumulative difference between total depreciation and depreciation according to plan Jan. 1	31 924	26 033	17 011	16 609
Increase in depreciation difference reserve Jan. 1 - Dec. 31	5 188	6 389	794	895
Decrease in depreciation difference reserve Jan. 1 - Dec. 31	537	<u>499</u>	486	<u>493</u>
Cumulative difference between total depreciation and depreciation according to plan Dec. 31	36 575	31 924	17 319	17 011
Revaluation included in acquisition cost of machinery and equipment				
Revaluation Jan. 1 and Dec. 31	50	50	50	50
Contribution of machinery and equipment to book value Dec. 31	73 225	66 514	31 807	31 120
16. Transmission and distribution network				
Acquisition cost Jan. 1	2 070 469	2 007 971	2 059 791	1 997 436
Increase Jan. 1 - Dec. 31	102 016	92 682	101 612	92 081
Decrease Jan. 1 - Dec. 31	82	<u>30 184</u>	82	<u>29 726</u>
Acquisition cost Dec. 31	2 172 403	2 070 469	2 161 321	2 059 791
Accumulated depreciation according to plan Dec. 31	779 387	<u>678 030</u>	763 394	<u>664 044</u>
Book value Dec. 31	1 393 016	1 392 438	1 397 927	1 395 747
Cumulative difference between total depreciation and depreciation according to plan Jan. 1	601 897	527 521	594 516	520 139
Increase in depreciation difference reserve Jan. 1 - Dec. 31	73 963	80 170	73 892	80 143
Decrease in depreciation difference reserve Jan. 1 - Dec. 31	1 989	<u>5 795</u>	1 989	<u>5 767</u>
Cumulative difference between total depreciation and depreciation according to plan Dec. 31	673 870	601 897	666 419	594 516
Revaluation included in acquisition cost of transmission and distribution network				
Revaluation Jan. 1 and Dec. 31	11 874	11 874	11 874	11 874

17. Taxation values

Real estate	115 447	104 470	114 723	103 698
Shares and holdings	88 508	<u>83 191</u>	291 332	<u>120 390</u>
Total	203 955	187 660	406 055	224 088

18. Receivables falling due after one year or more

Loans receivable	6 181	7 683	4 485	5 979
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19. Receivables and payables from Group and associated companies

Accounts receivable/Group companies			15 365	172
Accounts receivable/associated companies			113	20
Other receivables/associated companies			6	1 363
Loans receivable/Group companies			39	
Loans receivable/associated companies			2 207	2 468
Long-term loans receivable/Group companies			12 201	12 711
Long-term loans receivable/associated companies			3 214	2 054
Short-term accounts payable/Group companies			17 183	
Short-term accounts payable/associated companies			9 632	66 076
Other payables/Group companies			597 130	400 252
Other short-term payables/associated companies			550	

Shareholders' equity

20. Share capital Jan. 1 and Dec. 31	65 248	65 248	65 248	65 248
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21. Premium fund Jan 1 and Dec. 31	221 571	221 571	221 571	221 571
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22. Tax fund Jan. 1 and Dec. 31	1 000	1 000	1 000	1 000
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23. Contingency reserve fund Jan. 1 and Dec. 31	3 900	3 900	3 900	3 900
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24. Retained profit Jan. 1	601 571	64 859	137 842	88 883
Profit distribution	-42 411	-18 270	-42 411	-18 270
Dividend on own shares		487		487
Change in corporate structure		-494		
Depreciation difference		443 274		
Profit for the financial year	151 603	<u>111 715</u>	110 484	<u>66 741</u>
Earnings Dec. 31	710 763	601 571	205 915	137 842

Distributable funds from unrestricted equity	167 203	105 083	210 815	142 742
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25. Deferred tax provision For voluntary reserves and cumulative depreciation difference

213 455	194 984
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26. Liabilities	Group	In five years	Parent company	In five years
	Dec. 31, 1997		Dec. 31, 1997	
Convertible bonds	100 000	0	100 000	0
Loans from financial institutions	244 964	0	205 964	0
Total	344 964	0	305 964	0

	Group 1997	Group 1996	Parent company 1997	Parent company 1996
Pledges given and contingent liabilities				
a) for own loans				
Corporate mortgages	352 180	348 430	292 180	348 430
Land area and building mortgages	1 000	13 280	1 000	13 280
Pledged shares		31 540		31 540
b) for Group company loans				
Guarantees			679 479	651 329
Predelivery and term guarantees	70			
c) for associated company loans				
Guarantee	832	1 236	832	1 236
Predelivery and term guarantees		1 925		1 925
d) for others				
Guarantees	877	1 120	877	1 120
e) other own liabilities				
Pledged shares	108 880		103 287	
Leasing obligations	375	485	295	485
Other liabilities	6 865	36		
Pension liabilities		114		114
f) total				
Corporate mortgages	352 180	348 430	292 180	348 430
Land area and building mortgages	1 000	13 280	1 000	13 280
Pledged shares	108 880	31 540	103 287	31 540
Guarantees	1 780	2 356	681 189	655 610
Other liabilities	7 240	636	295	599

Separation of Business Operations in Accordance with the Electricity Market Act

OPERATIONS TO BE SEPARATED

In terms of the business operations of Länsivoima Oy, electricity sales is the only operation that needs to be separated under the Electricity Market Act, and a separate income statement must be presented for it. Länsivoima Oy's power generation, which is included in energy business, is so minimal that it need not be separated.

Rearrangement of business operations

The electricity sales operations of the Länsivoima Group were transferred to the parent company Länsivoima Oy at the end of 1997. Länsivoima Oy bought the electricity sales operations from the Group's network companies Lounais-Suomen Sähkö Oy, Jyllinkosken Sähkö Oy, Megavoima Oy, Hanerga Oy and Merikarvian Sähkö Oy through a

business acquisition.

When rearranging the business operations, the invoicing activities of the network companies were also transferred to the parent company. The network companies continue to deal with the local customer services associated with the electricity sales and network activities.

Separation principles

Income statement

The income statement was separated using internal accounting methods. As far as possible, transactions have been allocated to separated operations when bookkeeping entries were made. Joint expenses, such as those related to financial management and corporate management, were distributed, as accurately as possible, among the energy business and other business operations using the matching principle

and allocation accounting. The allocation was done on one line before operating profit.

The calculation principles regarding depreciation according to plan are defined in the Notes to the financial statements. The distribution to different operations is obtained from the asset management system.

Depreciation and depreciation difference were based on the asset management system, financial income and expenses were allocated on the basis of capital employed, group contribution was allocated on the basis of the contributor's business operations and taxes were allocated proportionately to net profits from business operations.

The structure of the income statement has changed to reflect the accounting principles of the Group and, consequently, the contents of the lines for the reference year have been modified.

Electricity Sales Operations

INCOME STATEMENT

(FIM 1 000)	Jan. 1 - Dec. 31, 1997		Jan. 1 - Dec. 31, 1996	
Turnover		660 318		641 756
Production for own use		2		
Other operating income		2 935		114
Expenses:				
Materials, supplies and goods:				
Purchases during financial year	600 903		591 809	
Increase in inventories (-)	12		-116	
External services	2 185		2 333	
Staff expenses	5 128		2 372	
Rents	249		133	
Other expenses	6 102	614 579	7 641	604 172
Operating profit before depreciation		48 676		37 698
Depreciation on fixed assets and other long-term expenditure		-4 305		-318
Operating profit		44 371		37 380
Financing income and expenses:				
Net financing		-8 179		-7 617
Profit before extraordinary items, reserves and taxes		36 192		29 763
Group contributions received		31 402		
Profit before reserves and taxes		67 594		29 763
Increase in depreciation difference reserve (-)		-703		-198
Direct taxes		-18 729		-6 620
Profit for financial year		48 162		22 945

Signatures on the Financial Statements

Proposal by the Board of Directors for the disposal of retained earnings

The Group's non-restricted equity is FIM 715 662 767.33 according to the consolidated balance sheet. The parent company's non-restricted equity is FIM 210 814 812.98. The Board proposes that the FIM 110 484 184.50 in earnings for the financial year be disposed of as follows:

FIM 7.20 per share to be distributed as a dividend, amounting to FIM 46 978 833.60, and FIM 63 505 350.90 to be carried over on the profit and loss account.

Helsinki, February 27, 1998

Kalervo Nurmimäki
Chairman

Tapio Kuula
Deputy Chairman

Jouko Oksanen

Juha Mikkilä

Heikki Marttinen

Markku Autti

Mikko Rönholm

Manu Muukkonen
Member of the Board of Directors,
Managing Director

The above financial statements were drawn up in accordance with good accounting practice. A report on the audit conducted was given today.

Paimio, March 2, 1998

Pekka Kaasalainen
Authorized Public Accountant

Christer Antson
Authorized Public Accountant

A u d i t o r s ' R e p o r t

To the shareholders of Länsivoima Oy

We have audited the accounts, the financial statements and the corporate governance of Länsivoima Oy for the financial year January 1 - December 31, 1997. The accounts prepared by the Board of Directors and the Managing Director 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 conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit in order to obtain reasonable assurance that the financial statements are free of material misstatement or imperfections. The purpose of the audit of corporate governance is to examine that the members of the Board Directors and the Managing Director have legally complied with the rules of the Companies' Act.

In our opinion, the financial statements have been prepared in accordance with the regulations of the Finnish Accounting Act and other legislation and regulations relevant to the preparation of the accounts. The financial statements give a true and fair view, as defined in the Accounting Act, of the parent company's and the Group's results from operations and financial position. The profit of the parent company for the financial year 1997 is FIM 110 484 184.50 and the profit of the Group FIM 151 603 002.54. The financial statements including the Group accounts can be approved, and the Board of Directors and the Managing Director may be discharged from liability for the financial year audited by us. The proposal of the Board of Directors concerning the distribution of profit is in accordance with the Finnish Companies' Act.

We have studied the income statements and additional information on separated operations presented in the notes to the financial statements. We state that they have been compiled in accordance with the Electricity Market Act and rules and regulations issued under it.

Paimio, March 2, 1998

Pekka Kaasalainen
Authorized Public Accountant

Christer Antson
Authorized Public Accountant

Calculation Principles for Key Figures

The key figures have been calculated according to Financial Supervision guidelines, using the following formulas:

Key figures for financial trends

Return on equity (ROE) %:
$$\frac{\text{Profit before extraordinary items} - \text{taxes}}{\text{Shareholders' equity} + \text{minority share} + \text{reserves}} \times 100$$

(average between beginning and end of year)

Return on investment (ROI) %:
$$\frac{\text{Profit before extraordinary items} + \text{interest and other financial expenses}}{\text{Balance sheet total} - \text{interest-free loans}} \times 100$$

(average between beginning and end of year)

Equity ratio (%):
$$\frac{\text{Shareholders' equity} + \text{minority share} + \text{reserves}}{\text{Balance sheet total} - \text{advances received}} \times 100$$

Debt-equity ratio (%):
$$\frac{\text{Net interest-bearing liabilities}}{\text{Shareholders' equity} + \text{minority share}} \times 100$$

Calculation principles for share-specific key figures

Earnings/share (EPS):
$$\frac{\text{Profit before extraordinary items} + /- \text{minority share of profit for financial year} - \text{taxes}}{\text{Share issue-adjusted average number of shares for the financial year}}$$

Shareholders' equity/share:
$$\frac{\text{Shareholders' equity} + \text{reserves}}{\text{Share issue-adjusted number of shares on the closing date}}$$

Dividend/share:
$$\frac{\text{Dividend distributed for the financial year}}{\text{Share issue-adjusted number of shares on the closing date}}$$

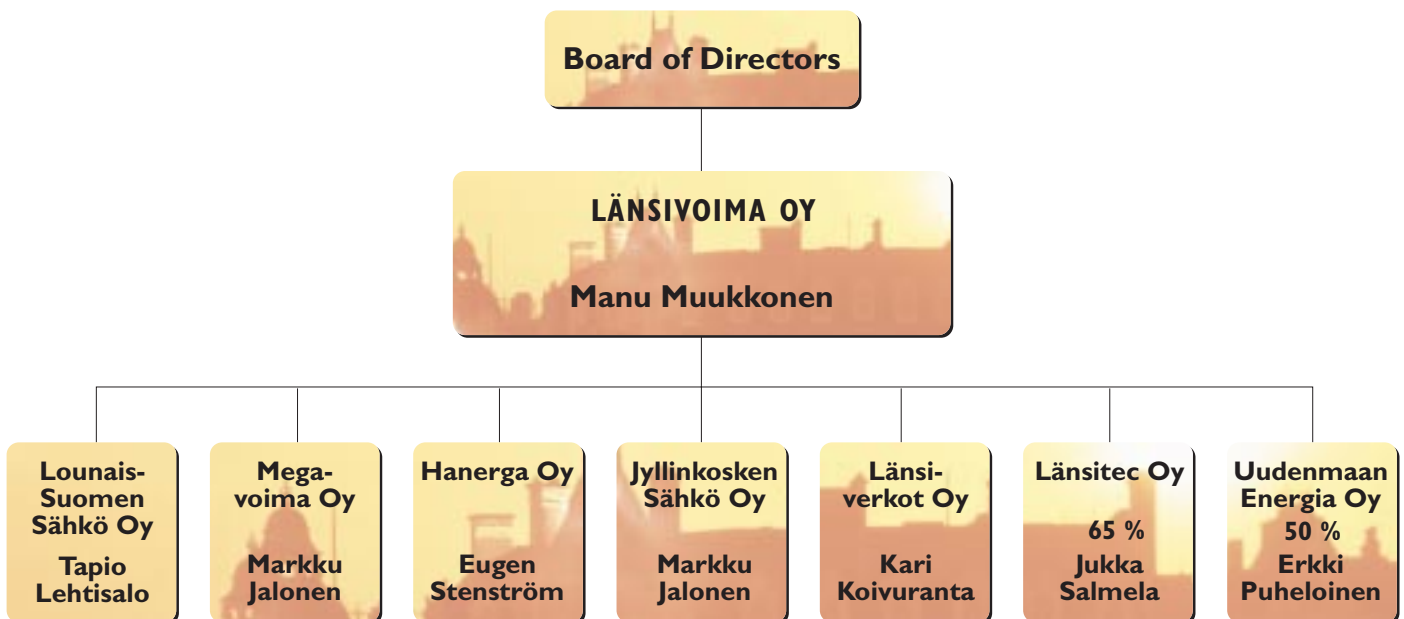
Dividend/earnings:
$$\frac{\text{Dividend distributed for the financial year}}{\text{Profit before extraordinary items}} \times 100$$

Effective dividend yield:
$$\frac{\text{Dividend/share}}{\text{Final trading price for financial year}} \times 100$$

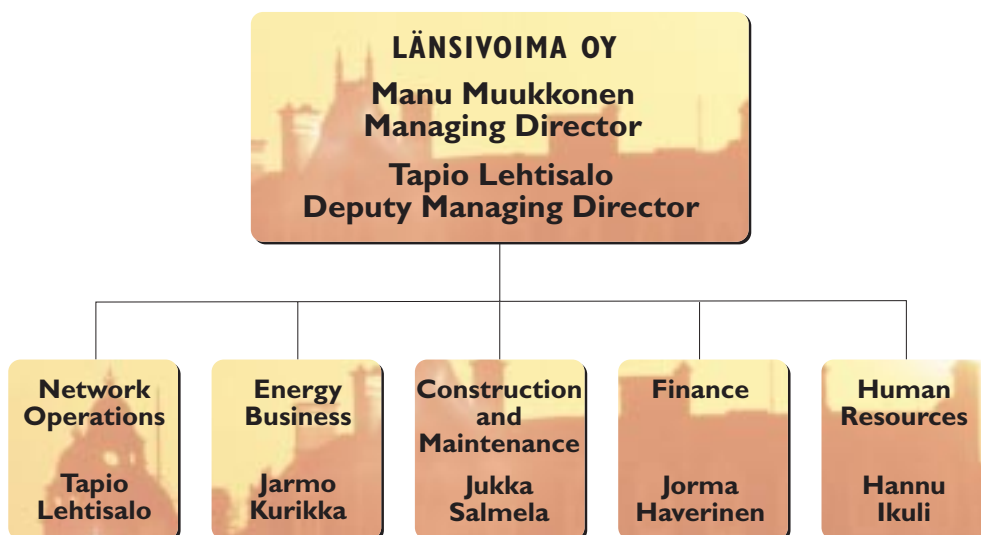
Price/earnings ratio (P/E):
$$\frac{\text{Share issue-adjusted final trading price for financial year}}{\text{Profit/share}}$$

Market capitalization Dec. 31:
$$\text{Number of shares Dec. 31} \times \text{final trading price for financial year}$$

Share issue-adjusted average price of shares:
$$\frac{\text{Total trading in FIM}}{\text{Weighted share issue-adjusted average number of shares traded during financial year}}$$



RESPONSIBILITIES IN THE LÄNSIVOIMA GROUP



Annual General Meeting and Board of Directors in 1997

During the year, the shareholders convened at one general meeting. At this Annual General Meeting of March 21, 1997, 6 076 793 shares and votes, or 93.13 per cent of all shares and votes, were represented. The matters laid down in section 11 of the articles of association were handled at the meeting.

The meeting decided that the number of Board members for the following financial year would be eight. The following were elected to the Board of Directors: Heikki Marttinen, Kalervo Nurmimäki, Markku Autti, Manu Muukkonen, Jouko Oksanen, Tapio Kuula, Mikko Rönholm and Juha Mikkilä.

Pekka Kaasalainen, APA, and Christer Antson, APA, were elected as company auditors to examine the 1998 accounts and administration. The auditing firm SVH Coopers & Lybrand and Mika Kaarisalo, APA, were elected deputy auditors for the same period.

Kalervo Nurmimäki was chairman of the Board of Directors. The Board of Directors convened 14 times during the year.

Auditors 1997

Pekka Kaasalainen,
Authorized Public Accountant
Christer Antson,
Authorized Public Accountant

Deputies:
Auditing firm SVH Coopers & Lybrand Oy
Mika Kaarisalo,
Authorized Public Accountant

Company management

Manu Muukkonen
Managing Director

Tapio Lehtisalo
Deputy Managing Director;
Director of Network Operations

Jorma Haverinen
Director of Finance

Jarmo Kurikka
Director of Energy Business



The Länsivoima Group Board of Directors in 1997. Front, left to right Manu Muukkonen, Kalervo Nurmimäki and Jouko Oksanen. Back, left to right Juha Mikkilä, Tapio Kuula, Markku Autti and Mikko Rönholm. Heikki Marttinen was not present.



Information technology sets high demands on electricity, mostly in terms of quality, in future also in terms of volume.



Electricity means warmth, comfort and safety.

Financial Trends and Key Figures

LÄNSIVOIMA GROUP (FIM million)

	1993	1994	1995	1996	1997
Turnover	584	685	922	1 134	1 201
Operating profit	85	91	105	168	198
Operating profit, % of turnover	14.6 %	13.3 %	11.5 %	14.8 %	16.5 %
Profit before extraordinary items and taxes	79	87	90	144	185
Profit before extraordinary items and taxes, % of turnover	13.7 %	12.7 %	9.8 %	12.7 %	15.4 %
Profit before taxes	42	87	90	153	203
Profit before taxes, % of turnover	7.2 %	12.7 %	9.8 %	13.5 %	16.9 %
Return on equity, %	13.5 %	12.7 %	9.1 %	12.2 %	14.3 %
Return on investment, %	13.6 %	12.1 %	10.4 %	13.3 %	15.0 %
Equity ratio	39.9 %	44.8 %	41.9 %	37.5 %	39.1 %
Gearing				0.10	0.29
Gross investment	372	244	755	151	167
Gross investment, % of turnover	63.6 %	35.7 %	81.5 %	13.3 %	13.9 %
Balance sheet total	1 351	1 528	2 322	2 392	2 583
Number of personnel	487	474	673	594	680

The figures for years 1996 and 1997 have been adjusted to conform to the accounting principles of the Imatran Voima Group.

CONSOLIDATED TURNOVER AND OPERATING PROFIT 1996 AND 1997 (FIM million)

	1997		1996	
	Turnover	Operating profit	Turnover	Operating profit
Länsivoima Oy	879.9	167.9	952.0	158.5
Lounais-Suomen Sähkö Oy	616.1	28.0	663.0	8.5
Jyllinkosken Sähkö Oy	250.1	6.4	268.4	0.2
Länsiverkot Oy	191.6	10.3	32.8	2.9
Uudenmaan Energia Oy	98.7 ¹⁾	5.7		
Megavoima Oy	123.7	4.0	134.2	2.3
Hanerga Oy	35.2	3.8	40.7	3.5
Merikarvian Sähkö Oy	10.6	6.8	12.0	2.5
Länsitec Oy	3.7 ²⁾	-5.2		
Verkonrakennus Oy	-	-	0.9 ³⁾	-0.5
Total	2 210.0	227.7	2 104.1	177.9
Group eliminations	-1 009.0	-30.0	-969.7	-10.2
Total	1 201.0	197.7	1 134.4	167.7

1) Uudenmaan Energia Oy, turnover for Sep. 1 to Dec. 31, 1997

2) Länsitec Oy, turnover for Nov. 1 to Dec. 31, 1997

3) Verkonrakennus Oy, turnover for Jan. 1 to Jan. 31, 1996



Electricity acquisition

Electricity acquisition in 1997 totaled 3 720 GWh with an increase of 18 % on 1996. Electricity acquisition was considerably restructured at the end of the year. The company dissolved its ownership in Kymppivoima Oy and the power purchases from Kymppivoima were compensated for by contracts with Imatran Voima Oy. Late in the year, the shares in Etelä-Pohjanmaan Voima Oy were let to Lapuan Sähkö Oy with a long-term lease. This electricity acquisition was offset by leasing shares in Kemijoki Oy and Teollisuuden Voima Oy, by purchasing power plants in the Mustionjoki river and by power supply contracts with Imatran Voima Oy. The arrangements had no immediate effect on the cost structure of the company but enhanced the acquisition model by providing new opportunities for the profiling of the electricity sales.

During the year, the electricity acquisition organization and the acquisition know-how were strengthened in the Länsivoima Group to meet the changing needs of the electricity market.

Electricity sales

Electricity sales in 1997 amounted to 3 600 GWh with an increase of 16 % on 1996. The growth is attributable to Uudenmaan Energia becoming a subsidiary of Länsivoima Oy at the beginning of September 1997 as well as to increased sales volumes to areas outside our traditional sales regions.

The turnover of the energy business totaled FIM 707 million, the operating profit before depreciation being FIM 64 million (9 % of turnover)

and profit before extraordinary items and taxes over FIM 49 million.

The amount of electricity sold on the basis of competitive bidding was 700 GWh, of which some 300 GWh to areas beyond our own region. The number of lost customers remained small and the profit margins on competitive sales were on a reasonable level even though the competition was clearly fiercer than before. Resources in the business customer section were strengthened at the end of the year, the aim being an increase in the volumes and improved customer satisfaction.

The company is preparing for the deregulation of the private electricity consumer market. Good progress has been made in the unification of procedures and development of services in the Group. At the end of 1997, the electricity sales activities were transferred from the regional subsidiaries of Länsivoima Oy to the parent company Länsivoima. The regional Group companies will concentrate on network operations in close cooperation with the sales functions, the aim being better overall services and customer satisfaction. One of the major reasons for the transition of business operations was the promotion of Länsivoima's electricity products nationally by making use of the economy of scale resulting from volume marketing. To develop its operations and to prepare for more extensive competition on the energy market Länsivoima entered into a contract to join the IVO Partners chain. In the first phase, the chain will focus on marketing cooperation and, later on, on wide-ranging development of common operations and provision of services.

Launching operations

The construction and maintenance of the electricity networks of the Länsivoima Group were transferred to Länsitec Oy, which is owned jointly by Länsivoima Oy and IVO Power Engineering Ltd. Länsitec operates in all parts of Finland and sells its services also to customers outside the Länsivoima Group.

Länsitec Oy started its operations on November 1, 1997 by acquiring the business operations of Suomen Voimatekniikka Oy. These operations included the construction and maintenance of the electricity networks and street lights in the Länsivoima Group area as well as helicopter-operated tree-top cutting services. In the business acquisition, 73 persons moved over to Länsitec as "old" employees. At the end of the year the construction and maintenance activities of the four distribution companies of the Länsivoima Group were transferred to Länsitec Oy. At the same time, the Naantali power line installation operations of IVO Power Engineering Ltd. were moved over to Länsitec Oy through a business acquisition. The number of personnel grew to 298 in the reorganization. The company's turnover goal for 1998 is some FIM 150 million.

The ownership base of Länsitec was expanded in January 1998. As a result of the share issue, IVO Power Engineering Ltd. became an owner in addition to Länsivoima Oy with a share of 35 per cent. The new ownership base combines the solid contracting know-how of Länsitec to the marketing and project expertise of IVO Power Engineering Ltd. The cooperation provides good opportunities for expanding operations to overseas countries as well. More than half of the turnover of IVO Power Engineering Ltd. is even today obtained from international markets.

Business operations

Länsitec Oy designs, constructs and maintains the 110 – 400 kV power transmission lines and substations, 0.4 – 20 kV aerial lines, underground cables and transformer stations as well as 0.4 – 110 kV underwater cables. Länsitec's wide-ranging scope of operations also covers street lighting and traffic control systems as well as telecommunications cables. Länsitec is specialized in the use of helicopters for the clearing and maintenance of the sides of line areas. The newest application being developed is a tree-top cutting system enabling work near power lines

As for the domestic operations of Länsitec, the share of power line maintenance and repair operations as well as industrial electrical construction will increase while the construction of new power transmission lines will be less substantial. The reason behind this is that all of Finland is practically electrified. During its first year of operation, nearly ten per cent of Länsitec's contracts will be performed for customers outside the Länsivoima Group. The number of external customers is expected to grow in the future. The customers now include the Finnish National Road Administration, cities and other municipalities, the Finnish Defense Forces, telephone operators, Tele and Telia. Cooperation with IVO Power Engineering is believed to provide further opportunities for offering services both nationally and internationally.

In addition to the domestic market, Länsitec has offered its know-how to the Baltic countries and Sweden. In the Baltic countries we have arranged special training for our cooperative partners and in Sweden an optic fiber cable installation project has been completed. Our aim is to expand overseas project activities and to promote cooperation also with foreign cooperative partners.

Power transmission

The network operations of the Länsivoima Group answer for the electricity transmission to customers. The network operations are divided into regional and distribution network activities. The regional network consists of the 110 kV (or equivalent) power lines and substations owned by Länsivoima. The distribution network, on the other hand, is a network owned by local distribution companies comprising 20 kV (or equivalent) power lines, distribution transformers and 0.4 kV lines.

The operation of the distribution companies is supervised by the Electricity Market Authority which has operated under the Ministry of Trade and Industry since 1995. The Electricity Market Authority grants operating permits related to electricity network operations and construction permits for power lines of 110 kV or more.

An essential part of the permit conditions is the responsibility for the arrangement of reliable power transmission within the permit-holder's operating area. This protects the position of consumers, because power transmission, or network services, must always be purchased from the company in whose area the consumer is located.

The Electricity Market Authority also supervises the reasonableness of transfer fees. In September 1997, the Electricity Market Authority started processing an investigation request submitted in December 1995 regarding the transfer fees of the distribution company Megavoima Oy. The report is expected to be completed during the first part of this year.

The structure and level of the transfer fees applied by the distribution companies of Länsivoima were unified at the beginning of November. The changes did not affect the average transfer fees of the distribution networks of Länsivoima.

The energy taxation grew heavier at the beginning of 1997 when the amount and share of taxes included in the total price of electricity increased. Along with the change the energy tax, which was previously charged in conjunction with the electricity sales price, was replaced with an electricity tax, which is included in the transfer fees. Tax category II applies to industry and greenhouses and it is lower than tax category I which is applied to all other uses of electricity. The change in the

energy taxation raised the total price of retail electricity by some one per cent.

The amount of electricity transmitted in the regional networks of the Länsivoima Group directly to consumers and other network companies was 6 322 GWh, of which more than half was delivered outside the distribution areas of Länsivoima. The volume is some 9 per cent of the electricity consumption in Finland. The electricity consumption in the Group's distribution network area was some 2 940 GWh, an increase of 1.7 % on year 1996.

The turnover of network operations totaled FIM 512 million, or 43 per cent of the Group's turnover. The increase on the previous year was 3.1 per cent. The operating profit of the network operations was FIM 286 million with an improvement of 9.4 per cent in FIM value from 1996.

In 1997, the investments in network operations amounted to FIM 114 million. The business is capital-intensive. A well-planned investment and maintenance policy is a prerequisite for good profitability. The most significant investments last year were the 110 kV substations at Koverhar and Vainiola and associated power lines. The electrification of the archipelago of Turunmaa between Bergholm and Lökhalm was one of the largest distribution network expansion projects. Altogether, 1690 new customer connections in the distribution network were completed during the year.

Restructuring operations

The construction and maintenance of the regional and distribution networks were transferred to Länsitec Oy which was established in November 1997. A total of 226 persons moved over from the regional network companies to the new company, while 253 persons stayed with the network companies, dealing with network management tasks and customer services. Länsivoima Oy's subsidiary Länsiverkot Oy is in charge of the design and development of the regional networks. The planning and development of the distribution networks as well as associated customer services, on the other hand, are handled by local distribution companies Lounais-Suomen Sähkö Oy, Jyllinkosken Sähkö Oy, Hanerga Oy and Megavoima Oy.

The network operations were further organized by selling the meter maintenance functions in Kurikka and

Paimio to external companies in late 1997 and by concentrating the operation control center activities in Kurikka and Paimio. A new operation control system was commissioned in Paimio and the system will be extended to Kurikka as well. An international aspect was introduced to the operations in the form of a letter of intent concerning a Nordic measurement service company, the establishment of which is being planned by Länsivoima Oy, Imatran Voima Oy and four power companies operating in Sweden and Norway.

As part of the network services we have initiated the preparation of an environmental program which is planned to be completed in 1998. The completion and implementation of the program provide good capabilities for certification if desired.

In 1997, an investigation of environmental impacts of network operations was started in compliance with the program. In the course of spring 1998, a survey will be conducted to get a view of the attitudes of land owners towards the positioning of power lines. Together with environmental authorities we are drawing up a national guide for the care of vegetation under power lines. Attention to the environment will be manifested most clearly in the sorting of reusable waste. Recycling of network construction products will also be developed further. It is even now customary to recycle power line wires and insulators by using those removed from dismantled lines at new construction and repair projects. Similarly, old wooden poles have been utilized in water structures, such as piers. The success of environmentally aware operation calls for cooperation with authorities and promotion of environmental attitudes among our own personnel through training and other means which enhance environmental knowledge.

The structure and operation of network operations have changed significantly. The primary goal during the year under way is to unify the procedures in the distribution network operations and related customer services.

The focus on more unified procedures and on the profitability of network operations will provide us with an opportunity to continuously develop our networks. We offer high-quality network services which satisfy our customers and meet the challenges of today.



A power company can advise consumers also on safety issues associated with electricity.



LÄNSIVOIMA OY ●

HANERGA OY ●●

JYLLINKOSKEN SÄHKÖ OY ●●

LÄNSIVERKOT OY ●●●

MEGAVOIMA OY ●●

LÄNSITEC OY ●●●●

LOUNAI-SUOMEN SÄHKÖ OY ●●

UUDENMAAN ENERGIA OY ●

● = Sales company

●● = Network company

●●● = Construction and maintenance company

—●— = 110 kV power lines and substations of a regional network

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