



TO THE SHAREHOLDERS

Annual General Meeting

The Annual General Meeting of Länsivoima Oyj will be held on March 26, 1999 at Varsinais-Suomen Kansanopisto, in Paimio, Finland.

Financial information

Länsivoima Oyj will issue three Interim Reports in 1999:

1.1. – 31.3.1999 6.5.1999
1.1. – 30.6.1999 6.8.1999
1.1. – 30.9.1999 5.11.1999

Annual and Interim Reports can be obtained from:
Länsivoima Oyj, P.O.Box 23, FIN-21531
Paimio, Finland
(tel.) +358-2-474 701.

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

CONTENTS

| | |
|------------------------------------|----|
| Review by the Managing Director | 4 |
| Business Operations | 7 |
| Energy Operations | 7 |
| Network Operations | 8 |
| Construction and Maintenance | 10 |
| Review by the Board of Directors | 11 |
| Consolidated Income Statement | 15 |
| Consolidated Balance Sheet | 16 |
| Cash Flow Statements | 18 |
| Länsivoima Oyj Income Statement | 19 |
| Länsivoima Oyj Balance Sheet | 20 |
| Notes to the Financial Statements | 22 |
| Accounting Policies | 22 |
| Group Structure | 23 |
| Notes to the Income | |
| Statement and Balance Sheet | 24 |
| Electricity Sales Operations | 36 |
| Separation of Business | |
| Operations in Accordance | |
| with the Electricity Market Act | 36 |
| Financial Trends and Key Figures | 36 |
| Key share-related Figures | 39 |
| Increases in Share Capital | 41 |
| Ownership Breakdown | 41 |
| Calculation of Key Indicators | 42 |
| Share Capital, Shareholders | |
| and Directors' Interests | 43 |
| Proposal by the Board of Directors | |
| concerning the Treatment of Profit | 44 |
| Auditors' Report | 43 |
| Organisation | 45 |
| Corporate Governance | 47 |
| Addresses | 49 |

REVIEW BY THE MANAGING DIRECTOR

The introduction in 1998 of the final phase of electricity market deregulation in Finland was a historic event. It resulted in a situation that had never before been experienced in over one hundred years of electricity trading, affecting both the electricity suppliers who transmit and sell electricity, and the customers who use it.

The Länsivoima Group successfully adapted to the new market conditions. The new organisational structure, which had been put in place a year ago, has worked well. Energy Operations now handles electricity sales and purchases while Network Operations is responsible for managing the network, and ensuring that it functions efficiently and reliably. Construction and Maintenance concentrate on network construction and maintenance and carry out contract work for customers outside the Group.

Although 1998 was a year of change, the result was good and all business units achieved, and in some cases exceeded, their targets. Turnover topped the FIM 1.5 billion mark, showing an increase over the previous year of 25%. Profit before tax rose by 29% to FIM 261 million. Return on equity was also up.

Energy Operations, which is responsible for electricity sales and purchases, had a successful year, increasing both its market share and its profit. 1998 saw national electricity consumption rise by

3.9% while growth within Länsivoima's own distribution network was 4.5%. Total purchases and sales were up 34% on the previous year. In January 1999, electricity purchases for the preceding 12 months exceeded the GWh 5,000 mark and for the first time electricity demand topped 1,000 MW during a prolonged period of sub-zero temperatures. The fact that the Group procures large volumes of electricity will continue to give it strong bargaining power with suppliers. In collaboration with IVO Partners, the Group has developed various services that offer customers added value as well as a range of products based on renewable energy sources, all of which have been well received. At year end, Länsivoima's share of the electricity retail market was approximately 14% and its customers accounted for around 11% of the total number of electricity customers in Finland.

In line with the growth in consumption, the Group's four distribution companies saw electricity transmission levels rise to over 3,000 GWh for the first time. Over half of the regional network transmissions, which totalled around 6,500 GWh, were to customers outside the Länsivoima Group. The new operational model which was introduced at the beginning of the year proved effective in controlling costs and improving the efficiency of capital employment. In the spring, Eurotrem Oy took over the metering services, which

until then had been handled by the distribution companies. Länsivoima Oyj has a 15% interest in Eurotrem's Nordic parent company, Eurotrem AB. Towards the end of the year, the Länsivoima Group completed a draft of its environmental programme, which aims to promote reliability, flexibility and respect for the environment throughout its operations.

With effect from the end of 1997, the subsidiary, Länsitec Oy, has been responsible for the construction and maintenance of the Group's electricity networks. Fortum Engineering Oy became the company's second shareholder at the beginning of 1998. Länsivoima Oyj, or Lounais-Suomen Sähkö Oy as it then was, had started up its own construction and maintenance operations in spring 1990 following the establishment of Verkonrakennus Oy. Subsequently, many electricity companies have followed their example. Most of Länsitec Oy's turnover of around FIM 170 million was derived from sales to the Group's own distribution companies. The company has also been successful in selling its services to other customers in Finland and in the Baltic countries. One of the Group's short-term objectives is to increase sales to customers outside the Group.

Energy Operations is expected to face increased competition with profit

margins from electricity sales falling slightly. The diversity of Länsivoima's electricity procurement sources, its skill at managing the procurement process, its large client base and the low electricity prices in the Nordic markets all serve to reduce the Group's sensitivity to fluctuations in profit levels. Länsivoima is actively involved in the process to combine the sale and marketing of electricity and oil products within the Fortum Group. By pooling resources in this way, the Group hopes to improve the level of service and increase efficiency. Network Operations is expected to show a rise in profits.

In a series of share transactions in February 1999, Länsivoima Oyj acquired a 27% holding in Espoon Sähkö Oyj, which became an associated company of Länsivoima Oyj as a result. The change in ownership will have a positive impact on the future development of both companies.

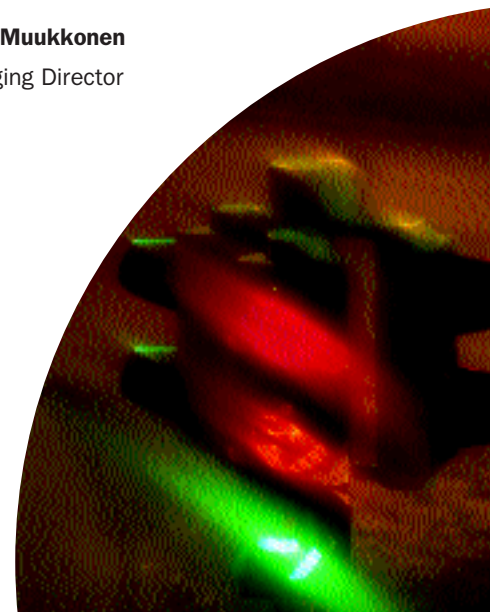
It has been my pleasure and privilege to serve as Länsivoima's Managing Director for more than 13 years. Changes in legislation, among other factors, have made it an eventful period for the electricity industry. The owner perspective has increasingly dictated the direction and future development of electricity companies. Different ownership arrangements, mergers and acquisitions have brought many changes in how electricity production, transmission and sales are structured.

Länsivoima is and will continue to be an active participant in this development process, the aim of which is to boost competitiveness thereby benefiting both owners and customers. The fact that the company has been listed on the Stock Exchange since 1981 is a key strength. It has not only broadened the ownership base but also promoted a spirit of enterprise within the Group.

May I take this opportunity to thank our customers and our business partners for their cooperation. In addition, I would also like to extend my warmest thanks to all Länsivoima employees, whose efforts have enabled the Group to achieve its objectives and produce a good result.

I wish my successor, Tapio Lehtisalo, who will be taking over the role of Managing Director in April, every success and all the best for the future.

Manu Muukkonen
Managing Director



1998 was a successful year for Energy Operations. Turnover was FIM 949.0 million and operating profit was FIM 139.5 million. The change in accounting policy means that the 1997 figures are not comparable with those for 1998. The full impact of the introduction of deregulation into the domestic consumer sector, which took place towards the end of the year, is not yet reflected in the result for 1998.

The final stages of electricity market deregulation were implemented during the year such that the hourly electricity metering requirement was abolished for households on 1 September 1998 and for other small consumers on 1 November 1998. Small consumers are defined as customers whose main fuse is rated at a maximum of 63 A or who use a maximum of 45 kW, for example, holiday homes and farms.

Customers' reaction to the newly deregulated market was more muted than expected. On a national level, only 1–2% of customers had changed supplier by the end of 1998. Initially, price was the decisive factor in the choice of supplier but now the total service package is proving to be as important. Competition in the corporate sector has remained intense. Prices have been falling and have kept pace with the Nord Pool market price.

At the beginning of the year, all of the Group's electricity sales operations were transferred to the parent company, Länsivoima Oyj. As a result, the subsidiaries' role was confined to network management where previously they had been responsible for electricity sales and transmission. Uudenmaan Energia Oy was the only subsidiary to continue selling electricity and in line with its strategy, it has concentrated on electricity sales and the development of services in the franchise area.

During 1998, Länsivoima earned itself a national reputation and in terms of customer numbers, it became Finland's largest electricity retailer. Surveys indicate that the company has succeeded in raising its profile during 1998 and that customer satisfaction has increased markedly. Länsivoima has worked in collaboration with IVO Partners on developing its "Home Electricity" and "Business Electricity" services.

Electricity purchasing

In 1998, electricity purchases totalled 4,991 (3,720) GWh. The total for 1998 is not directly comparable with the previous year's figure because Uudenmaan Energia Oy was part of the Group for only four months during 1997. The pro-rated increase in purchases was nearly 9%. The price of electricity on the Nordic markets has fallen sharply, which has reduced electricity purchase costs.

At the end of 1997, Länsivoima Oyj leased its holding of shares in Etelä-Pohjanmaan Voima Oy to Lapuan Sähkö Oy. The shares carry the right to purchase a proportion of the company's power output. Lapuan Sähkö Oy subsequently transferred the agreement to Vattenfall Sähkötuotanto Oy. Länsivoima Oyj procured additional electricity to cover the resultant shortfall through various means, including by leasing from Imatran Voima Oy the right to purchase a share of the output of both Teollisuuden Voima Oy and Kemijoki Oy (hydropower). Länsivoima also acquired four hydropower plants from Imatran Voima Oy. The plants, which are sited on the Mustionjoki river, have a combined output of 30 GWh.

With effect from the beginning of November 1998, the electricity purchasing operations of Uudenmaan Energia Oy and Länsivoima Oyj were combined. The aim of the reorganisation is to pool the two company's expertise and create cost benefits.

Electricity sales

Electricity sales for 1998 totalled 4,857 (3,600) GWh. The Länsivoima Group's share of Finland's total electricity retail sales was just under 14%. At the turn of the year, the Group had 331,600 customers, which represented around 11% of the total number of electricity customers in Finland.

In the spring, Länsivoima introduced its "Home Electricity" package which it had developed in collaboration with IVO Partners. The package includes a range of services designed to create added value for customers such as insurance against power cuts, flexible payment options and the supply of firewood. Under the insurance scheme, the company compensated over 1,000 customers whose electricity supplies were disrupted by the exceptionally severe autumn storms. During the year, the company's product

offering was expanded with the addition of two eco-friendly products under the brand names Mustionjoki Electricity, which is hydropower-based and Tuulisähkö Electricity, which is wind power-based. The Finnish Association for Nature Conservation granted Länsivoima the right to use the Seal mark when marketing these types of products.

In June, Länsivoima concluded a cooperation agreement with the Finnish House Owners Association and the Nokia Central Organisation of House Owner Associations. The joint marketing campaign launched at the end of the summer significantly raised the profile of the company, underlining its position as the market leader in the industry as well as generating thousands of new customers. These agreements prepared the ground nationally for the introduction of competition into the domestic electricity sector in Finland. They also enabled Länsivoima to gain a competitive edge over its competitors and achieve its objective of being the front runner in the newly deregulated market.

The price of electricity supplied to customers under the obligation-to-supply system was reduced on 1 October 1998 by an average of 6.5%, bringing it close to the national average.

Only a small number of Länsivoima's customers in the obligation-to-supply scheme opted to change supplier. A number of Länsivoima's domestic and agricultural sector customers have entered into fixed-term contracts. Although electricity is sold at less than the tariff or list price, the contracts represent a guaranteed level of sales revenue for the company.

Outlook

The process of change in the business environment continues apace. Although the increased competition in the small customer sector will have an impact on the result, the widespread sales distribution will reduce sensitivity to fluctuations in turnover and profit – the largest customer accounts for approximately 1% of turnover. The low prices in the Nordic markets combined with the moderate prices associated with the obligation-to-supply system will help the company sustain a good financial performance. Customers are attaching increasing importance to services where there is

potential added value, whereas previously price had been the decisive factor. As a consequence, the forging of long-standing, profitable customer relationships in the corporate sector requires companies to shift their focus away from price and onto customised service packages. Household customers are increasingly

relying on company image when making their purchasing decision. For this reason, the positive public image of Länsivoima and its services that has been built up over the years will serve the company well. By offering additional services and with an imaginative choice of partners, it will

be possible to position electricity alongside products that are more appealing and familiar from the customer's perspective. Energy Operations will be working in close cooperation with the Fortum Group and other partners to develop its services and improve efficiency.

NETWORK OPERATIONS

The regional network operations of the Länsivoima Group are handled by Länsiverkot Oy while Hanerga Oy, Jyllinkosken Sähkö Oy, Lounais-Suomen Sähkö Oy and Megavoima Oy concentrate on distribution. The distribution companies are wholly owned by Länsivoima Oyj.

Länsivoima Oyj owns the regional and distribution networks, which it leases to its own distribution companies. Länsivoima's regional network comprises 110 kV (or equivalent) power lines and substations. The distribution network is managed by local distribution companies and comprises 20 kV (or equivalent) lines, substations and 400 V lines.

Turnover for Länsivoima's Network Operations totalled FIM 550.0 million and operating profit was FIM 147.4 million. As a result of changes in accounting policy comparable figures for 1997 are not available.

During 1998, a total of 6,530 GWh of electricity was transmitted to consumers and distribution companies through Länsivoima's regional network with customers outside Länsivoima's distribution area accounting for half of the total transmissions. Energy consumption within the Group's distribution network was 3,073 GWh, which represents a 4.5% increase over 1997.

Network Operations serves a total of 230,000 customers. The Group has a regional network comprising 1,000 km of high-voltage lines and 67 substations, and a distribution network with 13,000 km of medium-voltage lines, 24,000 km of low-voltage lines and 13,000 transformers.

During 1998, a total of FIM 101.8 million was invested in Network Operations. Of this, some FIM 82 million was channelled into the distribution network and FIM 20 million into the regional network. Some of the larger single investments included the purchase of the 110 kV lines serving Helsinki-Vantaa airport and completion of the final stage of the electrification project in the Turunmaa archipelago between Lökhalm and Vänö.

The upturn in the construction business was reflected in the increased number of new connections. During 1998, there were a total of 1,775 new connections within Länsivoima's distribution area, which represents a significant increase over the number for the previous year. Of these, 49% were for permanent residential homes and 36% for holiday homes.

Pricing policy

The change in the national grid pricing policy that came into effect on 1 November 1998, raised the cost of electricity transmission by just under 1 penni/kWh. However, this rise was not passed on to the customers of Länsivoima's distribution companies during 1998. Instead, regional network charges were revised upwards by the amount of the increase.

The electricity service charges levied by Länsivoima's distribution companies were standardised with effect from 1 October 1998. In addition, connection fees and guidelines were standardised from 1 January 1999.

The Electricity Market Authority has investigated Megavoima Oy's network service charges for 1996 and 1997. The investigation was launched on receipt of an application from three of the company's customers on 27 December 1995. The Electricity Market Authority issued its ruling on 9 February 1999 in which it states that Megavoima Oy's transmission charges during 1996 and 1997 are not reasonable as defined in the Electricity Market Act and that the network service charges do not accurately reflect costs as required by the Electricity Market Act.

Each of Länsivoima's four distribution companies has its own transmission charges, although the charging structure is the same. During the past year, Länsivoima conducted a study of its transmission charges. Its findings will be taken into account when the charges are revised. Charges will continue to be set on a company-specific basis. The objective will be to make prices more transparent and ensure that they reflect more closely how the network services are organised. At the same time, the above-mentioned ruling by the Electricity Market Authority will be reviewed, with particular reference to the charging structure.

The electricity tax levied on transmission charges changed twice during the course of 1998. On 1 January 1998, electricity tax (VAT 22%) rose in tax class II by 0.7 penni/kWh and on 1 September 1998 in tax class I by 0.97 penni/kWh and in tax class II by 0.58 penni/kWh. Electricity tax (VAT 22%) is now 5.09 penni/kWh in tax class I

and 3.14 penni/kWh in tax class II. Tax class II includes industrial customers and commercial greenhouses. Other electricity consumers fall into tax class I.

Development

Länsivoima has been involved in the development of a network standard which will not only benefit the Group itself, but also many of the companies in which Imatran Voima Oy has a stake such as Tuusulanjärven Energia Oy, Keuruun Sähkö Oy, Imatran Seudun Sähkö Oy and Koillis-Pohjan Sähkö Oy. Standardising the products used in network design and construction and streamlining the product range will result in more cost effective network maintenance and development. Network standardisation will also have a positive visual impact on the environment.

Länsivoima Oyj also has a 15% shareholding in the Nordic company, Eurotrem AB, which specialises in metering services. The other shareholders are Imatran Voima Oy, Stockholm Energi Elnät AB, Gullspång Nät AB, Karlstads Elnät AB and Trondheim Energiverk Nett AS. The parent company, Eurotrem AB, has wholly owned subsidiaries in Finland and Norway. The Eurotrem Group began operations in the spring of 1998 and currently most of their business is derived from intra-Group sales. Länsivoima's own metering services have been transferred to Eurotrem Oy, which provides hourly metering, statements of account, consulting and other services for Länsivoima's distribution companies.

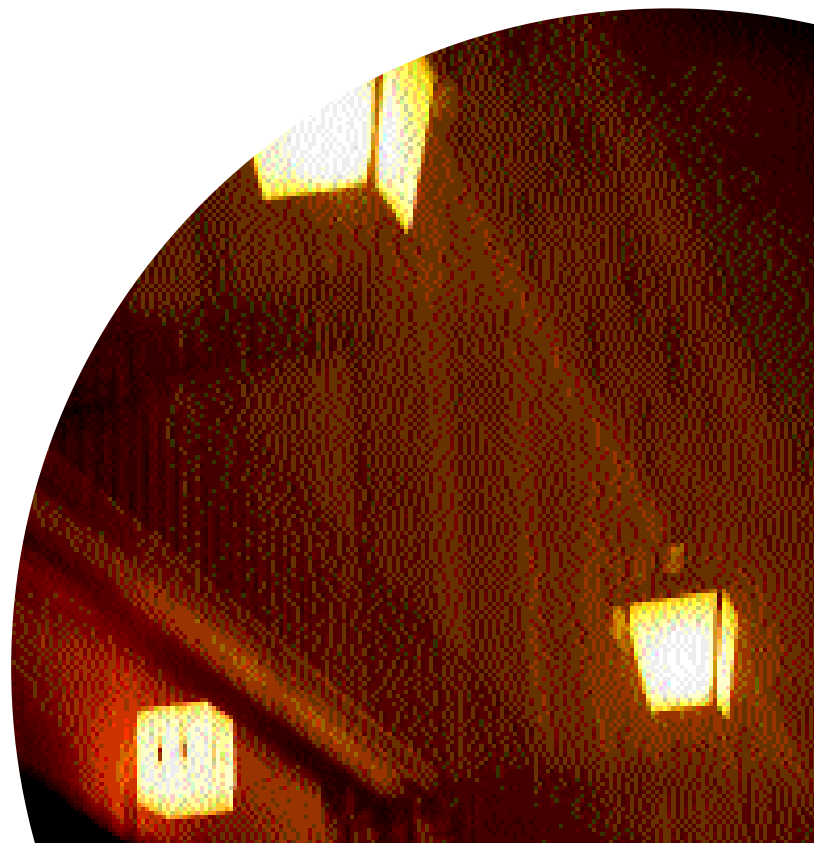
At the end of the year, Länsivoima completed the draft of its environmental programme, which was based on Imatran Voima Oy's environmental policy. The programme's objective is to meet the customers' electricity requirements through the provision of a reliable, flexible service that respects the environment. When preparing the programme, careful consideration was given to environmental impact, risk factors, statutory requirements and the opinions of relevant groups. One important subject for discussion was how to identify and then plan and carry out the clean-up of areas that may have been polluted by previous operations. Following an assessment

of the risk of oil from transformers seeping into the ground water, it was decided to switch to a new type of transformer. Recycling and collection methods will also be improved to conserve natural resources. The latest research project concerns the environmentally friendly disposal of used poles that have been treated with preservative. Länsivoima is also involved in the compilation of a manual on the clearance of areas around power lines and the design of power lines that have a reduced impact on the environment.

Short-term outlook

Work will continue on standardising working practices throughout the network with special emphasis on customer services. This process will be supported by a restructuring of the Network Operations organisation. Cooperation between Network

Operations and Construction and Maintenance will continue to be strengthened along the lines of the customer-supplier model. Investment in new construction and refurbishment will remain at around FIM 100 million. Through an increase in contract-based work and the controlled introduction of competitive tendering, Network Operations aims to improve cost-effectiveness. Efficient utilisation of the network maintenance systems will facilitate both the targeting of resources and asset management. The development of network automation and related data communications will continue to be high priority thereby improving network reliability and speeding up fault identification and repair. It is expected that Network Operations' profitability will improve as electricity consumption rises and the new operational models become established.



CONSTRUCTION AND MAINTENANCE

The turnover of Länsitec Oy, the company responsible for construction and maintenance operations, was FIM 172.6 million. Operating profit was FIM 8.4 million.

Länsitec Oy was established at the end of 1997 when the construction and maintenance operations of the distribution companies in the Länsivoima Group were merged with the newly acquired business operations of Suomen Voimatekniikka Oy. Länsitec Oy is owned by Länsivoima Oyj (65%) and Fortum Power Engineering (35%).

Länsitec Oy's largest customer was the Länsivoima Group's Network Operations unit. 17.5% of turnover was derived from customers outside the Group, including other electricity companies, the Finnish National Road Administration, municipalities, local government authorities, the Finnish Defence Forces, industry and private customers. Länsitec has also been involved in contract and consultancy work in the Baltic states.

During 1998, Länsitec has been developing its working practices and strengthening cooperation with its largest customer, the Group's Network Operations unit. It was a challenging year for the company's employees who had to familiarise themselves with the new methods. The formulation of an internal customer-supplier model and the introduction of the "internal customer" concept have been key elements in the company's business strategy.

At the end of the year, the company started up an apprenticeship scheme for electricians. Ten young people, who had already completed a basic electricians' course, were selected for advanced professional training.

Business operations

In addition to the construction and maintenance of the electricity network, Länsitec Oy specialises in contract work relating to street lighting and telecommunications cables, traffic control systems and the use of helicopters for tree-logging.

The largest single network construction project was the laying of a 20 kV undersea cable, 26 km in length,

between Lökhholm and Vänö in the Turunmaa archipelago. The project resulted in a number of new connections to the distribution network and secured a reliable supply of electricity for the island of Utö.

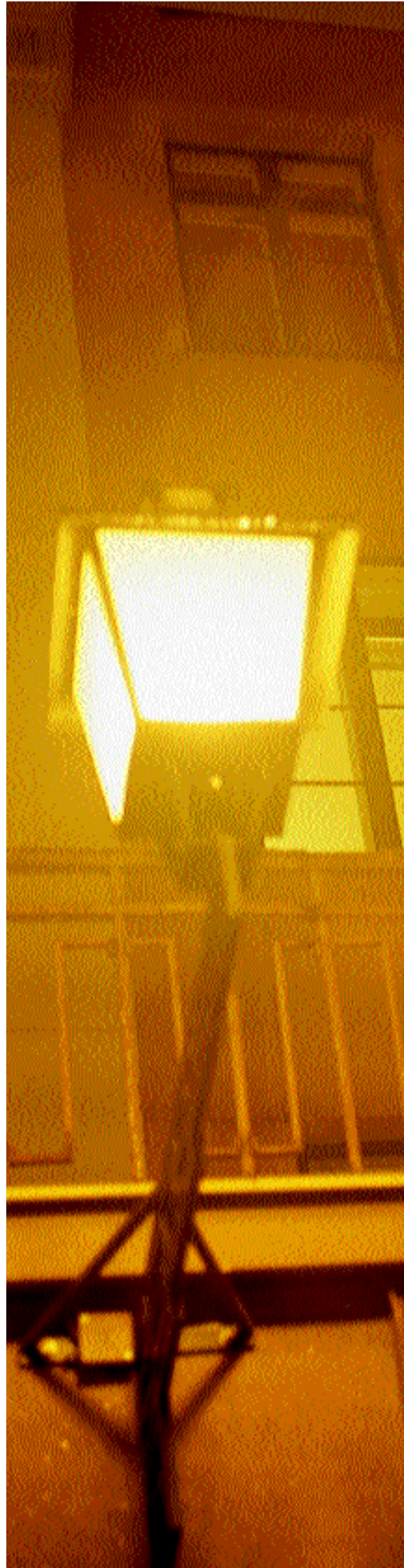
Another major cable contract was the installation of the Kotka link.

The company was contracted to replace the steel lighting columns with flexibly jointed columns, which minimise damage in the event of a collision. Another major project was the installation of lighting along the Turku-Raisio stretch of motorway. The work was successfully completed with the minimum of disruption to passing traffic. The steel lighting columns were erected using a helicopter. In four hours, nearly 50 columns were positioned and connected ready for use.

Länsitec is the only company in Finland to specialise in the use of helicopters for tree-logging and the continued growth in demand for these services was encouraging. In addition to the traditional tree-logging service to remove branches overgrowing 20 kV power line corridors, the company has introduced a new service for lopping the tops of trees that are adjacent to power lines. The service has been developed in collaboration with Fingrid Oyj, Länsitec's main customer. Helicopters have also been used in tree-logging projects in Estonia and Latvia, while the specially designed cutting equipment has been exported to Sweden and Germany in cooperation with Helimatic Ab.

Short-term outlook

A large proportion of Länsitec Oy's turnover will continue to be derived from intra-Group business, but the aim is to increase sales to customers outside the Group. The indications are that 1999 will be a similar year business-wise to 1998. However, as there are no plans to carry out any major undersea cable installations of the type completed in 1998, turnover for 1999 may be down on the previous year's figure. The company will continue to develop its business by launching a quality initiative emphasising the importance of a customer-focused business strategy.



REVIEW BY THE BOARD OF DIRECTORS

The Länsivoima Group met its 1998 performance targets. The restructuring of the organisation planned at the end of the previous year was successfully completed and some final adjustments were made to the new three-unit format to ensure a seamless transition. Länsivoima made thorough preparations for the final phase of electricity market deregulation scheduled for the autumn when the small consumer sector was opened up to competition. As a result, the company was able to achieve its objectives in the new, more competitive business environment.

Company name

At the Annual General Meeting on 20 March 1998, the company name was changed to Länsivoima Oyj.

Accounting practice

The financial statements have been prepared in accordance with the new Accounting Act. The comparative figures have been changed accordingly. The accounting policies of the Länsivoima Group have been changed to correspond with those of Fortum Oyj. Hence, the contents of the current financial statements are not comparable with the previously published figures. The nature of the changes and their significance is explained in the Notes to the Financial Statements.

Business operations

The Group's business operations are separated into three business areas: Energy Operations, Network Operations and Construction and Maintenance. Energy Operations handles electricity sales and purchases while Network Operations concentrates on electricity transmission services. Construction and Maintenance is responsible for the construction and maintenance of the distribution network, which is managed by the distribution companies within the Länsivoima Group. The unit also offers its services to customers outside the Group.

Energy Operations

The company's performance in the newly deregulated electricity market was commendable. In spite of the large fluctuations in both the sales and purchase prices of electricity, Energy Operations' profit growth during 1998 was encouraging.

Throughout the year, competition has exerted strong downward pressure on the electricity sales price. Länsivoima Oyj reduced the price of the electricity it sells to its customers under the "obligation to supply" system with effect from 1 October 1998 by an average of 6.5%. The purchase price has also been falling during the course of the year. The market price was affected by a number of factors, including the above-average rainfall and the increased price competition on the Nordic markets.

Energy Operations' turnover was FIM 949.0 million. Operating profit totalled FIM 139.5 million (14.7% of turnover) and profit before extraordinary items and tax was just over FIM 139.2 million. As a result of the change in accounting policy, the figures for 1997 are not comparable with those for 1998.

The Group purchased 4,991 GWh of electricity, a 1,300 GWh or 34% increase over the total for the 1997 financial year. The increase reflected the addition to the Länsivoima Group of Uudenmaan Energia Oy on 1 September 1997 as well as the Group's success in strengthening its market position during 1998.

The full deregulation of the electricity market was achieved in the autumn with the abolition of hourly electricity metering for small consumers. Domestic customers have been able to choose their electricity supplier from the beginning of September. The remaining restrictions to competition were removed at the beginning of November when deregulation was extended to include other small consumers such as farms etc. Group electricity sales were up from 3,600 GWh to 4,857 GWh. The Länsivoima Group's share of Finland's total electricity retail sales was just under 14% and the Group's 331,600 customers represent approximately 11% of the total number of electricity customers in Finland.

The structure of the Group's electricity sales and purchasing operations had already been agreed in 1997. As a result, Länsivoima Oyj and Uudenmaan Energia Oy assumed responsibility for electricity trading within the Group and in the autumn of 1998, the Group's electricity purchasing operations were transferred to Länsivoima Oyj.

Network Operations

Network Operations' turnover was FIM 550.0 million. Operating profit totalled FIM 147.4 million (26.8% of turnover) and profit before extraordinary items and tax was FIM 141.2 million. The balance sheet total for Network Operations was approximately FIM 2.0 billion. As a result of the change in accounting policy, the figures for 1997 are not comparable with those for 1998.

A total of 6,530 GWh of electricity was transmitted through Länsivoima's regional networks to other distribution companies and consumers. This represented an increase of 3.3% over the previous year's figure. Länsivoima commands just over 8% of the market for network transmission services in Finland. Electricity consumption in the Group's distribution network was up on 1997 by 4.5%, totalling 3,073 GWh.

The Group's regional network services were extended following the acquisition of two regional networks, which will increase the level of transmissions by just under 3%. Its network operations expanded through organic growth. A total of 1,775 new connections were installed in the areas served by the distribution companies.

Megavoima Oy's network service charges were the subject of an investigation by the Electricity Market Authority. The investigation was launched following receipt of an application from three of the company's customers on 27 December 1995. The Authority issued its ruling on 9 February 1999 in which it states that Megavoima Oy's network service charges have exceeded what is deemed to be a reasonable return on capital employed by the sum of FIM 2.8 million in 1996 and by FIM 1.9 million in 1997. The Electricity Market Authority requires Megavoima Oy to revise its transmission charges such that the service charges are deemed to be reasonable as defined by the criteria specified in the ruling. No provision has been made in the financial statements of Megavoima Oy or the Länsivoima Group for the ruling of the Electricity Market Authority. An appeal against the decision can be launched in the Supreme Administrative Court.

Construction and Maintenance

Construction and Maintenance's turnover was FIM 172.6 million. Operating profit totalled FIM 8.4 million and profit before reserves and tax was FIM 8.4 million. Approximately 82.5% of business is derived from intra-Group sales.

Construction and Maintenance became a wholly owned subsidiary of Länsivoima at the end of 1997, at which time the business operations purchased from Suomen Voimatekniikka Oy were merged with the construction and maintenance operations of the distribution companies belonging to the Länsivoima Group. In January 1998, IVO Power Engineering (now Fortum Engineering Oy) became the company's second shareholder with a 35% interest.

Towards the end of the year, Länsitec selected ten young people to take part in its apprenticeship scheme, which is designed to ensure that sufficient numbers of skilled electricians are available to meet present and future requirements.

Länsivoima Group

Group turnover totalled FIM 1,500 million. This represented an increase of FIM 298.6 million or 24.9% over the previous year's total of FIM 1,201.4 million.

The associated companies had a negative impact on the Group result of FIM 0.8 million compared to a positive impact of FIM 7.4 million in 1997. The difference is attributable to the sale of shares and the leasing of Etelä-Pohjanmaan Voima Oy's shares as well as in part to the modest profit growth of the associated companies compared to their previous year's performance.

Etelä-Pohjanmaan Voima Oy has not been included in the consolidated financial statements for 1998. The company's shares were leased at the end of 1997 under a long-term leasing agreement to Lapuan Sähkö Oy which subsequently transferred the agreement to Vattenfall Sähköntuotanto Oy. Following the change in accounting policy, the agreement has been capitalised in the balance sheet of the Länsivoima Group. The resultant profit will be allocated over the 25-year term of the lease and the annual rental is

treated as financial income in accordance with normal practice. The profit increases the result for the financial year by FIM 5 million. The leasing agreement includes a purchase option for the lessee. Vattenfall Sähköntuotanto Oy represents Länsivoima Oyj at the shareholders' meetings of Etelä-Pohjanmaan Voima Oy. Länsivoima Oyj owns 28% of the company's shares and voting rights.

Group operating profit was FIM 267.4 million, up FIM 69.7 on the previous year's figure.

Group profit before extraordinary items and tax was FIM 260.9 million. This was an increase of FIM 75.5 million or 40.7% over the previous year's total of FIM 185.4 million. Group profit before tax was FIM 261.5 million.

Group return on investment rose by three percentage points from 15.0% to 18.1% and earnings per share increased by FIM 3.30 from FIM 20.54 to FIM 23.84, up 16% on the previous year's figure.

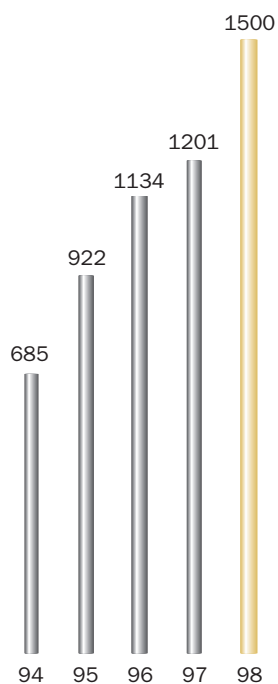
Länsivoima Oyj

Länsivoima Oyj's turnover in 1998 was FIM 1,073.0 million. This represented an increase of FIM 193.2 million or 22.0% over the previous year's figure of FIM 879.8 million. Operating profit rose from FIM 167.9 in the previous year to FIM 197.5 million and the result before extraordinary items was FIM 172.2 million.

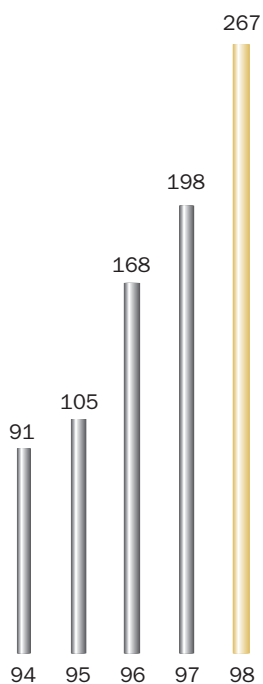
Investments

Investments stand at FIM 450.2 million as a result of the change in permanent assets employed. This is increased by the change in accounting policy. The shares in Kemijoki Oy and Teollisuuden Voima Oy, which were leased by Länsivoima Oyj under a long-term leasing agreement at the end of 1997, have been capitalised in the balance sheet. Investments are increased by FIM 240.0 million as a result of the change.

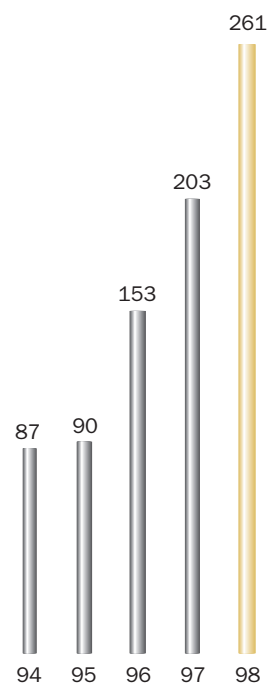
Other Group investment totalled FIM 210.2 million. FIM 101.8 million was channelled into the refurbishment and extension of the transmission and distribution network. Of this, just over FIM 10 million was invested in regional network acquisitions and in the final phase of the electrification



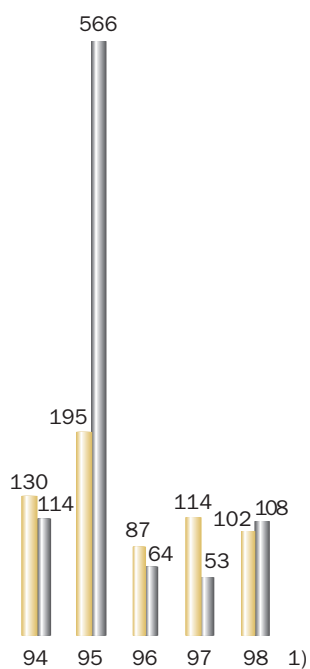
**Group turnover
1994–1998, FIM million**



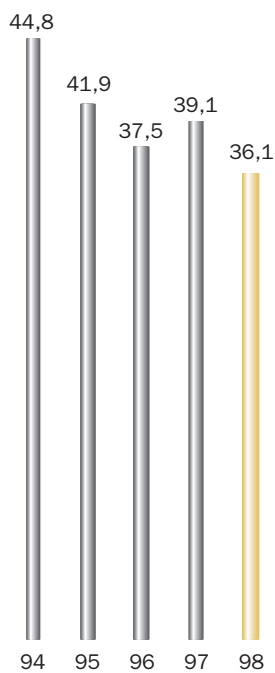
**Group operating profit
1994–1998, FIM million**



**Group profit before taxes
1994–1998, FIM million**



**Group investments
1994–1998, FIM million**
■ Network ■ Other



**Group equity to assets ratio
1994–1998, %**

1) Due to the change in accounting policy the Group investments, which stand at FIM 450 million, are increased by FIM 240 million.

project in the Turunmaa archipelago. The Group purchased Imatran Voima Oy's Mustionjoki power plants for FIM 75 million.

Sales of fixed assets totalled FIM 8.6 million.

In a series of transactions, the first of which was on 12 February 1999, Länsivoima Oyj has purchased a total of 4.3 million shares in Espoon Sähkö Oyj, which is quoted on the Helsinki Stock Exchange. The purchase price of the shares was FIM 517.0 million. Länsivoima Oyj's holding is just over 27%. Espoon Sähkö Oyj is an associated company of Länsivoima Oyj. No shares in Espoon Sähkö Oyj were owned by either Länsivoima Oyj or its subsidiaries prior to this.

Financing

Group funds generated from operations totalled FIM 364.1 million, an increase of FIM 92.5 million over the previous year's figure of FIM 271.6 million. Internal funding together with the new connection charges was sufficient to finance the investment in routine maintenance and extension of the transmission and distribution networks.

Group net financial expenses totalled FIM 6.5 million, FIM 5.8 million down on the previous year's total of over FIM 12 million. Net financing as a proportion of turnover fell to 0.4%, compared to the previous year's figure of 1%.

Länsivoima Oyj has provided its subsidiaries with an absolute guarantee as security against the connection fee liability. When a customer asks to be disconnected, the connection fee is refunded less the costs of disconnection. During 1998, the Länsivoima Group refunded a total of FIM 1.2 million in fees and received FIM 29.5 million in fees relating to new connections and the upgrading of existing connections. No interest is payable on the connection fee liability, which is shown on the balance sheet under long-term and current liabilities and treated as such in the calculation of the key indicators.

At year-end, the Group's equity to assets ratio was 36.1%, a decrease over the previous year's figure of 3.0 percentage points. Group net liabilities accounted for 2.2% of shareholders' equity compared to the previous year's figure of 10%. As a result of

changes in accounting policy, the figures are not comparable.

The Year 2000 project

The beginning of the year saw the launching of a project that will encompass all the Group's business operations and internal systems: the Year 2000 project. Its objective is to identify and resolve potential problems associated with the new millennium. As part of the project, the hardware and software used by the Group for electricity generation, transmission, network management, data communications and administration has been examined in detail. Both hardware and software suppliers have been consulted and extensive tests have been conducted in order to prevent any disruption to the Group's operations. The project has progressed to the point where, for the most part, it has been possible to ensure that there will be no interruptions to its electricity transmission services with the arrival of the new millennium. The Year 2000 project will not incur significant costs.

Adoption of the Euro

The Länsivoima Group will switch to the euro on 1 January 2001. Sales and purchase invoices can already be handled in euros. Salaries will be paid in euros with effect from 1 January 2002.

New Managing Director for Länsivoima Oyj

Manu Muukkonen, who has been employed as Länsivoima Oyj's Managing Director since 1986, is to retire on 31 March 1999. Länsivoima Oyj's Deputy Managing Director, Tapio Lehtisalo, M.Sc. (Eng.) has been appointed his successor.

Outlook

Construction and Maintenance's largest customer is and will continue to be the Group's Network Operations business unit. An organisational structure where skilled and experienced construction workers are brought together under the same management and decision-making authority will improve efficiency and develop skills. Open cooperation between Network Operations and Construction and Maintenance will support the future profit growth of Network Operations whose main objective is to coordinate

working practices and make maximum use of resources. A systematic and sustained effort will enable Network Operations to maintain its good result. In addition to expenditure on routine maintenance, Network Operations invests around FIM 100 million annually in extending and refurbishing the networks.

In 1998, hourly electricity metering for small customers was abolished giving all electricity consumers the opportunity to choose their electricity supplier. The response of customers during the first few months after the introduction of competition was weaker than anticipated with only around 1–2% changing supplier. However, it is expected that by being active on the market, suppliers will be able to encourage customers to shop around. While on the one hand, competition brings clear financial benefits to electricity consumers, on the other, profit margins on electricity sales are narrowing. The key to sustaining healthy profit levels is efficiency, an effective electricity purchasing strategy, and active selling.

Länsivoima is an active participant in the process of change which is currently taking place within the Fortum Group. A key element in this process is the amalgamation of the sales and marketing operations for electricity and oil products. The aim is to develop a Group-wide approach and common vision that will enable the Fortum Group to serve its energy-sector customers efficiently in all energy-related matters.

It was already clear during 1998 that the division of the Group's business operations into three separate units, Energy Operations, Network Operations and Construction and Maintenance, is a workable and effective solution overall. A rise in profit for Network Operations is forecast for 1999. Energy Operations' result will be affected by increased competition, which is squeezing profit margins. The Group result for 1999 is predicted to be on a par with the previous year's figure with return on equity reaching the target level of 12%–15%.

CONSOLIDATED INCOME STATEMENT

| (FIM 1,000) | Note | Jan. 1 - Dec. 31, 1998 | Jan. 1 - Dec. 31, 1997 |
|---|------|-------------------------------|------------------------|
| TURNOVER | 1 | 1,500,032 | 1,201,411 |
| Production for own use | | 99,035 | 109,247 |
| Share of associated companies' result | | - 788 | 7,361 |
| Other operating income | 2 | 14,055 | 15,572 |
| Materials and services | 3 | - 940,846 | - 801,119 |
| Personnel expenses | 4 | - 170,002 | - 139,943 |
| Depreciation and reduction in value | 5 | - 160,852 | - 146,132 |
| Other operating income | | - 73,281 | - 48,694 |
| OPERATING PROFIT | | 267,352 | 197,702 |
| Financial income and expenses | 6 | - 6,485 | - 12,298 |
| PROFIT BEFORE EXTRAORDINARY ITEMS | | 260,868 | 185,404 |
| Extraordinary items | 7 | 618 | 17,585 |
| PROFIT BEFORE TAXES | | 261,486 | 202,989 |
| Direct tax | | - 56,878 | - 31,146 |
| Change in deferred tax provision | | - 32,415 | - 18,305 |
| Minority interests | | - 15,990 | - 1,934 |
| CONSOLIDATED PROFIT FOR THE FINANCIAL YEAR | | 156,202 | 151,603 |

CONSOLIDATED BALANCE SHEET

| (FIM 1,000) | Note | Dec. 31, 1998 | | Dec. 31, 1997 |
|---|------|----------------|-------------------------|------------------|
| ASSETS | | | | |
| FIXED ASSETS | | | | |
| Intangible assets | | | | |
| Intangible rights | 9 | 52,353 | 47,402 | |
| Goodwill | 10 | 56,938 | 75,206 | |
| Group goodwill | 11 | 17,413 | 21,027 | |
| Other long-term expenditure | 12 | <u>3,835</u> | <u>8,993</u> | 152,628 |
| Tangible assets | | | | |
| Land and water areas | 13 | 26,808 | 24,570 | |
| Buildings and constructions | 14 | 141,329 | 115,465 | |
| Power plants | 15 | 78,716 | 36,632 | |
| Transmission and distribution network | 16 | 1,373,939 | 1,393,016 | |
| Machinery and equipment | 17 | 89,654 | 81,361 | |
| Other tangible assets | 18 | 1,086 | 1,316 | |
| Advance payments and work in progress | 19 | <u>17,852</u> | <u>21,382</u> | 1,673,742 |
| Investments | | | | |
| Holdings in participating interest undertakings | 20 | 63,644 | 170,796 | |
| Other shares and holdings | 21 | <u>261,716</u> | <u>22,686</u> | 193,482 |
| CURRENT ASSETS | | | | |
| Inventories | | | | |
| Materials and supplies | | | 2,466 | 303 |
| Receivables | | | | |
| Long-term receivables | 24 | | 307,081 | 11,252 |
| Short-term receivables | | | | |
| Accounts receivable | 25 | 320,286 | 229,798 | |
| Other receivables | | 244,785 | 1,428 | |
| Prepayments and accrued income | | <u>5,698</u> | <u>25,514</u> | 256,740 |
| Cash and cash equivalents | | | | |
| | | | <u>95,532</u> | <u>294,748</u> |
| | | | <u>3,161,131</u> | <u>2,582,895</u> |

| (FIM 1,000) | Note | Dec. 31, 1998 | Dec 31, 1997 |
|---|------|-------------------------|------------------|
| SHAREHOLDERS' EQUITY AND LIABILITIES | | | |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 26 | 65,331 | 65,248 |
| Premium fund | 27 | 223,328 | 221,571 |
| Contingency reserve fund | 29 | 3,900 | 3,900 |
| Tax fund | 28 | 1,000 | 1,000 |
| Retained earnings | 30 | 663,784 | 559,160 |
| Profit for the financial year | 31 | <u>156,202</u> | <u>151,603</u> |
| Total shareholders' equity | | 1,113,545 | 1,002,482 |
| MINORITY INTERESTS | | 26,130 | 7,577 |
| LIABILITIES | | | |
| Connection charges | | 707,887 | 679,607 |
| Deferred tax provision | 32 | 246,602 | 214,186 |
| Long-term liabilities | 33 | | |
| Convertible bonds | | 98,160 | 100,000 |
| Loans from financial institutions | | 194,143 | 244,964 |
| Other long-term debt | | <u>426,258</u> | <u>344,964</u> |
| Current liabilities | 34 | | |
| Loans from financial institutions | | 50,571 | 53,647 |
| Accounts payable | | 141,598 | 139,421 |
| Other liabilities | | 82,561 | 70,350 |
| Accruals | | <u>73,675</u> | <u>334,079</u> |
| | | <u>348,406</u> | <u>70,661</u> |
| | | <u>3,161,131</u> | <u>2,582,895</u> |

CASH FLOW STATEMENTS

| (FIM 1,000) | Group Dec. 31, 1998 | Group Dec. 31, 1997 | Parent company Dec. 31, 1998 | Parent company Dec. 31, 1997 |
|---|--------------------------------------|------------------------|---|---------------------------------|
| OPERATING ACTIVITIES | | | | |
| Operating profit | 267,352 | 197,702 | 197,486 | 167,902 |
| Corrections to operating profit | 135,726 | 84,335 | 127,442 | 86,272 |
| Interests and dividends received | 9,564 | 6,826 | 11,053 | 5,092 |
| Interest paid | - 12,915 | - 12,998 | - 30,845 | - 24,306 |
| Extraordinary items | 618 | | 618 | |
| Paid taxes | - 36,292 | - 4,281 | - 32,426 | - 7,667 |
| Cash flow from operating activities | 364,053 | 271,584 | 273,328 | 227,293 |
| Changes in working capital | - 302,599 | - 5,400 | - 354,833 | - 93,991 |
| NET CASH FLOW FROM BUSINESS OPERATIONS | 61,454 | 266,184 | - 81,505 | 133,302 |
| Investments | | | | |
| Gross investments | - 210,193 | - 186,277 | - 230,457 | - 177,269 |
| Income from disposal of fixed assets | 8,573 | 93,371 | 6,983 | 79,973 |
| | - 201,620 | - 92,906 | - 223,474 | - 97,296 |
| CASH FLOW BEFORE FINANCING ACTIVITIES | - 140,166 | 173,278 | - 304,979 | 36,006 |
| Financing activities | | | | |
| Increase (-)/decrease(+) in long-term receivables | - 295,829 | 153 | 595 | 856 |
| Increase/decrease in long-term loans | 283,917 | - 2,465 | - 38,665 | - 69,737 |
| Dividends paid | - 46,978 | - 42,411 | - 46,978 | - 42,411 |
| Share issue | 1,840 | | 1,840 | |
| Other profit allocation ¹⁾ | - 2,000 | | 62,950 | 63,050 |
| Other financial items | | | 127,735 | 197,388 |
| Cash flow from financing activities | - 59,050 | - 44,723 | 107,477 | 149,146 |
| CHANGE IN CASH | - 199,216 | 128,555 | - 197,502 | 185,152 |
| Cash at start of period | - 294,748 | - 166,193 | - 218,235 | - 33,083 |
| Cash at end of period | 95,532 | 294,748 | 20,733 | 218,235 |
| Change in cash as shown in Balance Sheets | - 199,216 | 128,555 | - 197,502 | 185,152 |

1) Group contributions in the parent company

LÄNSIVOIMA OYJ INCOME STATEMENT

| (FIM 1,000) | Note | Jan. 1 - Dec. 31, 1998 | Jan. 1 - Dec. 31, 1997 |
|---|------|------------------------|------------------------|
| TURNOVER | 1 | 1,073,046 | 879,846 |
| Production for own use | | 3,097 | 1,491 |
| Other operating income | 2 | 26,559 | 37,416 |
| Materials and services | 3 | - 691,952 | - 582,494 |
| Personnel expenses | 4 | - 27,153 | - 20,416 |
| Depreciation and reduction in value | 5 | - 143,246 | - 131,398 |
| Other operating income | | - 42,865 | - 16,543 |
| OPERATING PROFIT | | 197,486 | 167,902 |
| Financial income and expenses | 6 | - 25,272 | - 24,962 |
| PROFIT BEFORE EXTRAORDINARY ITEMS | | 172,214 | 142,939 |
| Extraordinary items | 7 | 63,568 | 63,050 |
| PROFIT BEFORE APPROPRIATIONS AND TAXES | | 235,782 | 205,989 |
| Appropriations | 8 | - 65,696 | - 76,031 |
| Decrease in untaxed reserves (+) | | | 15,568 |
| Direct tax | | - 41,494 | - 35,042 |
| PROFIT FOR THE FINANCIAL YEAR | | 128,592 | 110,484 |



BALANCE SHEET

| (FIM 1,000) | Note | Dec. 31, 1998 | | Dec. 31, 1997 |
|---------------------------------------|------|----------------------|-------------------------|------------------|
| ASSETS | | | | |
| FIXED ASSETS | | | | |
| Intangible assets | | | | |
| Intangible rights | 9 | 47,989 | 41,552 | |
| Goodwill | 10 | 48,718 | 64,811 | |
| Other long-term expenditure | 12 | <u>3,397</u> | <u>8,403</u> | 114,765 |
| Tangible assets | | | | |
| Land and water areas | 13 | 26,623 | 24,384 | |
| Buildings and constructions | 14 | 139,681 | 113,838 | |
| Power plants | 15 | 79,283 | 37,200 | |
| Transmission and distribution network | 16 | 1,408,559 | 1,397,927 | |
| Machinery and equipment | 17 | 45,645 | 35,341 | |
| Other tangible assets | 18 | 1,079 | 1,309 | |
| Advance payments and work in progress | | <u>1,495</u> | <u>1,319</u> | 1,611,317 |
| Investments | | | | |
| Holdings in Group undertakings | 19 | 101,397 | 98,932 | |
| Participating interests | 20 | 30,572 | 130,516 | |
| Other shares and holdings | 21 | <u>122,278</u> | <u>19,699</u> | 249,147 |
| CURRENT ASSETS | | | | |
| Current assets | | | | |
| Materials and supplies | | | 296 | 303 |
| Receivables | | | | |
| Long-term receivables | 24 | | 6,444 | 7,038 |
| Short-term receivables | | | | |
| Accounts receivable | 25 | 235,194 | 137,232 | |
| Amounts owed by Group undertakings | | 2,865 | 12,201 | |
| Other receivables | | 227,933 | 1,363 | |
| Prepayments and accrued income | | <u>1,287</u> | <u>3,496</u> | 154,292 |
| Cash and cash equivalents | | | 20,733 | <u>218,234</u> |
| | | | <u>2,551,468</u> | <u>2,355,098</u> |

| (FIM 1,000) | Note | Dec. 31, 1998 | Dec. 31, 1997 |
|---|------|----------------------|------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 26 | 65,331 | 65,248 |
| Premium fund | 27 | 223,328 | 221,571 |
| Contingency reserve fund | 29 | 3,900 | 3,900 |
| Tax fund | 28 | 1,000 | 1,000 |
| Retained earnings | 30 | 158,936 | 95,431 |
| Profit for the financial year | 31 | 128,592 | 110,484 |
| Total shareholders' equity | | 581,087 | 497,634 |
| APPROPRIATIONS | | | |
| Accumulated depreciation difference reserve | | 801,491 | 735,795 |
| LIABILITIES | | | |
| Long-term liabilities | 33 | | |
| Convertible bonds | | 98,160 | 100,000 |
| Loans from financial institutions | | <u>169,148</u> | <u>211,969</u> |
| | | 267,308 | 311,969 |
| Current liabilities | 34 | | |
| Loans from financial institutions | | 42,571 | 47,647 |
| Accounts payable | | 83,405 | 88,751 |
| Amounts owed to Group undertakings | | 715,528 | 597,130 |
| Other liabilities | | 38,615 | 38,941 |
| Accruals | | <u>21,462</u> | <u>37,231</u> |
| | | 901,582 | 809,700 |
| | | 2,551,468 | <u>2,355,098</u> |

NOTES TO THE FINANCIAL STATEMENTS

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. Uudenmaan Energia Oy, which holds 50% of the shares and voting rights of Länsivoima Oyj, has been included in the consolidated financial statements as a subsidiary. This practice is based on the provisions of the shareholder agreement, according to which Länsivoima Oyj has half of the places on the company's Board of Directors and permanent chairmanship of the Board.

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. Etelä-Pohjanmaan Voima Oy has not been included in the consolidated financial statements. The company's shares have been leased to Vattenfall Sähkötuotanto Oy under a long-term leasing contract, which includes a purchase option for the lessee. The lessee, Vattenfall Sähkötuotanto Oy, acts as Länsivoima Oyj's representative at Etelä-Pohjanmaan Voima Oy's shareholders' meetings.

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 at the time the company joins the Group and the company's results are only included in the consolidated income statement in respect of the period for which it is a part of the Group.

Intra-Group receivables and liabilities, intra-Group business transactions, unrealised profits from intra-Group assignments and intra-Group distribution of profit are eliminated in the consolidated financial statements. Intra-Group ownership is eliminated using the acquisition method. Minority interests, which are shown as a separate item, are removed from Group shareholders' equity and result.

The consolidated financial statements are prepared using the acquisition

method. The purchase cost of subsidiaries' shares has been eliminated against the shareholders' equity on the balance sheet at the time of purchase. In so far as the market value of the fixed assets exceeded the book value at the time of acquisition, the surplus arising has been allocated to the subsidiary's fixed assets. The rest of the purchase cost of the shares has been entered as goodwill on consolidation in the consolidated balance sheets. Items allocated to fixed assets are depreciated in accordance with the depreciation plan for fixed assets. Group goodwill is amortised over its estimated useful life.

Associated companies are consolidated using the equity method. In accordance with the Group shareholding, the share of the results for the financial year of the associated companies, whose operations are linked to the Group, has been shown before operating profit. In the consolidated balance sheet, the Group share of the equity accruing to the associated company after the acquisition, less the amortisation of goodwill and the dividend declared by the associated company, is added to the purchase cost of the associated company's shares and to consolidated unrestricted equity. In the notes to the balance sheet, the acquisition costs of the associated companies' shares are entered under the company holding the shares.

Change in accounting policy

The accounting policies of the Länsivoima Group have been made compatible with those of Fortum Oyj. The change in accounting policy affects the rights to purchase shares of the power output of Kemijoki Oy and Teollisuuden Voima Oy, which have been leased by Länsivoima Oyj from Imatran Voima Oy, and the right to purchase a share of the output of Etelä-Pohjanmaan Voima Oy, which Länsivoima Oyj has leased to Lapuan Sähkö Oy (who subsequently transferred the agreement to Vattenfall Sähkötuotanto Oy). The agreements have been capitalised in the balance sheet of the Länsivoima Group. The profit attributable to the leasing of Etelä-Pohjanmaan Voima Oy's shares has been allocated over the 25 year term of the leasing agreement. All three leasing agreements were concluded in December 1997. The change in accounting policy affects the income statement and balance

sheet for the financial year ended 31 December 1998. The 1997 comparative information has not been changed. The change in accounting policy increases the Group result by FIM 5 million and the balance sheet total by FIM 430 million while Group investments, which stand at FIM 450 million, are increased by FIM 240 million.

Inventories

Inventories are valued in the balance sheet at the lower of their direct manufacturing or purchase cost or net realisable value. The purchase cost of materials and supplies are recorded in the balance sheet according to the FIFO method.

Fixed assets and depreciation

The acquisition cost of fixed assets is recorded at the direct purchase or manufacturing cost. Losses due to company mergers are allocated to the asset items considered to have caused the loss and to goodwill. Thus the merger loss to be allocated is depreciated according to plan over the time period specified for that asset group. 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 balance 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 over the estimated useful economic life of the asset. Depreciation of the fixed assets of merged companies is calculated in accordance with the policy previously used in the Group. Depreciation in Group subsidiaries is brought into alignment with Group policy at the date of consolidation. Annual depreciation rates according to plan are as follows:

| | |
|---|-------------|
| Buildings | 40 years |
| Transmission and distribution network | 20–30 years |
| Machinery and equipment | 4–10 years |
| Compensation relating to land taken up by power lines | 50 years |
| Goodwill and other expenditure | 4–15 years |

Planned depreciation is calculated from the time of acquisition. Sold or scrapped assets are depreciated according to plan up to the time 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.

Group goodwill is amortised over a 5–15 year period. A 10–15 year amortisation period is used for goodwill relating to network operations. Based on experience, the continued stability of the Group's business operations justifies the use of the specified goodwill amortisation periods.

Leasing

The Länsivoima Group has no leasing agreements of significance other than

the agreements relating to the leasing of rights to purchase shares of power output.

Pension arrangements

Länsivoima Oyj and its subsidiaries make statutory and voluntary pension arrangements through an external pension insurance company. The pension cover of members of the Boards of Directors and Managing Directors of companies within the Group 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 shown on the same lines as taxes for the financial year.

The provisions made for taxes on a company-specific basis, which correspond to the profit for the financial year, are the basis for the taxes for the financial year in the consolidated financial statements. In addition to the above, refunds obtained and additional taxes imposed in 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. A total of FIM 8 million, which represents the change in tax liability from the merger of Oy Terrasilvana Ab and Paimionjoki Oy in 1993, has been taken into account retrospectively in the change in deferred tax liability in the consolidated income statement.

GROUP STRUCTURE

The company is part of the Imatran Voima Group. The parent company of the Länsivoima Group is Länsivoima Oyj, which is based in Paimio.

The Länsivoima Group is a sub-Group of the Fortum Group. The parent company of the Fortum Group is Fortum Oyj, which is based in Helsinki.

A copy of the Fortum Group Annual Report can be obtained from the Fortum Group Head Office at Snellmaninkatu 13, 00171 Helsinki, Finland.



NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

| (FIM 1,000) | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|--|-----------------------|---------------|--------------------------------|------------------------|
| 1. Consolidated turnover, operating profit and personnel by business unit | | | | |
| Turnover | | | | |
| Energy operations | 949,015 | 706,743 | 825,445 | 660,318 |
| Network operations | 550,027 | 511,752 | 247,601 ¹⁾ | 219,528 ¹⁾ |
| Construction and maintenance | 172,584 | 3,726 | | |
| | 1,671,626 | 1,222,221 | 1,073,046 | 879,846 |
| Eliminations | 171,594 | 20,810 | | |
| Total | 1,500,032 | 1,201,411 | | |
| ¹⁾ Intra-Group income from lease of networks | | | | |
| Operating profit | | | | |
| Energy operations | 139,541 | 55,823 | 91,569 | 44,371 |
| Network operations | 147,415 | 147,447 | 105,917 | 123,531 |
| Construction and maintenance operations | 8,351 | -5,178 | | |
| | 295,307 | 198,092 | 197,486 | 167,902 |
| Eliminations | 27,955 | 390 | | |
| Total | 267,352 | 197,702 | | |
| Average number of employees | | | | |
| Energy operations | 104 | 56 | 74 | 44 |
| Network operations | 333 | 588 | 32 | 37 |
| Construction and maintenance operations | 309 | 11 | | |
| Total | 746 | 655 | 106 | 81 |
| 2. Other operating income | | | | |
| Rent income | 2,216 | 2,072 | 8,943 | 9,262 |
| Profit from disposal of fixed assets | 10,353 | 11,174 | 1,608 | 12,267 |
| Income from corporate services | | | 15,637 | 15,068 |
| Other | 1,486 | 2,326 | 371 | 819 |
| Total | 14,055 | 15,572 | 26,559 | 37,416 |
| 3. Materials and services | | | | |
| Purchases during the financial period | 894,133 | 739,512 | 680,991 | 578,272 |
| Variation in stocks | 2,052 | 885 | 7 | 12 |
| | 896,184 | 740,397 | 680,998 | 578,284 |
| External services | 44,662 | 60,721 | 10,954 | 4,210 |
| Total | 940,846 | 801,119 | 691,952 | 582,494 |
| 4. Personnel expenses | | | | |
| Personnel expenses | | | | |
| Wages and salaries | 133,756 | 108,379 | 20,475 | 15,346 |
| Pension expenses | 24,804 | 21,218 | 4,412 | 3,375 |
| Other social expenses | 11,442 | 10,346 | 2,267 | 1,695 |
| Total | 170,002 | 139,943 | 27,153 | 20,416 |

| (FIM 1,000) | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|--|-----------------------|---------------|--------------------------------|------------------------|
| Wages and salaries of the management Managing Director and members of the Board of Directors | | | 1,508 | 1,499 |
| Managing Directors | 3,289 | 2,993 | | |
| Members of the Board of Directors | 616 | 629 | | |
| Total | 3,905 | 3,622 | 1,508 | 1,499 |
| 5. Depreciation according to plan | | | | |
| Intangible rights | 5,015 | 4,081 | 3,338 | 2,372 |
| Goodwill | 18,268 | 14,120 | 16,093 | 11,297 |
| Other long-term expenditure | 5,159 | 5,052 | 5,006 | 5,006 |
| Buildings and constructions | 5,568 | 4,934 | 5,489 | 4,853 |
| Power plants | 2,416 | 1,098 | 2,416 | 1,098 |
| Machinery and equipment | 16,353 | 14,145 | 7,938 | 7,151 |
| Transmission and distribution network | 104,332 | 101,356 | 102,738 | 99,350 |
| Other tangible goods | 229 | 271 | 229 | 271 |
| Group goodwill | 3,512 | 1,075 | | |
| Total | 160,852 | 146,132 | 143,246 | 131,398 |
| 6. Financial income and expenses | | | | |
| Dividend income | | | | |
| From Group undertakings | | | 3,132 | 128 |
| From participating interests | | | 519 | 374 |
| From others | 314 | 925 | 221 | 835 |
| Dividend income, total | 314 | 925 | 3,871 | 1,336 |
| Other interest and financial income | | | | |
| From Group undertakings | 14,309 | | 1,484 | 226 |
| From others | 8,348 | 7,493 | 6,105 | 3,905 |
| | 22,657 | 7,493 | 7,588 | 4,131 |
| Interest income from long-term investments and other interest and financial income | | | | |
| Total | 22,657 | 7,493 | 7,588 | 4,131 |
| Interest and other financial expenses | | | | |
| For Group undertakings | 14,270 | 3,981 | 23,832 | 15,418 |
| For others | 15,185 | 16,736 | 12,899 | 15,012 |
| | 29,456 | 20,717 | 36,731 | 30,430 |
| Financial income and expenses in total | - 6,485 | - 12,298 | - 25,272 | - 24,962 |
| Exchange profits (net) are included in item Interest and financing income | 123 | - 39 | 123 | - 39 |

| (FIM 1,000) | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|-----------------------|---------------|--------------------------------|------------------------|
| 7. Extraordinary items | | | | |
| Extraordinary income | | | | |
| Corporate subventions | | | 62,950 | 70,650 |
| Changes in accounting principles | | 17,585 | | |
| Other | 618 | | 618 | |
| Total | 618 | 17,585 | 63,568 | 70,650 |
| Extraordinary expenses | | | | |
| Corporate subventions | | | | 7,600 |
| Total | | | | 7,600 |
| 8. Appropriations | | | | |
| Difference of depreciations according to plan and those carried out in taxation | | | | |
| Intangible rights | | | 1,592 | 351 |
| Goodwill | | | - 3 | 5,690 |
| Other long-term expenditure | | | - 1,324 | - 1,208 |
| Buildings and constructions | | | 151 | - 1,011 |
| Power plants | | | 11,962 | 6 |
| Machinery and equipment | | | 2,843 | 308 |
| Transmission and distribution network | | | 50,488 | 71,903 |
| Other tangible goods | | | - 11 | - 8 |
| Total | | | 65,696 | 76,031 |
| Intangible assets | | | | |
| 9. Intangible assets | | | | |
| Acquisition cost Jan. 1 | 63,237 | 58,464 | 53,636 | 49,053 |
| Increase Jan. 1 - Dec. 31 | 10,003 | 4,889 | 9,813 | 4,583 |
| Decrease Jan. 1 - Dec. 31 | 121 | 117 | 121 | |
| Acquisition cost Jan. 1 - Dec. 31 | 73,120 | 63,237 | 63,328 | 53,636 |
| Accumulated depreciation Jan. 1 | 15,834 | 11,794 | 12,084 | 9,712 |
| Accumulated depreciation from decreases and transfers | 83 | 40 | 83 | |
| Depreciations of the financial period | 5,015 | 4,081 | 3,338 | 2,372 |
| Accumulated depreciation Jan. 1 - Dec. 31 | 20,767 | 15,834 | 15,339 | 12,084 |
| Book value Jan. 1 - Dec. 31 | 52,353 | 47,402 | 47,989 | 41,552 |
| Cumulative difference between total depreciation and depreciation according to plan Jan. 1 | 2,691 | 2,340 | 1,341 | 991 |
| Increase in depreciation difference reserve Jan. 1 - Dec. 31 | 1,609 | 376 | 1,592 | 351 |
| Decrease in depreciation difference reserves Jan. 1 - Dec. 31 | 96 | 24 | | |
| Cumulative difference between total depreciation and depreciation according to plan Jan. 1 - Dec. 31 | 4,203 | 2,691 | 2,933 | 1,341 |

| (FIM 1,000) | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|--|-----------------------|---------------|--------------------------------|------------------------|
| 10. Goodwill | | | | |
| Acquisition cost Jan. 1 | 206,052 | 155,685 | 179,325 | 150,785 |
| Increase Jan. 1 - Dec. 31 | | 50,367 | | 28,540 |
| Acquisition cost Dec. 31 | 206,052 | 206,052 | 179,325 | 179,325 |
| Accumulated depreciation Jan. 1 | 130,846 | 116,726 | 114,515 | 103,218 |
| Depreciation of the financial period | 18,268 | 14,120 | 16,093 | 11,297 |
| Accumulated depreciation according to plan Dec. 31 | 149,114 | 130,846 | 130,608 | 114,515 |
| Book value Dec. 31 | 56,938 | 75,206 | 48,718 | 64,811 |
| Cumulative difference between total depreciation and depreciation according to plan Jan. 1 | 9,635 | 2,953 | 7,976 | 2,286 |
| Increase in depreciation difference reserve Jan. 1 - Dec. 31 | | 6,684 | | 5,692 |
| Decrease in depreciation difference reserve Jan. 1 - Dec. 31 | 3 | 2 | 3 | 2 |
| Cumulative difference between total depreciation and depreciation according to plan Dec. 31 | 9,632 | 9,635 | 7,973 | 7,976 |
| 11. Group goodwill | | | | |
| Acquisition cost Jan. 1 | 26,059 | 11,381 | | |
| Increase Jan. 1 - Dec. 31 | | 14,678 | | |
| Decrease Jan. 1 - Dec. 31 | 102 | | | |
| Acquisition cost Dec. 31 | 25,957 | 26,059 | | |
| Accumulated depreciation Jan. 1 | 5,032 | 3,957 | | |
| Depreciation of the financial period | 3,512 | 1,075 | | |
| Accumulated depreciation according to plan Dec. 31 | 8,544 | 5,032 | | |
| Book value Dec. 31 | 17,413 | 21,027 | | |
| Undepreciated consolidation difference due to associated companies | 7,510 | 8,779 | | |
| 12. Other long-term expenditure | | | | |
| Acquisition cost Jan. 1 | 25,242 | 24,842 | 24,476 | 24,476 |
| Increase Jan. 1 - Dec. 31 | | 401 | | |
| Decrease Jan. 1 - Dec. 31 | | 1 | | |
| Acquisition cost Dec. 31 | 25,242 | 25,242 | 24,476 | 24,476 |
| Accumulated depreciation Jan. 1 | 16,249 | 11,197 | 16,073 | 11,067 |
| Depreciation of the financial period | 5,159 | 5,052 | 5,006 | 5,006 |
| Accumulated depreciation Dec. 31 | 21,407 | 16,249 | 21,078 | 16,073 |
| Book value Dec. 31 | 3,835 | 8,993 | 3,397 | 8,403 |
| Cumulative difference between total depreciation and depreciation according to plan Jan. 1 | - 2,102 | - 954 | - 2,162 | - 954 |
| Increase in depreciation difference reserve Jan. 1 - Dec. 31 | | 60 | | |
| Decrease in depreciation difference reserve Jan. 1 - Dec. 31 | 1,324 | 1,208 | 1,324 | 1,208 |
| Cumulative difference between total depreciation and depreciation according to plan Dec. 31 | - 3,426 | - 2,102 | - 3,486 | - 2,162 |

| (FIM 1,000) | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|--|-----------------------|---------------|--------------------------------|------------------------|
| Tangible assets | | | | |
| 13. Land and water areas | | | | |
| Acquisition cost Jan. 1 | 24,570 | 24,562 | 24,384 | 24,377 |
| Increase Jan. 1 - Dec. 31 | 2,610 | 65 | 2,610 | 65 |
| Decrease Jan. 1 - Dec. 31 | 372 | 57 | 372 | 57 |
| Acquisition cost Dec. 31 | 26,808 | 24,570 | 26,623 | 24,384 |
| Revaluation included in acquisition cost of land and water areas | | | | |
| Revaluation Jan. 1 and Dec. 31 | 8,900 | 8,900 | 8,900 | 8,900 |
| 14. Buildings and constructions | | | | |
| Acquisition cost Jan. 1 | 159,484 | 158,491 | 157,190 | 156,755 |
| Increase Jan. 1 - Dec. 31 | 32,756 | 1,428 | 32,656 | 869 |
| Decrease Jan. 1 - Dec. 31 | 2,287 | 435 | 2,287 | 435 |
| Acquisition cost 31.12. | 189,954 | 159,484 | 187,559 | 157,190 |
| Accumulated depreciation Jan. 1 | 44,020 | 39,200 | 43,352 | 38,612 |
| Accumulated depreciation of decreases and transfers | 963 | 114 | 963 | 114 |
| Depreciation of the financial period | 5,568 | 4,934 | 5,489 | 4,853 |
| Accumulated depreciation Dec. 31 | 48,625 | 44,020 | 47,878 | 43,352 |
| Book value Dec. 31 | 141,329 | 115,465 | 139,681 | 113,838 |
| Cumulative difference between total depreciation and depreciation according to plan Jan. 1 | 41,918 | 42,973 | 40,909 | 41,920 |
| Increase in depreciation difference reserve Jan. 1 - Dec. 31 | 1,430 | 33 | 1,430 | 33 |
| Decrease in depreciation difference reserve Jan. 1 - Dec. 31 | 1,446 | 1,088 | 1,279 | 1,044 |
| Cumulative difference between total depreciation and depreciation according to plan Dec. 31 | 41,902 | 41,918 | 41,060 | 40,909 |
| Revaluation included in acquisition cost of buildings and constructions | | | | |
| Revaluation Jan. 1 and Dec. 31 | 9,114 | 9,114 | 9,114 | 9,114 |
| 15. Power plant machinery and equipment | | | | |
| Acquisition cost Jan. 1 | 41,541 | 41,541 | 41,541 | 41,541 |
| Increase Jan. 1 - Dec. 31 | 44,500 | | 44,500 | |
| Acquisition cost Dec. 31 | 86,041 | 41,541 | 86,041 | 41,541 |
| Accumulated depreciation Jan. 1 | 4,909 | 3,811 | 4,341 | 3,244 |
| Depreciation of the financial period | 2,416 | 1,098 | 2,416 | 1,098 |
| Accumulated depreciation Dec. 31 | 7,325 | 4,909 | 6,758 | 4,341 |
| Book value Dec. 31 | 78,716 | 36,632 | 79,283 | 37,200 |
| Cumulative difference between total depreciation and depreciation according to plan Jan. 1 | 4,086 | 4,080 | 4,086 | 4,080 |
| Increase in depreciation difference reserve Jan. 1 - Dec. 31 | 12,056 | 52 | 12,056 | 52 |
| Decrease in depreciation difference reserve Jan. 1 - Dec. 31 | 94 | 46 | 94 | 46 |
| Cumulative difference between total depreciation and depreciation according to plan Dec. 31 | 16,047 | 4,086 | 16,047 | 4,086 |
| Revaluation included in acquisition cost of power plants | | | | |
| Revaluation Jan. 1 and Dec. 31 | 177 | 177 | 177 | 177 |

| (FIM 1,000) | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|--|------------------|---------------|------------------------|------------------------|
| 16. Transmission and distribution network | | | | |
| Acquisition cost Jan. 1 | 2,172,403 | 2,070,469 | 2,161,321 | 2,059,791 |
| Increase Jan. 1 - Dec. 31 | 85,255 | 102,016 | 113,370 | 101,612 |
| Decrease Jan. 1 - Dec. 31 | | 82 | | 82 |
| Acquisition cost Dec. 31 | 2,257,657 | 2,172,403 | 2,274,691 | 2,161,321 |
| Accumulated depreciation Jan. 1 | 779,387 | 678,030 | 763,394 | 664,044 |
| Depreciation of the financial period | 104,332 | 101,356 | 102,738 | 99,350 |
| Accumulated depreciation Dec. 31 | 883,719 | 779,387 | 866,132 | 763,394 |
| Book value Dec. 31 | 1,373,939 | 1,393,016 | 1,408,559 | 1,397,927 |
| Cumulative difference between total depreciation and depreciation according to plan Jan. 1 | 673,870 | 601,897 | 666,419 | 594,516 |
| Increase in depreciation difference reserve Jan. 1 - Dec. 31 | 51,334 | 73,963 | 51,275 | 73,892 |
| Decrease in depreciation difference reserve Jan. 1 - Dec. 31 | 786 | 1,989 | 786 | 1,989 |
| Cumulative difference between total depreciation and depreciation according to plan Dec. 31 | 724,418 | 673,870 | 716,907 | 666,419 |
| 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. Machinery and equipment | | | | |
| Acquisition cost Jan. 1 | 230,750 | 213,631 | 136,497 | 128,530 |
| Increase Jan. 1 - Dec. 31 | 29,375 | 22,769 | 21,830 | 8,091 |
| Decrease Jan. 1 - Dec. 31 | 4,866 | 5,650 | 3,588 | 124 |
| Acquisition cost Dec. 31 | 255,258 | 230,750 | 154,739 | 136,497 |
| Accumulated depreciation Jan. 1 | 149,388 | 135,829 | 101,156 | 93,952 |
| Accumulated depreciation of decreases and transfers | 389 | 586 | | - 53 |
| Depreciation of the financial period | 16,604 | 14,145 | 7,938 | 7,151 |
| Accumulated depreciation Dec. 31 | 165,604 | 149,388 | 109,094 | 101,156 |
| Book value Dec. 31 | 89,654 | 81,361 | 45,645 | 35,341 |
| Revaluation included in acquisition cost | | | | |
| Cumulative difference between total depreciation and depreciation according to plan Jan. 1 | 36,575 | 32,155 | 17,319 | 17,011 |
| Increase in depreciation difference reserve Jan. 1 - Dec. 31 | 5,552 | 4,960 | 3,353 | 794 |
| Decrease in depreciation difference reserves Jan. 1 - Dec. 31 | 953 | 540 | 471 | 486 |
| Cumulative difference between total depreciation and depreciation according to plan Dec. 31 | 41,173 | 36,575 | 20,201 | 17,319 |
| 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 | 80,689 | 73,225 | 41,081 | 31,807 |

| (FIM 1,000) | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|--|-------------------------|----------------|--------------------------------|------------------------|
| 18. Other tangible assets | | | | |
| Acquisition cost Jan. 1 | 4,620 | 4,620 | 4,613 | 4,613 |
| Acquisition cost Dec. 31 | 4,620 | 4,620 | 4,613 | 4,613 |
| Accumulated depreciation Jan. 1 | 3,304 | 3,032 | 3,304 | 3,032 |
| Depreciation of the financial period | 229 | 271 | 229 | 271 |
| Accumulated depreciation Dec. 31 | <u>3,533</u> | <u>3,304</u> | <u>3,533</u> | <u>3,304</u> |
| Book value Dec. 31 | 1,086 | 1,316 | 1,079 | 1,309 |
| Cumulative difference between total depreciation and depreciation according to plan Jan. 1 | - 94 | - 86 | - 94 | - 86 |
| Decrease in depreciation difference reserve Jan. 1 - Dec. 31 | <u>11</u> | <u>8</u> | <u>11</u> | <u>8</u> |
| Cumulative difference between total depreciation and depreciation according to plan Dec. 31 | - 105 | - 94 | - 105 | - 94 |
| Investments | | | | |
| 19. Holdings in Group undertakings | | | | |
| Acquisition cost Jan. 1 | | | 98,932 | 73,157 |
| Increase Jan. 1 - Dec. 31 | | | 2,465 | 24,593 |
| Transfers between items | | | | <u>1,182</u> |
| Book value Dec. 31 | | | 101,397 | 98,932 |
| 20. Participating interests | | | | |
| Acquisition cost Jan. 1 | 170,796 | 91,494 | 130,516 | 60,910 |
| Increase Jan. 1 - Dec. 31 | 2,846 | 9,697 | 2,846 | |
| Transfers between items | <u>- 109,998</u> | <u>69,605</u> | <u>- 102,790</u> | <u>69,605</u> |
| Book value Dec. 31. | 63,644 | 170,796 | 30,572 | 130,516 |
| 21. Other shares and holdings | | | | |
| Acquisition cost Jan. 1. | 22,686 | 23,310 | 19,699 | 20,315 |
| Increase Jan. 1 - Dec. 31 | 240,110 | 731 | 132 | 699 |
| Decrease Jan. 1 - Dec. 31 | 530 | 70 | 343 | 30 |
| Transfers between items | <u>- 550</u> | <u>- 1,285</u> | <u>102,790</u> | <u>- 1,285</u> |
| Book value Dec. 31 | 261,716 | 22,686 | 122,278 | 19,699 |

22. Companies owned by the parent company

| Group companies | Group shareholding % | Group voting right % | Parent company shareholding % | Shares/holdings owned by parent company | | |
|-----------------------------------|----------------------|----------------------|-------------------------------|---|-------------------|----------------|
| | | | | Number of shares | Nominal value FIM | Book value FIM |
| Länsiverkot Oy, Paimio | 100.00 | 100.00 | 100.00 | 5,000 | 5,000 | 10,004 |
| Lounais-Suomen Sähkö Oy, Paimio | 100.00 | 100.00 | 100.00 | 2,000 | 2,000 | 7,955 |
| Jyllinkosken Sähkö Oy, Kurikka | 100.00 | 100.00 | 100.00 | 2,000 | 2,000 | 5,500 |
| Megavoima Oy, Vammala | 100.00 | 100.00 | 100.00 | 1,000 | 1,000 | 3,561 |
| Merikarvian Sähkö Oy, Merikarvia | 100.00 | 100.00 | 100.00 | 526 | 117 | 14,000 |
| Lounais-Suomen Lämpö Oy, Paimio | 100.00 | 100.00 | 100.00 | 300 | 15 | 25 |
| Hanerga Oy, Hanko | 100.00 | 100.00 | 100.00 | 5,000 | 500 | 1,276 |
| Oy Tersil Ab, Paimio | 100.00 | 100.00 | 100.00 | 15,000 | 1,500 | 16,350 |
| Oy Tertrade Ab, Paimio | 100.00 | 100.00 | 100.00 | 15,000 | 1,500 | 14,420 |
| Varsinais-Suomen Sähkö Oy, Paimio | 100.00 | 100.00 | 100.00 | 212 | 21 | 38 |
| Länsitec Oy, Paimio | 65.00 | 65.00 | 65.00 | 27,950 | 2,795 | 6,660 |
| KPPV-Sijoitus Oy, Kurikka | 100.00 | 100.00 | 100.00 | 20,500 | 205 | 1,225 |
| Uudenmaan Energia Oy, Nummela | 50.00 | 50.00 | 50.00 | 2,500 | 2,500 | 20,320 |
| Kiinteistö Oy Sähkökoto, Kurikka | 100.00 | 100.00 | 100.00 | 60 | 60 | 62 |
| Total | | | | | | 101,397 |

Associated companies

| | | | | | | |
|--|-------|-------|-------|--------|-------------|---------------|
| Paimion Lämpökeskus Oy, Paimio | 50.00 | 50.00 | 50.00 | 650 | 325 | 325 |
| Pöytyän Lämpökeskus Oy, Pöytyä | 50.00 | 50.00 | 50.00 | 200 | 100 | 461 |
| Terki Oy, Helsinki | 50.00 | 50.00 | 50.00 | 7,500 | 7,500 | 7,500 |
| Sallilan Sähkölaitos Oy, Alastaro | 46.02 | 46.02 | 17.98 | 10,647 | 532 | 18,118 |
| Jalasjärven Lämpö Oy, Jalasjärvi | 31.60 | 31.60 | 31.60 | 60 | 300 | 300 |
| Kurikan Kaukolämpö Oy, Kurikka | 25.00 | 25.00 | 25.00 | 75 | 375 | 375 |
| Oy Kaskisten Lämpö-Kaskö Värme Ab | 30.00 | 30.00 | 30.00 | 150 | 150 | 150 |
| Ulvilan Lämpö Oy, Ulvila 1) | 22.00 | 22.00 | | | | |
| Oy Vesirakentaja, Helsinki | 23.50 | 23.50 | 23.50 | 47 | 24 | 372 |
| Eurotrem AB, Stockholm 2) | 15.00 | 15.00 | 15.00 | 2,250 | t SEK 2,250 | 2,846 |
| Kauhajoen Lämpöhuolto Oy, Kauhajoki 3) | 19.23 | 19.23 | 19.23 | 125 | 125 | 125 |
| Total | | | | | | 30,572 |

- 1) Holding together with other companies of the Fortum Group 47%
- 2) Holding together with Imatran Voima Oy 33%
- 3) Holding together with other companies of the Fortum Group 42%

Other shares and holdings owned by parent company

| | | | | | | |
|--------------------------------|-------|--|-------|--------|--------|----------------|
| Etelä-Pohjanmaan Voima Oy 1) | 27.90 | | 27.90 | 1,319 | 13,190 | 103,287 |
| Vakka-Suomen Voima Oy | 16.70 | | 16.69 | 14,188 | 213 | 13,804 |
| Leppäkosken Sähkö Oy | 0.98 | | 0.67 | 773 | 8 | 928 |
| Paneliankosken Voima Oy | 2.07 | | 1.53 | 660 | 20 | 339 |
| Tietosavo Oy | 4.10 | | 4.10 | 40,800 | 408 | 810 |
| Lounais-Suomen Puhelin Oy | | | | 110 | 33 | 187 |
| Salon Seudun Puhelin Oy | | | | 57 | 29 | 129 |
| Lännen Puhelin Oy | | | | 49 | 25 | 99 |
| Other telephone shares | | | | | | 177 |
| Kiint.Oy Alavuden Säästökeskus | 27.00 | | 27.00 | 327 | 589 | 1,030 |
| Bostads Ab Brinksgården | | | | 570 | 6 | 203 |
| Bostads Ab Bankgården | | | | 161 | 2 | 498 |
| Other housing shares | | | | | | 147 |
| Öskatan Tuuli - Närpiö Oy | 16.06 | | 16.06 | 200 | 200 | 200 |
| Koskenkorvan Pato Osakeyhtiö | 19.80 | | 19.80 | 99 | 99 | 121 |
| Other shares and holdings | | | | | | 319 |
| Total | | | | | | 122,278 |

- 1) Shares have been leased with long-term lease agreement to Vattenfall Sähköntuotanto Oy.

| (FIM 1,000) | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|--|-----------------------|---------------|--------------------------------|------------------------|
| 23. Taxation values | | | | |
| Real estate | 119,190 | 115,447 | 118,502 | 114,723 |
| Shares and holdings | 375,607 | 88,508 | 360,241 | 291,332 |
| Total | 494,796 | 203,955 | 478,743 | 406,055 |
| 24. Long-term receivables | | | | |
| Participating interests | | | | |
| Loans receivable | 4,789 | 5,792 | 4,789 | 5,792 |
| | 4,789 | 5,792 | 4,789 | 5,792 |
| Loans receivable | 2,411 | 5,459 | 1,655 | 1,246 |
| Other receivables | 299,880 | | | |
| | 302,291 | 5,459 | 1,655 | 1,246 |
| Long-term receivables, total | 307,081 | 11,252 | 6,444 | 7,038 |
| 25. Short-term receivables | | | | |
| Accounts receivable | 317,501 | 229,685 | 234,870 | 121,754 |
| Receivables from Group undertakings | | | | |
| Accounts receivable | 2,784 | | 324 | 15,365 |
| Loans receivable | | | 2,865 | 12,201 |
| Other receivables | 243,378 | | 226,570 | |
| Prepayments and accrued income | 296 | | 296 | 3,214 |
| | 246,458 | | 230,054 | 30,781 |
| Receivables from participating interest undertakings | | | | |
| Accounts receivable | | 113 | | 113 |
| Other receivables | 1,363 | 1,363 | 1,363 | 1,363 |
| Prepayments and accrued income | 23 | | 23 | |
| | 1,386 | 1,476 | 1,386 | 1,476 |
| Other receivables | 44 | 65 | | |
| Prepayments and accrued income | 5,379 | 25,514 | 968 | 282 |
| Short-term receivables, total | 570,769 | 256,740 | 467,279 | 154,292 |
| Shareholders' equity | | | | |
| 26. Share capital Jan. 1 | 65,248 | 65,248 | 65,248 | 65,248 |
| Subscription issue June 24, 1998 | 83 | | 83 | |
| Share capital Dec. 31 | 65,331 | 65,248 | 65,331 | 65,248 |
| 27. Premium fund Jan. 1 | 221,571 | 221,571 | 221,571 | 221,571 |
| Issue profit June 24, 1998 | 1,757 | | 1,757 | |
| Premium fund Dec. 31 | 223,328 | 221,571 | 223,328 | 221,571 |
| 28. Tax fund Jan. 1 and Dec. 31 | 1,000 | 1,000 | 1,000 | 1,000 |
| 29. Contingency reserve fund Jan. 1 and Dec. 31 | 3,900 | 3,900 | 3,900 | 3,900 |
| 30. Profit for previous financial periods Jan. 1 | 710,763 | 601,571 | 205,915 | 137,842 |
| Profit distribution | 46,979 | 42,411 | 46,979 | 42,411 |
| Profit for previous financial periods Dec. 31 | 663,784 | 559,160 | 158,936 | 95,431 |

| (FIM 1,000) | Group 1998 | Group 1997 | Parent company 1998 | Parent company 1997 |
|---|-----------------------|---------------|--------------------------------|------------------------|
| 31. Profit for the financial year | 156,202 | 151,603 | 128,592 | 110,484 |
| Share of accumulated depreciation difference entered in the shareholders' equity | 600,585 | 552,182 | | |
| Distributable assets from unrestricted shareholders' equity | 224,301 | 163,481 | 292,428 | 210,815 |
| 32. Deferred tax liabilities and receivables | | | | |
| Deferred tax liabilities | | | | |
| From accrual difference | 13,041 | | | |
| Untaxed reserves | 233,561 | 214,186 | | |
| Total | 246,602 | 214,186 | | |
| No deferred tax liability is recorded in respect of the parent company. Deferred tax liability in connection with appropriations | | | 224,418 | 206,023 |
| 33. Long-term liabilities | | | | |
| Convertible bonds | 98,160 | 100,000 | 98,160 | 100,000 |
| Loans from financial institutions | 194,143 | 244,964 | 169,148 | 211,969 |
| Other long-term loans | 426,258 | | | |
| Total | 718,561 | 344,964 | 267,308 | 311,969 |
| Debts becoming due after five years or longer | 388,093 | | | |
| 34. Short-term liabilities | | | | |
| Loans from financial institutions | 50,571 | 53,647 | 42,571 | 47,647 |
| Amounts owed to Group undertakings | | | | |
| Trade creditors | 73,892 | | 67,919 | 17,183 |
| Other creditors | | | 715,528 | 597,130 |
| Accruals and deferred income | 2,956 | | 2,956 | |
| | 76,848 | | 786,403 | 614,313 |
| Amounts owed to participating interest undertakings | | | | |
| Trade creditors | | 9,632 | | 9,632 |
| Other creditors | 450 | 550 | 450 | 550 |
| | 450 | 10,182 | 450 | 10,182 |
| Other creditors | 149,817 | 199,589 | 53,652 | 100,327 |
| Accruals and deferred income | 70,719 | 70,661 | 18,506 | 37,231 |
| Short-term liabilities | | | | |
| Total | 348,406 | 334,079 | 901,582 | 809,700 |

COLLATERALS AND OTHER UNDERTAKINGS

| (FIM 1,000) | GROUP 1998 | | PARENT COMPANY 1998 | | GROUP 1997 | | PARENT COMPANY 1997 | |
|--|-----------------------|-------------------|--------------------------------|-------------------|-----------------------|-------------------|--------------------------------|-------------------|
| | Debt | Value of security | Debt | Value of security | Debt | Value of security | Debt | Value of security |
| Collaterals and other undertakings on own behalf | | | | | | | | |
| Own debt secured by real estate mortgages | | | | | | | | |
| Loans from financial institutions | | | | | 500 | 1,000 | 500 | 1,000 |
| Own debt secured by company mortgages | | | | | | | | |
| Loans from financial institutions | 244,714 | 252,460 | 211,714 | 212,460 | 295,911 | 352,180 | 256,911 | 292,180 |
| Own debt secured by other mortgages | | | | | | | | |
| Pledges | | 109,046 | | 103,287 | | 108,880 | | 103,287 |
| Collaterals and other undertakings | | | | | | | | |
| Operational leasing liabilities | | | | | | | | |
| Due within a year | | <u>316</u> | | <u>126</u> | | <u>121</u> | | <u>89</u> |
| Due after a year | | 571 | | 170 | | 253 | | 206 |
| Total | | 886 | | 296 | | 375 | | 295 |

Financial leases are recognised as assets and liabilities in the balance sheet. Debts corresponding to them total FIM 426,258,297.00

| | | | | | | | |
|---|--------------|--|----------------|--|-------|--|---------|
| Other collaterals for other own commitments | 8,514 | | | | 7,742 | | 877 |
| Collaterals given on behalf of associated companies | | | | | | | |
| Guarantees | 1,160 | | 427 | | 832 | | 832 |
| Collaterals given on behalf of Group companies | | | | | | | |
| Guarantees | 918 | | 708,686 | | 70 | | 679,549 |

Derivative contracts

| | Value of lying commodity | Market value | Not recognised as income |
|----------------------------|--------------------------|----------------|--------------------------|
| Interest derivatives | | | |
| Interest rate swaps | 16,500 | - 1,627 | - 1,627 |
| Parent company 1998 | | | |
| | Amount GWh | Market value | Not recognised as income |
| Electricity derivatives | | | |
| Sales contracts | 21.62 | - 584 | - 584 |

SEPARATION OF BUSINESS OPERATIONS IN ACCORDANCE WITH THE ELECTRICITY MARKET ACT

Operations to be separated

In accordance with the requirements of the Electricity Market Act, electricity sales are shown on a separate income statement, whereas the company's electricity generating operations, being negligible, are included in the electricity sales income statement.

Reorganisation of business operations

At the end of 1997, the parent company, Länsivoima Oyj, assumed responsibility for all of the Länsivoima Group's electricity sales operations. Länsivoima Oyj purchased the electricity sales operations of the Group's distribution companies, Lounais-Suomen Sähkö Oy, Jyllinkosken Sähkö Oy, Megavoima Oy, Hanerga Oy and Merikarvian Sähkö Oy. As part of the reorganisation, the distribution companies' invoicing activities were also transferred to the parent

company. The distribution companies are responsible for local-level customer service relating to electricity sales and network operations.

Basis for separation

The separation of the income statement has been done using internal cost allocation procedures. As far as is possible, transactions have been entered under the relevant separate activities when drawing up the accounts. Joint overheads, such as financial administration and company management, have been allocated as accurately as possible in accordance with the matching principle under electricity sales and other operations using cost allocation accounting. Cost allocation is by account group in 1998 and by profit margin in 1997. The basis for calculation of depreciation according to plan is explained in the Notes to the Financial Statements. The

amounts allocated to the separate activities have been obtained from the asset management system.

The figures for depreciation and depreciation difference reserve have also been obtained from the asset management system; financial income and expenses have been allocated on the basis of capital employed; Group contribution has been allocated on the basis of the contributor's business operations and tax has been calculated on the basis of profit from the aforementioned business operations.

The format of the income statement has been changed to conform to the Group's accounting practices and the contents of the lines for the previous year have been adjusted accordingly.

ELECTRICITY SALES OPERATIONS

INCOME STATEMENT

| (FIM 1,000) | Jan. 1 - Dec. 31, 1998 | Jan. 1 - Dec. 31, 1997 |
|---|------------------------|------------------------|
| TURNOVER | 825,445 | 660,318 |
| Production for own use | 462 | 2 |
| Other operating income | 12,201 | 2,935 |
| Materials and services | - 685,276 | - 603,100 |
| Personnel expenses | - 17,392 | - 5,128 |
| Depreciation and reduction in value | - 7,042 | - 4,305 |
| Other operating charges | - 36,830 | - 6,351 |
| OPERATING PROFIT | 91,568 | 44,371 |
| Financial income and expenses | 318 | - 8,179 |
| PROFIT BEFORE EXTRAORDINARY ITEMS | 91,886 | 36,192 |
| Extraordinary items | | |
| Group contributions received | 209 | 31,402 |
| Other extraordinary items | 309 | 31,402 |
| PROFIT BEFORE APPROPRIATIONS AND TAXES | 92,404 | 67,594 |
| Appropriations | - 14,860 | - 703 |
| Direct taxes | - 21,712 | - 18,729 |
| PROFIT FOR FINANCIAL YEAR | 55,832 | 48,162 |

FINANCIAL TRENDS AND KEY FIGURES

| Länsivoima Group | | 1994 | 1995 | 1996 | 1997 | 1998 |
|--|-------------|--------|--------|--------|--------|--------|
| Turnover | FIM million | 685 | 922 | 1,134 | 1,201 | 1,500 |
| | EUR million | 115 | 155 | 191 | 202 | 252 |
| Operating profit | FIM million | 91 | 105 | 168 | 198 | 267 |
| | EUR million | 15 | 18 | 28 | 33 | 45 |
| Operating profit, % of turnover | | 13.3 % | 11.5 % | 14.8 % | 16.5 % | 17.8 % |
| Profit before extraordinary items and taxes | FIM million | 87 | 90 | 144 | 185 | 261 |
| | EUR million | 14 | 15 | 24 | 31 | 44 |
| Profit before extraordinary items and taxes, % of turnover | | 12.7 % | 9.8 % | 12.7 % | 15.4 % | 17.4 % |
| Profit before taxes | FIM million | 87 | 90 | 153 | 203 | 261 |
| | EUR million | 14 | 15 | 26 | 39 | 44 |
| Profit before taxes, % of turnover | | 12.7 % | 9.8 % | 13.5 % | 16.9 % | 17.4 % |
| Return on equity, % | | 12.7 % | 9.1 % | 12.2 % | 14.3 % | 16.0 % |
| Return on investment, % | | 12.1 % | 10.4 % | 13.3 % | 15.0 % | 18.1 % |
| Equity to assets ratio | | 44.8 % | 41.9 % | 37.5% | 39.1 % | 36.1 % |
| Gearing ratio, % | | | | 29.0 | 10.2 | 2.2 |
| Gross investments | FIM million | 244 | 755 | 151 | 167 | 210 |
| | EUR million | 41 | 127 | 25 | 28 | 35 |
| Gross investment, % of turnover | | 35.7 % | 81.5 % | 13.3 % | 13.9 % | 14.0 % |
| Balance sheet total | FIM million | 1,528 | 2,322 | 2,392 | 2,583 | 3,161 |
| | EUR million | 257 | 391 | 402 | 435 | 532 |
| Number of employees | | 474 | 673 | 594 | 655 | 746 |

KEY SHARE-RELATED FIGURES

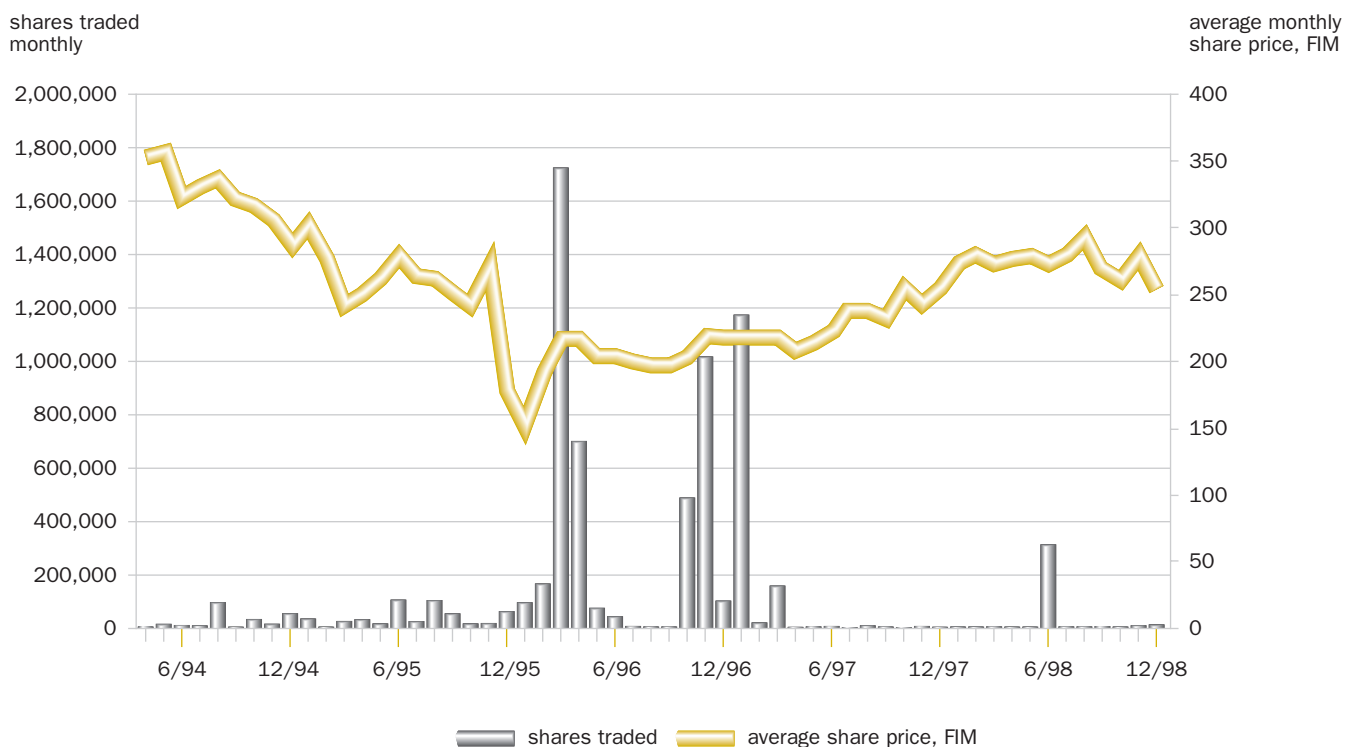
| | | 1994 | 1995 | 1996 | 1997 | 1998 |
|--|--------------------|-----------|-----------|-----------|-----------|-----------|
| Adjusted earnings/share | FIM | 14.58 | 12.19 | 15.76 | 20.54 | 23.84 |
| | EUR | 2.45 | 2.05 | 2.65 | 3.45 | 4.01 |
| Earnings/share (diluted) | FIM | | | | | 23.37 |
| | EUR | | | | | 3.93 |
| Shareholders' equity/share | FIM | 127.87 | 156.93 | 137.41 | 153.64 | 170.45 |
| | EUR | 21.51 | 26.39 | 23.11 | 25.84 | 28.67 |
| Share issue-adjusted dividend per share | FIM | 1.90 | 2.94 | 6.50 | 7.20 | 7.80 |
| | EUR | 0.32 | 0.49 | 1.09 | 1.21 | 1.31 |
| Dividend/earnings, % | | 11.9 % | 20.3 % | 41.3 % | 35.0 % | 32.7 % |
| Effective dividend yield, % | | 1.3 % | 2.0 % | 3.0 % | 2.8 % | 3.0 % |
| Price/profit ratio | | 9.8 | 11.7 | 13.6 | 12.6 | 10.8 |
| Adjusted trend in share price | FIM | | | | | |
| | | 132.50 | 115.00 | 143.00 | 200.00 | 258.00 |
| – minimum | | 206.35 | 155.50 | 230.00 | 260.00 | 290.00 |
| – maximum | EUR | | | | | |
| | | 22.28 | 19.34 | 24.05 | 33.64 | 43.39 |
| – minimum | | 34.71 | 26.15 | 38.68 | 43.73 | 48.77 |
| Market capitalisation | FIM million | 776.5 | 933.1 | 1,402.8 | 1,689.9 | 1,686.5 |
| | EUR million | 130.6 | 156.9 | 235.9 | 284.2 | 283.5 |
| Trend in shares traded | | | | | | |
| | - number of shares | 875,916 | 999,861 | 4,471,223 | 1,398,260 | 395,023 |
| - number of shares, % | | 16.5 % | 16.1 % | 68.5 % | 21.4 % | 6.0 % |
| Adjusted number of shares at year end | | 5,448,852 | 6,524,838 | 6,524,838 | 6,524,838 | 6,533,147 |
| Adjusted average number of shares | | 5,318,974 | 6,203,762 | 6,524,838 | 6,524,838 | 6,533,147 |

The key figures have been calculated in accordance with the Financial Supervision Authority guidelines.

Increases in share capital

| | Terms of subscription | Subscription price | New shares | Share capital after increase |
|--|-----------------------|--------------------|------------|------------------------------|
| 1994 Rights issue | 9:1 | 230 | 268,065 | 26,806,510 |
| 1994 Directed issue (Oy Nokia Ab) | 1:6 | 296 | 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 | 36,540 | 27,624,190 |
| 1995 Directed issue (City of Kurikka, City of Närpiö and Municipality of Kauhajoki) | 1:1 | 250 | 500,000 | 32,624,190 |
| 1995 Bonus issue | 1:1 | | 3,262,419 | 65,248,380 |
| 1998 Rights issue (conversion of 1994 convertible bond loan) | | 221 | 8,309 | 65,331,470 |

SHARES TRADED AND AVERAGE SHARE PRICE 22 APRIL 1994 – 31 DECEMBER 1998



SHAREHOLDERS AT DECEMBER 31, 1998

According to the computerised book-entry register, the company had 1,442 shareholders.

OWNERSHIP BREAKDOWN

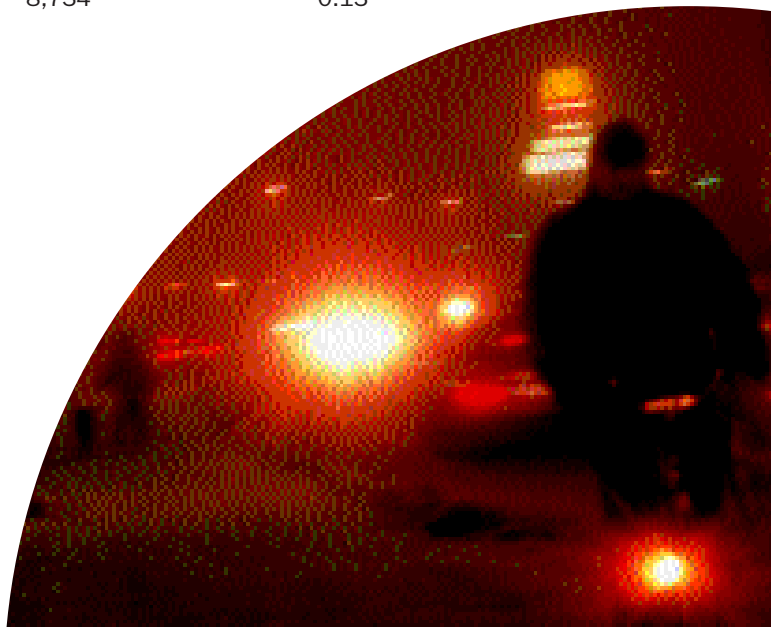
| | 1-100 | 101-1,000 | 1,001-10,000 | 10,001- |
|------------------------|--------------|------------------|---------------------|----------------|
| Number of shareholders | 785 | 569 | 80 | 8 |
| Shareholders, % | 54.25 | 39.62 | 5.57 | 0.56 |
| Number of shares | 29,179 | 192,400 | 181,731 | 6,120,297 |
| Shares, % | 0.45 | 2.94 | 2.78 | 93.68 |

OWNERSHIP BREAKDOWN BY SECTOR

| | Holdings | | Shares | |
|--|-----------------|----------|---------------|----------|
| | Number | % | Number | % |
| Companies | 37 | 2.58 | 4,944,494 | 75.68 |
| Financial and insurance institutions | 3 | 0.21 | 118,278 | 1.81 |
| Public sector entities | 11 | 0.77 | 1,085,304 | 16.61 |
| Non-profit organisations | 19 | 1.32 | 2,995 | 0.04 |
| Households | 1,367 | 94.77 | 370,140 | 5.67 |
| Foreign | 5 | 0.35 | 2,396 | 0.04 |
| Total | 1,442 | 100.00 % | 6,523,607 | 99.85 |
| Shares not converted into book entries | | | 9,540 | 0.15 |
| Number issued | | | 6,533,147 | 100.00 |

MAJOR SHAREHOLDERS AT 31 DECEMBER 1998

| Name | Holdng | |
|--|-------------------------|----------|
| | Number of shares | % |
| Imatran Voima Oy | 4,254,258 | 65.12 |
| Kemijoki Oy | 654,800 | 10.02 |
| City of Kurikka | 620,350 | 9.50 |
| Varma-Sampo Mutual Pension Insurance Company | 344,577 | 5.27 |
| Municipality of Kauhajoki | 113,824 | 1.74 |
| Vakuutusosakeyhtiö Henki-Sampo | 97,637 | 1.49 |
| Revon Sähkö Oy | 23,981 | 0.37 |
| Merita Bank Ltd. | 10,870 | 0.17 |
| Vakuutusosakeyhtiö Henki-Fennia | 9,761 | 0.15 |
| Saarelainen Vilho | 8,734 | 0.13 |



CALCULATION OF KEY INDICATORS

The key indicators have been calculated using the following formulae in accordance with the Financial Supervision Authority guidelines:

Key financial indicators

| | |
|-------------------------------|--|
| Return on equity (ROE) %: | $\frac{\text{Profit (loss) before extraordinary items – tax}}{\text{Shareholders' equity + minority interest + reserves}} \times 100$ (average of year beginning and year end) |
| Return on investment (ROI) %: | $\frac{\text{Profit (loss) before extraordinary items} + \text{interest expenses and other financial expenses}}{\text{Balance sheet total – non-interest bearing liabilities}} \times 100$ (average of year beginning and year end) |
| Equity to assets ratio (%): | $\frac{\text{Shareholders' equity + minority interest + reserves}}{\text{Balance sheet total – advances received}} \times 100$ |
| Gearing ratio (%): | $\frac{\text{Interest-bearing net liabilities}}{\text{Shareholders' equity + minority interest}} \times 100$ |

Calculation of key share-related indicators

| | |
|---|---|
| Earnings per share (EPS): | $\frac{\text{Profit (loss) before extraordinary items} + \text{/- minority interest in profit (loss) for financial year – tax}}{\text{Share-issue adjusted average number of shares for the year}}$ |
| Shareholders' equity per share: | $\frac{\text{Shareholders' equity + reserves}}{\text{Share-issue adjusted number of shares at end of year}}$ |
| Dividend per share: | $\frac{\text{Dividend declared for year}}{\text{Share-issue adjusted number of shares at end of year}}$ |
| Dividend to earnings ratio: | $\frac{\text{Dividend declared for year}}{\text{Profit (loss) before extraordinary items}} \times 100$ |
| Effective dividend yield: | $\frac{\text{Dividend/share}}{\text{Strike price at year end}} \times 100$ |
| Price to earnings ratio (P/E): | $\frac{\text{Share-issue adjusted strike price at year end}}{\text{Earnings per share}}$ |
| Market capitalisation at end of period: | Number of shares at year end x strike price at year end |
| Share-issue adjusted average share price: | $\frac{\text{Total value of shares traded}}{\text{Weighted average value of adjusted number of shares traded during year}}$ |

SHARE CAPITAL, SHAREHOLDERS AND DIRECTORS' INTERESTS

Share capital and shares

According to Länsivoima Oyj's Articles of Association, the company's issued share capital may not be less than FIM 30,000,000 nor more than FIM 120,000,000. The issued share capital may be increased or reduced within these limits without amending the Articles of Association.

The shares have a nominal value of FIM 10.

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

The company's share capital recorded in the Trade Register at December 31 1998 was FIM 65,331,470 and the number of shares was 6,533,147. All shares carry the same dividend rights for the financial year 1998.

The company's shares have been included in the computerised book-entry system since 19 November 1993.

Share quotation

Länsivoima Oyj shares are quoted on the Helsinki Stock Exchange. In 1998, 1,394,788 shares were traded (6.0% of the total number of shares in the company). The lowest quotation during 1998 was FIM 258 per share and the highest FIM 290. The strike price at the year end was FIM 258.

Directors' interest

At 31 December 1998, the members of the Board of Directors, the Managing Directors and the Deputy Managing Director of Länsivoima Oyj and its subsidiaries owned a total of 228 company shares. The directors do not hold any bonds relating to the 1994 convertible bond issue.

Convertible bonds

In the spring of 1994, Länsivoima Oyj issued convertible loan stock with a nominal value of FIM 100.0 million. In conjunction with the December 1995 bonus issue, the Board of Directors

of Länsivoima Oyj amended the terms and conditions of the convertible loan to allow a convertible bond with a nominal value of FIM 1,000 to be exchanged for 4.516 Länsivoima Oyj shares. Prior to the change, a convertible bond could be exchanged for 2.258 Länsivoima Oyj shares. The amendment is based on sub-section 14 of the terms and conditions of the convertible bond issue and the terms and conditions of the bonus issue.

The loan period is seven years and the interest is 7.425%. The conversion period is 2 January to 31 May each year. In 2001, the conversion period will be 2 January to 21 March. Dividends are payable on new shares for the first time during the year in which the conversion takes place.

Bonds totalling FIM 1.84 million were converted into Länsivoima Oyj shares between 2 January and 31 May 1998. Under the terms and conditions of the loan, 8,309 shares were subscribed for during the conversion and the share capital was increased by FIM 83,090. FIM 1.8 million was entered in the premium fund. Following the conversion, the company's share capital stood at FIM 65,331,470 and the number of shares was 6,533,147. The increase in the share capital was recorded in the Trade Register on 24 June 1998. The convertible bond loan amounted to FIM 98,160,000. The maximum permitted increase in the number of shares after conversion on 31 May 1998 is 443,303 shares, which is equivalent to 6.8% of the number of shares recorded in the Trade Register on December 31, 1998.

To date no bonds have been converted during the conversion period beginning 2 January 1999.

Authorisation to purchase own shares

At the shareholders' meeting on 20 March 1998, Länsivoima Oyj was authorised to purchase its own shares on the Helsinki Stock Exchange. The permit is valid until 20 March 1999. The company has not purchased any of its own shares.

Share issue and authorisation for share issue

During the year, Länsivoima Oyj has not issued any new shares neither has it issued any securities entitling holders to subscribe for the company's shares.

There is no current authorisation recorded in the Trade Register entitling the Board of Directors to issue new shares.

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

PROPOSAL BY THE BOARD OF DIRECTORS CONCERNING THE TREATMENT OF PROFIT

Parent company distributable shareholders' equity is FIM 292,427,600.10. Group distributable shareholders' equity is FIM 224,301,154.65 after the share of shareholders' equity transferred from voluntary reserves and depreciation difference reserve has been deducted from Group unrestricted equity.

The Board of Directors proposes that the profit for the financial year of FIM 128,591,620.72 be treated as follows: FIM 7.80 per share to be distributed as a dividend, amounting to FIM 50,958,546.60, and FIM 77,633.074.12 to be transferred to the retained earnings account.

Helsinki, 22 February 1999

Kalervo Nurmimäki
Chairman

Tapio Kuula
Deputy Chairman

Jouko Oksanen

Juha Mikkilä

Heikki Marttinen

Markku Autti

Mikko Rönholm

Manu Muukkonen
member of the Board,
Managing Director

The above financial statements were drawn up in accordance with best accounting practice. The audit report was submitted today.

Paimio, 26 February 1999

Pekka Kaasalainen
Authorised Public Accountant

Christer Antson
Authorised Public Accountant

To the shareholders of Länsivoima Oyj

We have audited the accounts, the accounting records and the administration of Länsivoima Oyj for the financial year ending December 31 1998. The accounts prepared by the Board of Directors and the Managing Director include, for both the Group and the parent company, a report on operations, an income statement, a balance sheet and notes to the accounts. Based on our audit, we express an opinion on these accounts and the administration.

We have conducted our audit in accordance with generally accepted auditing standards. We have audited the accounting records and the accounting policies, the disclosures and the presentation of information to an extent sufficient to obtain reasonable assurance that the accounts are free of material misstatement. The audit of the administration has included obtaining assurance that the members of the Board of Directors and the Managing Director have acted in accordance with the regulations of the Companies Act.

In our opinion, the accounts have been prepared in accordance with the Accounting Act and other legislation and regulations relevant to the preparation of the accounts. The accounts give a true and fair view of the result from operations and financial position of both the Group and the parent company as required by the Accounting Act. Parent company profit for the financial year is FIM 128,591,620.72 and Group profit is FIM 156,201,739.88. The accounts, including the Group accounts, can be approved and the members of 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 treatment of profit for the financial year is in accordance with the Companies Act.

We have reviewed the Interim Reports published during the financial year. According to our review, they have been prepared in accordance with the relevant regulations.

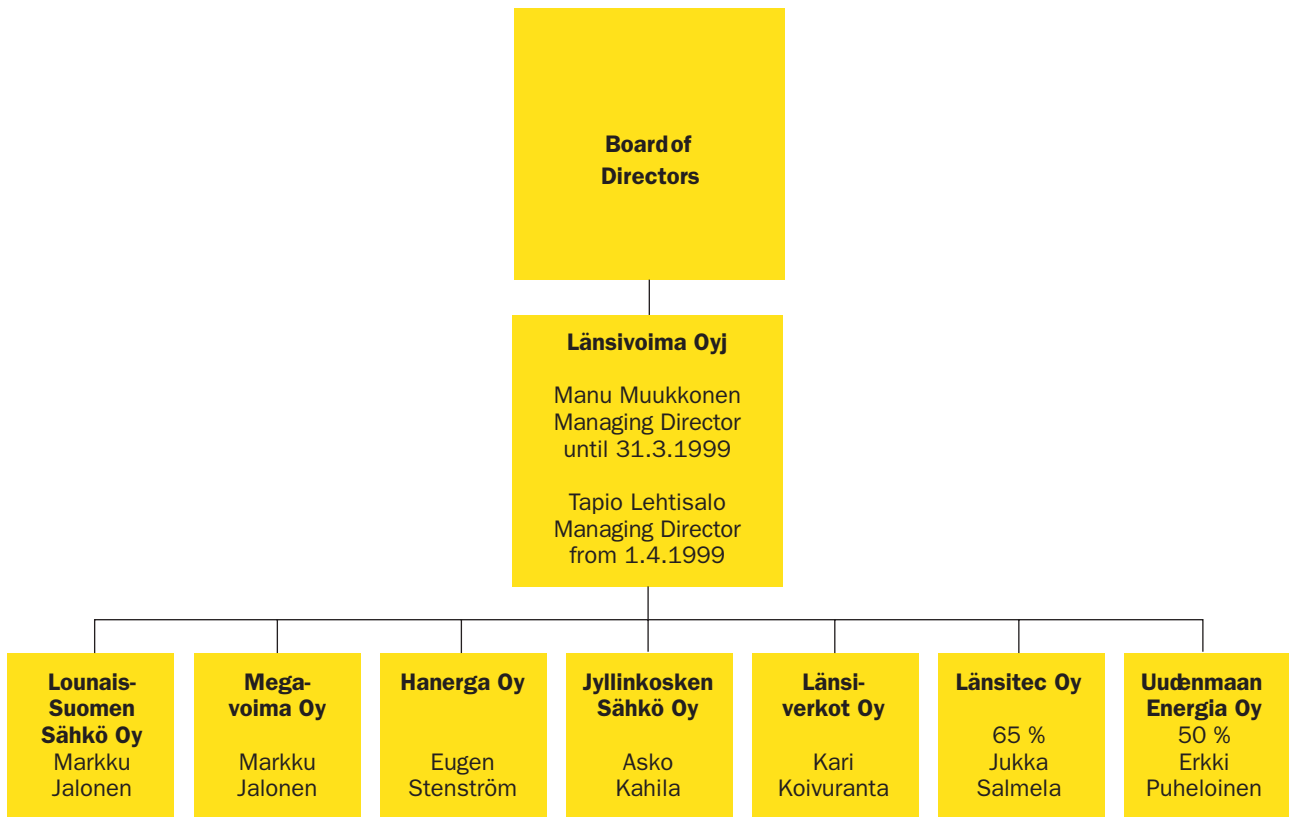
We have reviewed the income statement and the additional information concerning the separation of operations presented in the Notes to the Financial Statements. In our opinion, they have been prepared in accordance with the Electricity Market Act and the rules and regulations based thereon.

Paimio 26 February 1999

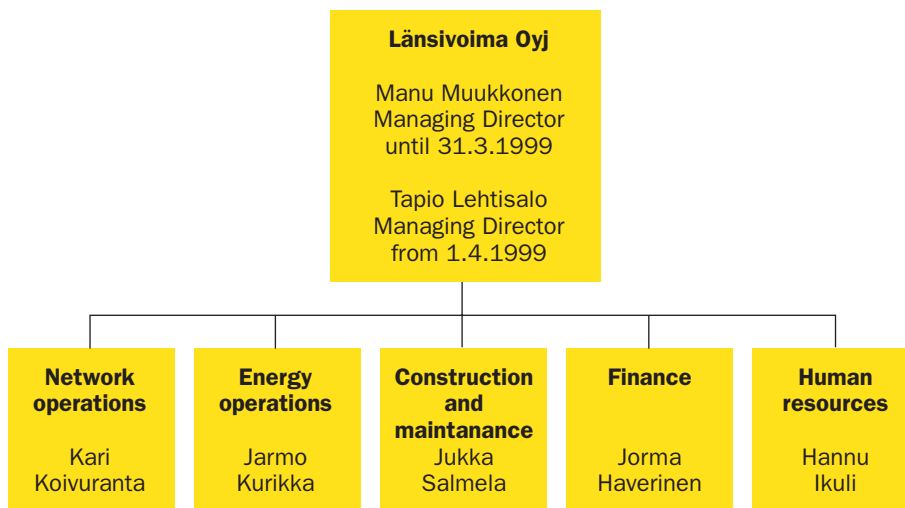
Pekka Kaasalainen
Authorised Public Accountant

Christer Antson
Authorised Public Accountant

ORGANISATION AT 1.4.1999



RESPONSIBILITIES WITHIN THE LÄNSIVOIMA GROUP AS OF 1.4.1999



The Board of Directors



Chairman of the Board
Kalervo Nurmimäki



Tapio Kuula



Jouko Oksanen



Juha Mikkilä



Heikki Marttinen

Auditors in 1998:

Pekka Kaasalainen, M.Sc. (Econ.), Authorised Public Accountant and Christer Antson, M.Sc. (Econ.), Authorised Public Accountant.

Deputy auditors: Authorised Public Accountants SVH PriceWaterhouseCoopers Oy and Mika Kaarisalo, M.Sc. (Econ.), Authorised Public Accountant.

Senior management:

Managing Director: Manu Muukkonen
Deputy Managing Director, Director of Network Operations: Tapio Lehtisalo M.Sc. (Eng.)

Director of Finance: Jorma Haverinen M.Sc. (Econ.)

Director of Energy Operations: Jarmo Kurikka M.Sc. (Eng.)

Director of Construction and Maintenance Operations: Jukka Salmela

Personnel Administration: Hannu Ikuli, M.Sc. (Pol.)



Markku Autti



Mikko Rönholm



Manu Muukkonen

The Board of Directors, which comprises a minimum of five and maximum of nine members, is responsible for managing the company and organising its business activities in an appropriate manner.

The Annual General Meeting appoints the Board members, whose term of office begins at the end of the Annual General Meeting meeting at which they are elected and ends at the end of the Annual General Meeting at which the new Board is elected. The Annual General Meeting takes place in March-April.

The Board of Directors appoints from among its members a Chairman and Deputy Chairman for the following term. The Board of Directors also appoints Länsivoima Oyj's Managing Director who is eligible for election to the Board. Manu Muukkonen has served as Managing Director since 1986.

1998 Annual General Meeting and Board of Directors

The Annual General Meeting was held on 20 March 1998. A total of

6,095,421 shares and voting rights were represented at the Annual General Meeting, or 93.42% of the total number of shares and voting rights.

The items on the agenda were in accordance with paragraph 11 of the Articles of Association. It was agreed that the Board of Directors for the following term would comprise eight members. Appointments to the Board were as follows: Heikki Marttinen, President & CEO, Kalervo Nurmimäki, CEO, Markku Autti, Managing Director, Manu Muukkonen, Managing Director, Jouko Oksanen, Finance Director, Tapio Kuula, Executive Vice President, Mikko Rönholm, Vice President, Business Development and Juha Mikkilä.

Kalervo Nurmimäki was Chairman of the Board and Tapio Kuula Deputy Chairman. The Board of Directors met 12 times during the year.

Pekka Kaasalainen, M.Sc. (Econ.), Authorised Public Accountant and Christer Antson, M.Sc. (Econ.), Authorised Public Accountant were appointed as auditors and Authorised Public Accountants SVH PriceWaterhouseCoopers Oy and Mika Kaarisalo, M.Sc. (Econ.), Authorised Public Accountant were appointed deputy auditors of the 1999 accounts and administration.



Managing Director Manu Muukkonen is to retire on 31 March 1999. Länsivoima Oyj's Deputy Managing Director, Tapio Lehtisalo, M.Sc (Eng), has been appointed his successor.

ADDRESSES

Länsivoima Oyj
P.O.Box 23
FIN-21531 Paimio
tel. +358 (0)2 474 701
fax +358 (0)2 474 7222

Hanerga Oy
P.O.Box 57
FIN-10901 Hanko
tel. +358 (0)19 221 822
Fax +358 (0)19 221 821

Jyllinkosken Sähkö Oy
P.O.Box 22
FIN-61301 Kurikka
tel. +358 (0)6 455 0111
fax +358 (0)6 455 2333

Lounais-Suomen Sähkö Oy
P.O.Box 20
FIN-21531 Paimio
tel. +358 (0)2 474 711
fax +358 (0)2 474 7345

Länsitec Oy
P.O.Box 77
FIN-21531 Paimio
tel. +358 (0)2 474 777
fax +358 (0)2 474 7417

Länsiverkot Oy
P.O.Box 94
FIN-21531 Paimio
tel. +358 (0)2 474 766
fax +358 (0)2 474 7151

Megavoima Oy
Asemakatu 5
FIN-38210 Vammala
tel. +358 (0)3 514 2151
fax +358 (0)3 511 3013

Uudenmaan Energia Oy
P.O.Box 4
FIN-03101 Nummela
tel. +358 (0)9 222 031
fax +358 (0)9 2220 3293



www.lansivoima.com

