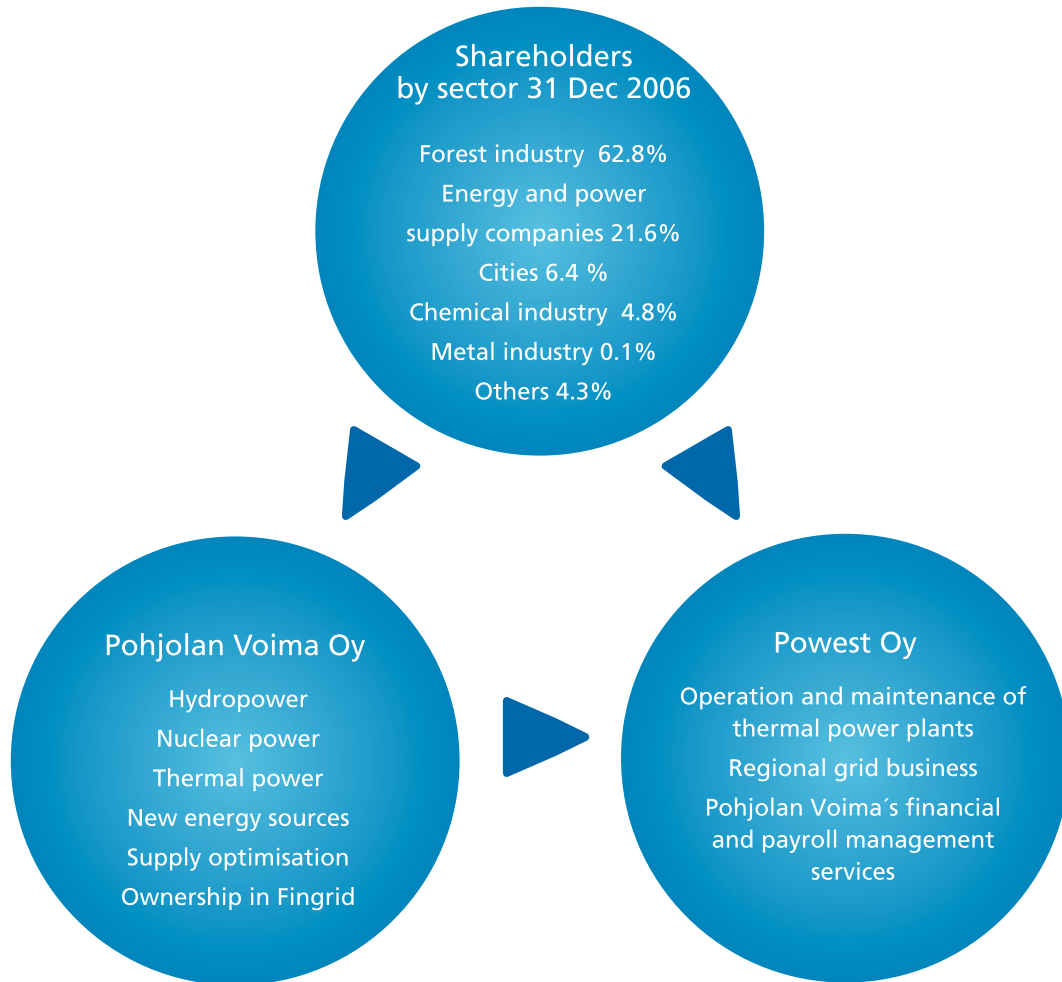


# Pohjolan Voima

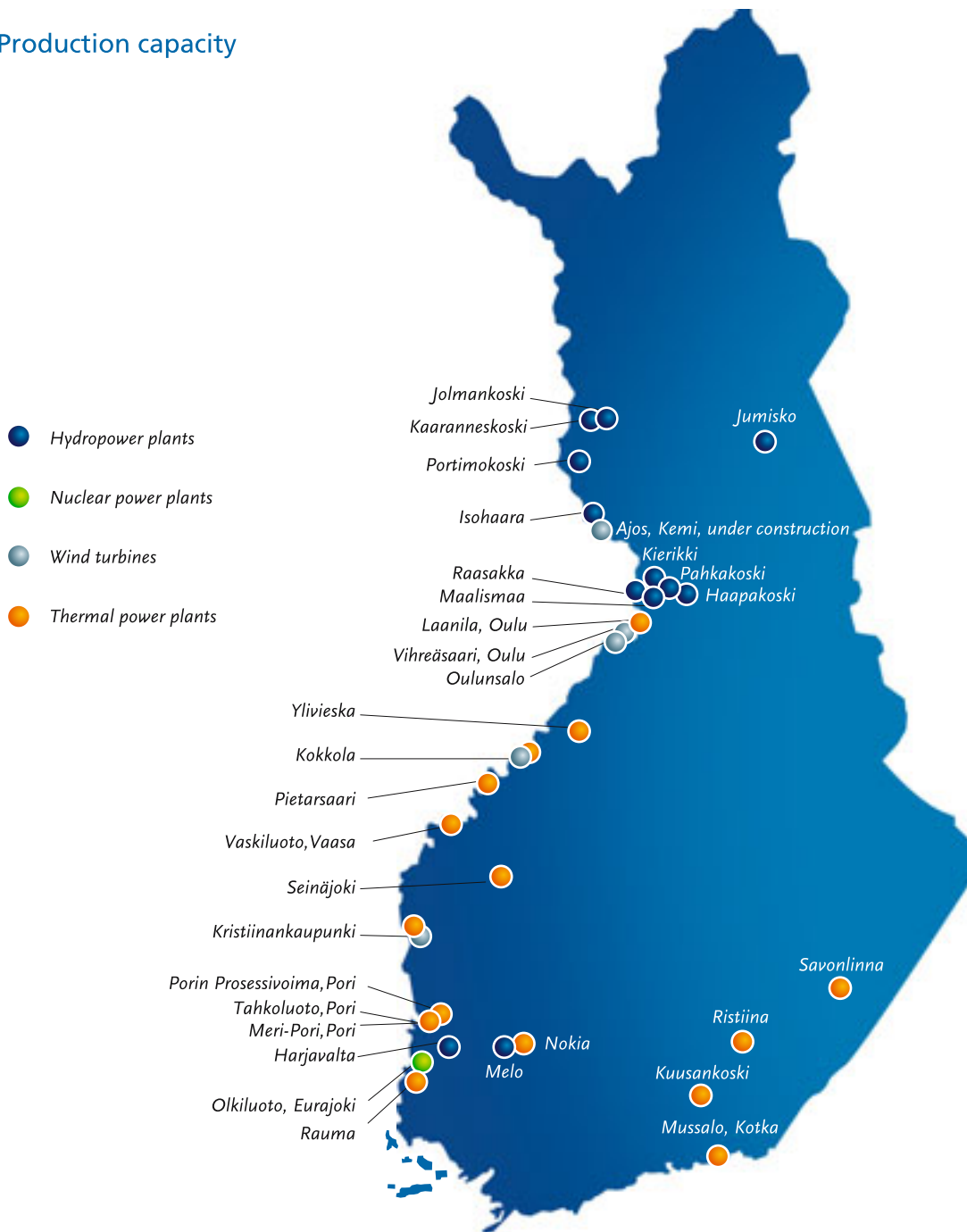


## The Pohjolan Voima operating model

Pohjolan Voima supplies electricity and heat to its shareholders at cost. The shareholders cover the costs of the operations. This operating model is also called the "Mankala principle". The name is derived from the ruling issued by the Supreme Administrative Court, constituting a precedent. According to this ruling, the shareholders of a company called Oy Mankala Ab were found not to have received taxable income when Mankala generated and supplied them with electricity at a price lower than the market price and the shareholders covered the company's costs on the basis of its Articles of Association.

Productive co-operation based on the Mankala model makes it possible to build new power plants. It generates advantages of scale and efficiency, enabling the small companies to take part in large investments.

## Production capacity

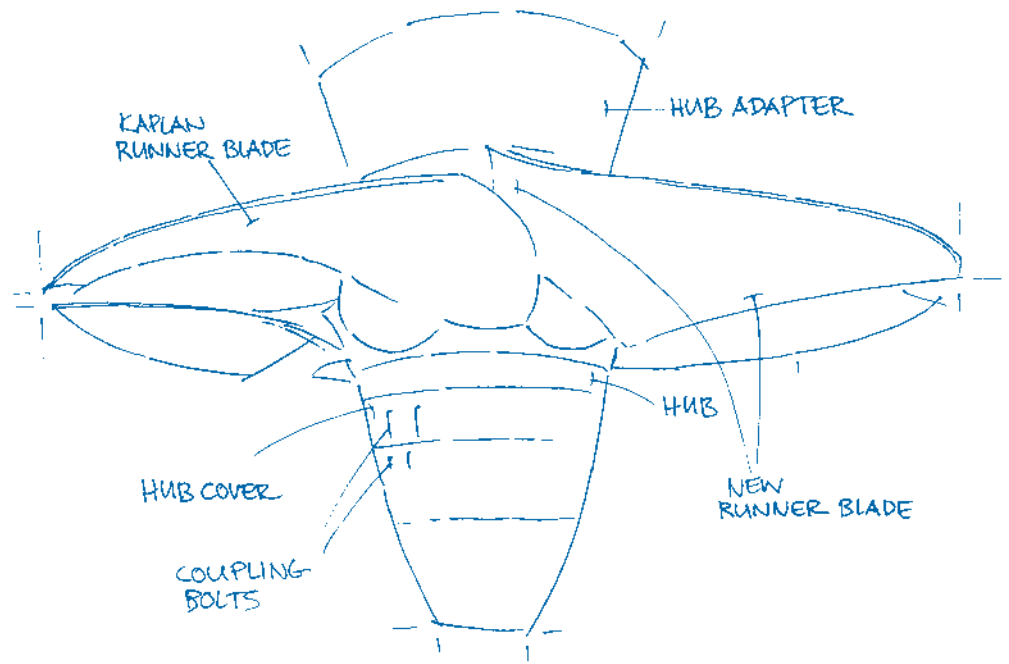


## Pohjolan Voima's key figures

	2006	2005	2004	2003	2002
Turnover, € million	888	601	667	659	670
Operating profit or loss, € million	-7	-8	0	-21	38
Net interest-bearing liabilities, € million	1 790	1 633	1 063	801	774
As percentage of turnover, %	202	272	159	122	115
Equity-to-assets ratio, %	33	36	43	47	48
Total assets, € million	3 586	3 311	2 664	2 386	2 357
Investments, € million	325	704	427	90	197
Average number of personnel	1 032	938	873	864	803

*Pohjolan Voima is  
a privately-owned  
group of companies in the energy  
sector producing electricity and  
heat at cost for its shareholders  
in Finland. The group also  
develops and maintains  
technology and services in its  
sector.*

responsibility. reliability. competence.



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## Highlights in 2006

### Construction on Olkiluoto 3 continued

By the end of the year, work at the construction site of Teollisuuden Voima Oy's Olkiluoto 3 (OL3) nuclear power plant progressed to the concreting of the foundation of the reactor building and the reinforcing and concreting of the turbine plant. The original timetable of the OL3 power plant unit underwent changes. In early 2006, the plant supplier communicated that the construction work and component production were behind schedule, and according to the information provided by the plant supplier in December, the commercial use of the OL3 power plant unit will start in late 2010 or early 2011.

### Hydropower renovation programme kicked off at Kierikki

One of the two machine units of the Kierikki plant was renewed in spring 2006 and the other will follow suit in spring 2007. The Kierikki renovation is the first stage of the project to improve the efficiency of the Iijoki hydropower plants. Completed by 2015, the programme will increase capacity by 44 MW. The

cost estimate of the investment programme is € 50 million.

### Finland's largest wind farm erected in Ajos, Kemi

Pohjolan Voima began construction on a large-scale wind farm in Ajos, Kemi. The first stage of the Ajos project envisages the construction of five 3 MW wind turbines, raised partly offshore and partly onshore. The decision about the further 15 MW investment will be made in 2007. The budget of the project is € 50 million. Moreover, Pohjolan Voima decided to extend Riutunkari, Oulunsalo into a wind farm by constructing two new 3 MW wind turbines. The wind turbine investment will be implemented by Pohjolan Voima's subsidiary PVO-Innopower Oy.

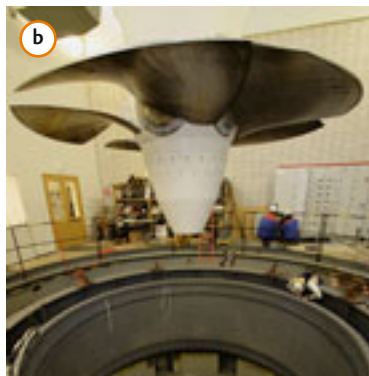
### New biofuel plant completed in Rauma

November saw the inauguration of the new Rauma biofuel plant. The plant supplies process steam and electricity to the UPM Rauma paper mill, as well as district heat and electricity to Rauman Energia Oy.

2006 ● January **a** ● February ● March ● April ● May **b**

*Construction on Olkiluoto 3 continued*

*The first renewal of the hydropower renovation programme was completed in Kierikki*



The value of the investment was € 75 million. The power plant's main fuels are bark and logging residue, while peat, bio sludge and small amounts of refuse-derived fuel will be used as supplementary fuels. The investment was implemented by Rauman Voima Oy, owned by Pohjolan Voima Oy, 72%, and Rauman Energia Oy, 28%.

### Estlink submarine cable connection inaugurated

The cable connection between Finland and the Baltic countries was inaugurated in December. Estlink allows the transmission of electricity at 350 MW capacity. The underwater cable accounts for 75 km of the 105 km long connection. In Finland, the high-voltage direct current cable was linked to the Espoo substation while the link in Estonia is Harku. The budget of the project was € 110 million. Pohjolan Voima and Helsingin Energia own a combined share of 10.1% of AS Nordic Energy Link which was responsible for the project. Other shareholders are the Baltic companies Eesti Energia, Latvenergo and Lietuvos Energija.

### New bioenergy plant to be built in Pori

In December, Pohjolan Voima decided to invest in the construction of a new bioenergy plant in Pori, at the Kemira Pigments Oy industrial site. The plant will supply process steam and electricity as well as district heat to Kemira and Pori Energia Oy. The project budget will be € 140 million. The project will be implemented by Pohjolan Voima's wholly-owned subsidiary Porin Prosessivoima Oy.

### Future models for thermal power operation surveyed

In 2006, Pohjolan Voima launched a survey to develop the operation and maintenance activities at the Kristiinankaupunki, Kotka Mussalo, Nokia, Seinäjoki, Pori Tahkoluoto and Vaasa Vaskiluoto thermal power plants. The aim is to identify the optimal operating model not only in view of the power plant operations but also from the personnel's perspective. The new operating model will be introduced in 2007 according to plan.

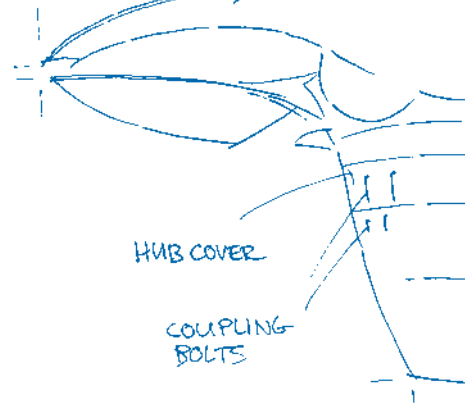
July ● August ● September ● October **c** ● November **d** ● **e** December ● 2007

Decision was taken to erect Finland's largest wind farm in Ajos, Kemi

New biofuel plant was completed in Rauma

The Estlink cable connection was inaugurated





## Review by the President

The active public debate in 2006 on energy issues was in the best interests of the entire sector. The importance of the energy industry for Finnish competitiveness and economic growth is widely recognised. A dynamic and visible industry is hopefully also interesting to future experts.

The views about the electricity market and the ways in which Finland should resolve her central energy issues differed dramatically. The major question in principle was the increased dependence on imports, raised in association with the Russian underwater cable debate. Both the general public and the political decision-makers were clear and unambiguous in their opinion that increased self-sufficiency is the path Finland should take in the future. For Pohjolan Voima, this was an important signal to boost our investments.

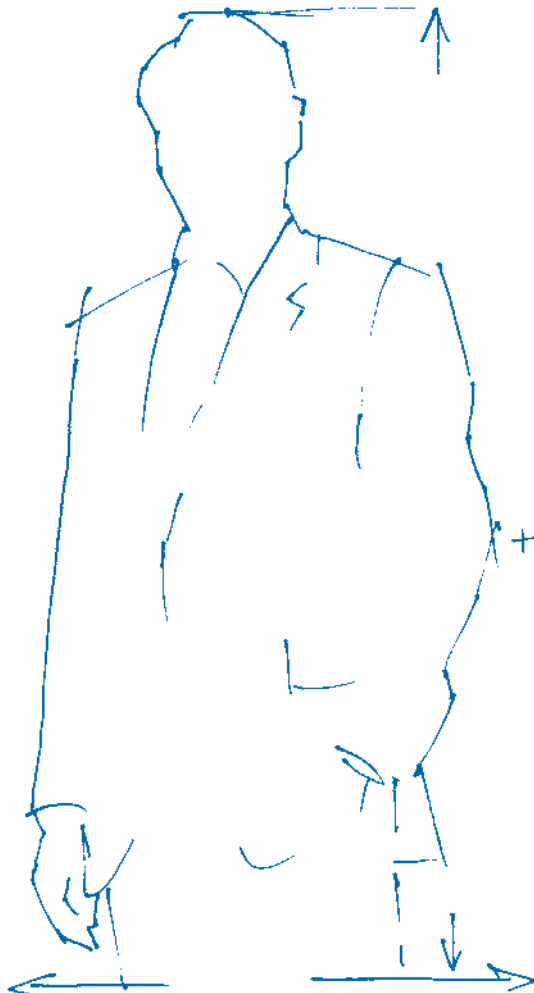
The high cost of energy is considered an established fact we should adapt to. However, the debate

seems to forget that the energy-intensive industry will also in the future be able to enhance its competitive advantage through the at cost or “Mankala” principle. Likewise, this operating model will allow the municipal utilities and energy companies to maintain an inexpensive energy price locally, or support the municipal economy.

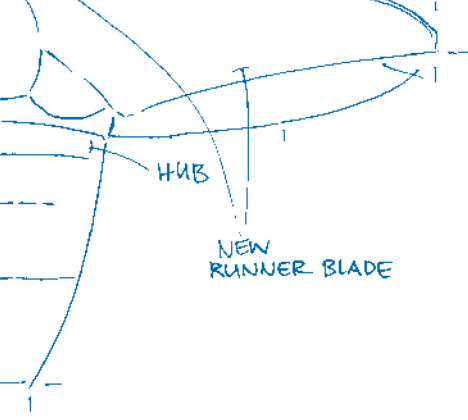
As a result of the increase in market electricity prices, the Pohjolan Voima operating model is in growing demand. In this context, we have prepared our own estimates of the need to build new electricity generation capacity, which, if materialised, would result in a higher rate of self-sufficiency and reduced carbon dioxide emissions. We estimate it is realistic that Pohjolan Voima, together with its shareholders and regional co-operation partners, will build much more new electricity production capacity in Finland by 2020.

Among the future investments, the sixth nuclear power plant is the most important. Although no decisions about additional nuclear power have been made to date, the respective preparatory work, such as the assessment of environmental impacts and land use planning, must be started without delay. This will create the conditions in which an investment decision could be taken in early 2010.

If we succeed in our investment objectives, most of the Finnish energy-intensive industries and municipal energy companies will be self-sufficient in their electricity procurements, making them extremely competitive in terms of electricity costs. But achieving this goal does not depend on the will of the companies alone. Success calls for a clear and persistent energy policy. The new Government instituted after the elections has a major challenge in this respect. The building of versatile capacity also calls for amendments in the current legislation, as well as for speedier permit and appeal procedures. In hydro-power production, this would entail a reform of the Rapids Protection Act.







The post-2012 climate policy seems to follow an unaltered, but slightly tougher, outline. It seems that the EU will continue to focus on emission trading for climate change mitigation, although this approach has met with increasing criticism. However, any reform will be difficult within the enlarged Union. A revised global climate convention would be indispensable but it seems unrealistic to expect one. Investments in low-emission or emission-free production are the most efficient way to control the increase in electricity prices.

2006 saw several significant legislative projects. The Power Reserve Act was prepared at the initiative of the Ministry of Trade and Industry. It was necessary to ensure the operating preparedness of certain condensing power plants under the peak consumption situation. It would have been impossible to maintain sufficient preparedness of these plants under normal market terms. For its part, this Act will improve the security of supply of electricity.

The introduction of peat feed-in tariffs was a legislative amendment not welcomed by Pohjolan Voima without reservation. *Per se*, there is a justified reason to support domestic peat with an excessively high specific emission coefficient. The support paid to domestic fuels should be targeted directly at fuel producers, not at electricity production. The reformed system makes the overt fiscal support payable by the electricity consumers.

The current owner structure of Fingrid, the national grid company is justified. As one of its shareholders, Pohjolan Voima's aim is to see that Fingrid focuses on its main task, performing it efficiently. The proposal for a Nordic main grid is not realistic. Should the grid company become state-owned, the introduction of tax-like charges would be an increasing threat.

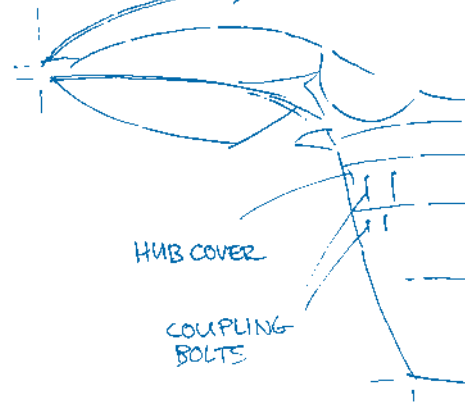
This was a successful year for Pohjolan Voima. Our investment programme progressed on all fronts. Nuclear, bio, hydro and wind power projects were

implemented with success. However, the delay of the Olkiluoto 3 nuclear power plant project managed by Teollisuuden Voima Oy was a disappointment. Timetable problems also characterised certain projects to recover waste for energy use – Pohjolan Voima has been unable to implement any of them, due to permit and land use planning problems. However, it will be possible under the reformed legislation to arrange the co-firing of biomass and waste in a rational manner, as shown by the Rauman Voima and Alholmens Kraft power plants.

The several ongoing investment projects kept the Group on a developing growth curve. Pohjolan Voima's public recognisability and weight as a major energy policy actor have been enhanced. I would like to express my warmest gratitude to the Pohjolan Voima personnel, shareholders and other partners.

### Timo Rajala





## Operating environment

### A year of exceptional circumstances

In terms of electricity production and consumption, 2006 was an exceptional year. The winter was long, and the intense colds towards the end of January, in particular, once again inspired questions as to whether Finland has sufficient reliable electricity production capacity. The record warm, dry summer extended long into autumn. The low rainfall had a significant impact on the Nordic reservoirs, and there was increased concern for the sufficient supply of electricity during the upcoming winter season in all Nordic countries. Finally starting in October, the rainfall improved the hydrological situation considerably and the warm weather contained the growth in electricity consumption towards the end of the year.

### Thermal power production accounted for half of the electricity consumption

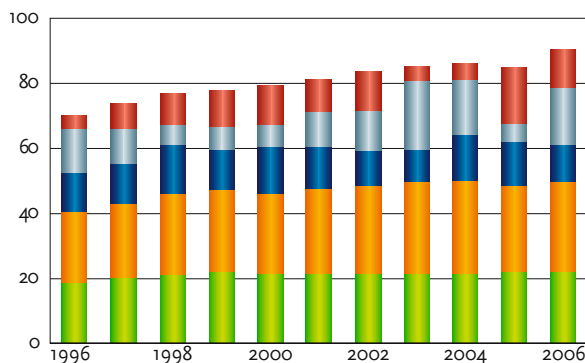
In 2006, Finnish electricity consumption was 90.0 TWh, a 6.5% up from 2005. A significant share of the increase was a result of a normalised situation in the consumption of electricity by the forest industry after the labour dispute in 2005. The combined consumption of households and agriculture, services and the public sector grew by 1 TWh.

Despite the winter with low snowfall, the spring levels of the Norwegian and Swedish reservoirs remained more or less at the level of long-term average

es. As summer started, the reservoirs were considerably reduced, falling close to the long-term minimums by August. The situation only started to improve in October. For this reason, hydropower production was below average in Finland and the other Nordic countries. In Finland, 11.3 TWh of electricity was generated with hydropower, compared to the 13 TWh of a year with average hydrological conditions.

The lower Nordic hydropower production was replaced by thermal power production. The production of Finnish condensing power plants was over three-fold compared to 2005. The total production of electricity by thermal power was 45.1 TWh, about half of the Finnish electricity consumption in 2006. Nuclear power production was by and large the same as in 2005, accounting for almost 25% of the Finnish electricity consumption.

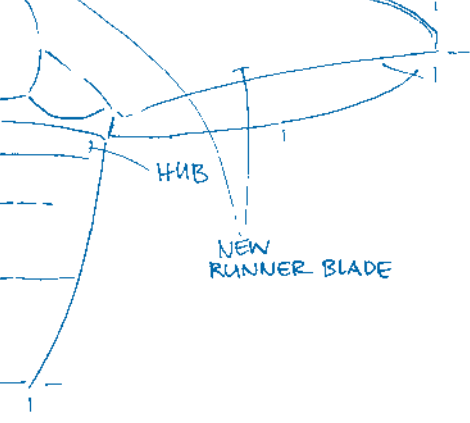
The average price of electricity per MWh, quoted in Nord Pool, the Nordic electricity exchange, was almost € 20 higher than in 2005. In 2006, the average system price was € 48.59 per MWh. The price of electricity reached its peak in late August, with the daily average system prices quoted at about € 80 per MWh. In addition to the long period of low rainfall, the price was also pushed up due to the production interruptions at the Swedish nuclear plants. Emission trading and the increase in fuel prices were other factors behind price hikes. The Swedish and



Net supply of electricity in Finland in 1996–2006, TWh

Source: Finnish Energy Industries

- Net imports
- Condensing power
- Hydropower
- Industrial CHP
- Nuclear power



Norwegian reservoir situation improved in October. The price of electricity settled at about € 30 towards the end of the year.

### Record high need for electricity generation capacity

On Friday 20 January 2006 at 8 to 9 am, Finland set a new record for generation capacity needed, with electricity consumed during that hour at the rate of 14,776 MW on average. The total capacity of electricity generated was 11,755 MW and 3,022 MW was imported from Sweden and Russia. In addition, industry voluntarily restricted its consumption. It was the first time that Fingrid had to warn of potentially threatening lack of capacity.

During the peak load situation, electricity imports from the neighbouring countries proved to be indispensable. During the intense frost period, Sweden and Russia limited their electricity exports to safeguard their own electricity supplies. Finland's electricity supply was salvaged because the cold weather front was limited to Finland, the Baltic countries and Russia. Had it extended over larger areas of the Nordic countries, Sweden would have further limited its electricity exports, and Finland would have been compelled to limit her own consumption.

The need for electricity generation capacity grew during 2006, and the new peak of electricity con-

sumption was reached on 8 February 2007 at 7 to 8 am, with the average consumption during that hour at 14,808 MW.

The net imports of electricity to Finland were 11.4 TWh in 2006, clearly less than in 2005. Russian imports still grew but those from Sweden were considerably lower than in 2005. The exceptional circumstances and the export limitations in the neighbouring countries fired the debate on the importance of self-sufficiency in electricity production, as well as on the risks associated with dependency on imports.

### Second year of emission trading

2006 was the second year of the EU's first emission trading period. The price of emission allowances varied from € 6 to over € 30. At the beginning of the year, the price was about € 20, reaching its peak at over € 30 in late April. Towards the end of the year, the price settled at about € 6. Due to the abundant condensing power production, the carbon dioxide emissions from electricity production rose considerably from the 2005 level.

The bill to amend the Act on Emission Trading in view of the second emission trading period in 2008 – 2012 progressed in Parliament and was adopted in January 2007. The Act extends the emission control measures to cover the flexibility mechanisms under the Kyoto Protocol, and also includes the alloca-



Electricity supply by source of energy in Finland in 2006, total 90.0 TWh

Source: Finnish Energy Industries

24.4%	■ Nuclear power	10.9%	■ Natural gas
17.9%	■ Coal	6.9%	■ Peat
12.7%	■ Net imports	2.0%	■ Oil
12.6%	■ Hydropower	1.1%	■ Refuse-derived fuels
11.3%	■ Biofuels	0.2%	■ Wind power

tion criteria of the emission allowances for the second emission trading period. According to the legislative version adopted by Parliament in January, the emission allowances to be allocated during the second period will fall almost 20% short of the estimated emissions. The decrease in free emission allowances will hit the condensing power production hardest. The European Commission has not yet adopted the Finnish proposal for its allocation plan.

The Government mitigated the burden caused by emission trading to the industry by halving the electricity tax imposed on industry to € 2.2 per MWh as of the beginning of 2007. At the same time, the tax support granted to electric power generated by waste sludge and other industrial wastes and by-products was abolished.

Used for emission trading purposes, the high specific emission coefficient of peat caused concern among the decision-makers as to the potential decrease in the use of peat, as well as to the negative effect on the reliability of the supply of electricity generated with it. A legislative package was prepared to promote the use of peat, enacted as of 2007. Under the Act, the stocks extending over one year and the electricity produced with peat will be eligible for subsidies in accordance with the emission allowance price level.

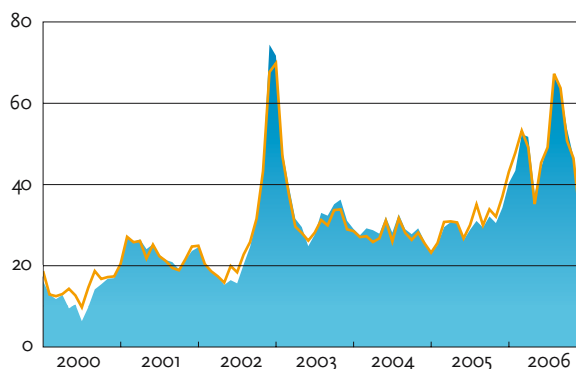
### Additional capacity is needed

The peak in electricity consumption is reached in the Nordic countries normally during the long frost season in winter, with a lot of electricity required for heat-

ing and illumination. In Finland, the need for electricity generation capacity to meet the peak consumption has continued to grow by about 300 MW annually. During the cold winter season, the need for electricity generation capacity can be estimated to be as high as over 15,000 MW. According to Nordel, the Nordic cooperation body of the main grid companies, the electricity generation capacity available for Finland in the winter of 2006–2007 will be 13,120 MW. Although the entire capacity would be in use and available under peak consumption situations, Finland should still import almost 2,000 MW of electricity.

The experience from past winters, the annual over 1% growth of electricity consumption and the obsolescence of current production capacity have deepened the concern for the future sufficiency of electricity. This was also reflected in the Finnish energy policy and legislative work in 2006. Published towards the end of 2005, the outline of the Government's energy and climate policy was debated in Parliament during the spring. In its energy and climate strategy the Government finds that no production form that has no adverse emission effects and is cost-efficient should be excluded when the new capacity is being built in the future. During the parliamentary debate the Finance Committee underlined that all forms of energy must be assessed from the perspective of society's overall interests.

The parliamentary Finance and Environment Committees also took a positive stand on the increase of hydropower. Moreover, the preparation for the



Price of electricity quoted at the electricity exchange in 2000–2006, Nord Pool Elspot, €/MWh

Source: Nord Pool

- System price
- Finnish area price

reform of the Water Act was finalised during the year. The legislative draft recognises the importance of hydropower, simplifying and accelerating the respective permit procedures. The actual bill will be presented by the new Government after the parliamentary elections. The hydropower potential not yet harnessed in Finland is almost 10 TWh, but protection decisions limit any significant additional exploitation through new construction. Current legislation allows the materialisation of only about 0.8 TWh of the increased hydropower potential in connection with the renovation of current power plants.

The use of recycled waste in energy production is progressing slowly in Finland. During the year, it was even suggested in public that the Waste Incineration Statute be amended, which would abolish any chance of utilising syngas. 50% of household waste is non-recyclable, and could be used as fuel in CHP plants operating at a favourable efficiency. However, the legislation and appeal processes delay the power plant projects aiming at the utilisation of waste. Besides the Baltic countries, Finland is among the few EU countries that do not burn their waste, and great quantities of fuel that could be utilised for energy production are dumped in landfills.

### “Power Reserve Act” into force in December

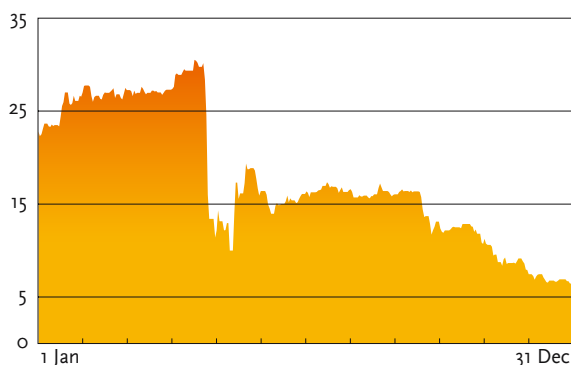
The purpose of the Power Reserve Act is to ensure the balance between electricity production and consumption in the coming winter seasons. The system is

coordinated by Fingrid Oyj, which will pay the producers a fee for keeping the peak power plants at 12-hour starting readiness in December to February. As of the beginning of 2007, 600 MW of capacity was included in the system. The Act will remain in force until 2011.

### Energy issues extensively debated

The Ministry of Trade and Industry also ordered a survey on the functioning of the wholesale and retail market of electricity. In his report, the one-man committee, Mr. Purasjoki, proposed that the adequate supply of electricity should be ensured through many measures, with the building of new production capacity in Finland playing the most important role in this respect.

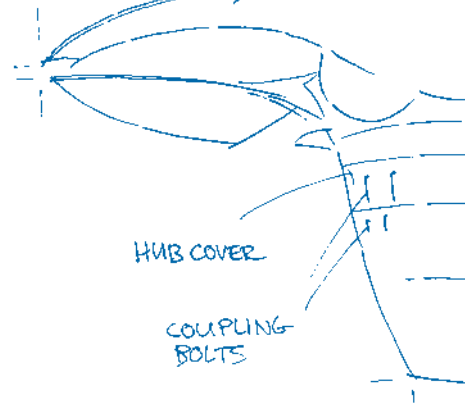
Self-sufficient energy production, reliable and reasonably-priced supply of energy and environmental issues were also raised during the Finnish presidency of the EU. The issues were discussed both in the summits focusing on EU internal affairs and on its external relationships. During the year, the European Commission put a lot of effort into studying the current state of the energy sector. In January 2007, the Commission issued an extensive package of initiatives on energy and climate policy. The package includes several communications, and the particular intent of the Commission is to mitigate climate change, as well as improve the security of energy supply and competitiveness in the EU.



### Emission allowance price in 2006, €/emission allowance

Source: Nord Pool

- Emission allowance price  
EUADEC -06/EUADEC -07



## Business Review

### Responsible power production – Competitive, reliable and environmentally compatible

The basis of Pohjolan Voima's business is the building, operation and maintenance of versatile production machinery for electricity and heat production in Finland. In its business operations, Pohjolan Voima also bears its social responsibility founded on the principle of generating electricity in a reliable, economical and environmentally compatible manner, with due attention paid to the needs of its shareholders and stakeholders. The operations are steered by its corporate responsibility policy and related operating principles.

Pohjolan Voima optimises its electricity procurement based on the demand for electricity of its shareholders, not only export industry companies but also municipalities, energy companies and utilities. Pohjolan Voima's mission is to supply its shareholders with electricity at cost.

Pohjolan Voima has a versatile production structure, comprising hydropower, nuclear power, thermal power and wind power. In early 2007 Pohjolan Voima had 46 power plants in 25 locations.

*In this business review, the volumes of electricity supply are shown in accordance with Pohjolan Voima's shares in power plants, for which reason they differ from the Group figures given in the Financial Statements.*

### One fifth of the entire Finnish electricity production

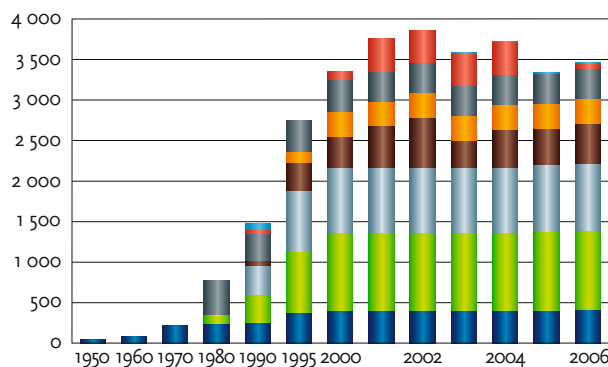
In the beginning of 2007, Pohjolan Voima's overall production capacity was 3,394 MW. Pohjolan Voima's total electricity production was 17.9 TWh, 34% up from the previous year. Heat supplied to the shareholders was 4.8 TWh.

Due to the low rainfall situation persisting until October 2006, the power production of Pohjolan Voima's hydropower plants was also lower than in 2005. Correspondingly, hydropower was replaced by running the thermal power plants to a much higher degree than in 2005.

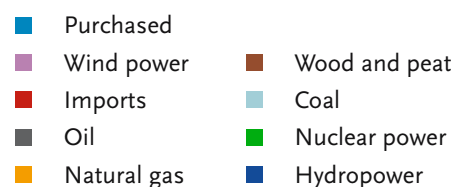
Pohjolan Voima's hydropower plants generated 1.4 TWh of electricity while the output of thermal power plants was 8.4 TWh. The Olkiluoto nuclear power plant set a new production record. Pohjolan Voima's share of the total electricity production was 8.1 TWh. 0.02 TWh of electricity was produced with wind power. Pohjolan Voima purchased 4.9 TWh of electricity from the market.

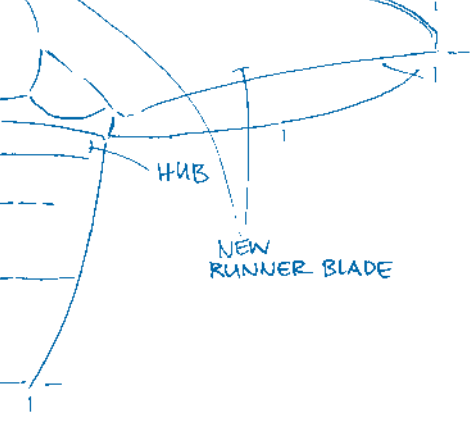
### Leading power plant investor

By investing in new capacity and ensuring the operability of its power plants, Pohjolan Voima creates the scope to provide its shareholders with competitively priced electricity in all circumstances. Thus the Pohjolan Voima investments also maintain the compet-



Pohjolan Voima's electricity supply capacity in 1950–2006, MW





itiveness of the Finnish society based on the premise of sustainable development.

The Pohjolan Voima mode of operation provides the shareholders with advantages of scale whilst diminishing their investment risks. Thanks to the investment model, minor shareholders also have an opportunity to participate in large-scale projects. In developing the supply capacity, Pohjolan Voima seeks innovative solutions that support persistent long-term operation. Pohjolan Voima's versatile investments in electricity production promote Finland's self-sufficiency in power supplies, at the same time mitigating climate change.

During 2006, Pohjolan Voima's electricity production capacity increased by 62 MW.

### New bioenergy plant in Rauma

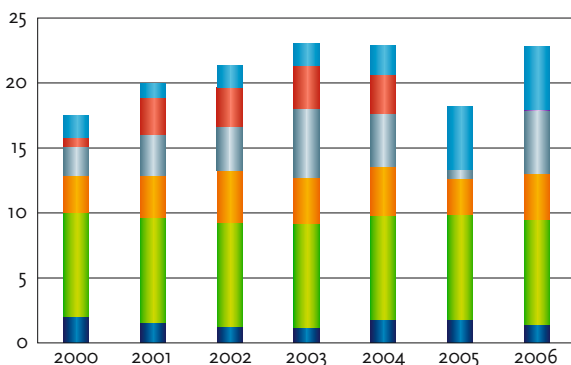
Together with its shareholders, Pohjolan Voima has invested over € 1 billion in 12 new bioenergy plants since 1990. November 2006 saw the inauguration of the Rauman Voima power plant, with bark and logging residues constituting its principal fuels. The plant supplies process steam and electricity to the UPM Rauma paper mill, as well as district heat and electricity to Rauman Energia Oy. The new power plant generates 65 MW of electricity, 140 MW of process steam and 50 MW of district heat. The value of the investment was € 75 million. Pohjolan Voima owns 72% of the power plant and Rauman Energia 28%.

### Modernisation of the nuclear power plants and OL3

The extensive modernisation project focusing on the turbine plants and power distribution at the Teollisuuden Voima OL1 and OL2 nuclear power plant units in Olkiluoto was completed in 2006. As a result, the combined electricity generation capacity of the power plant units increased by almost 40 MW. The value of the investment was about € 70 million. The construction of the new unit, the approximately 1,600 MW OL3, continued.

### Iijoki renovation programme

Called VESPA, the renovation of the Iijoki hydropower programme also aims at higher efficiency, and the project started with the introduction of the number two machine unit in Kierikki. The next step of the programme is the installation of the Kierikki number one machinery in the spring of 2007. Preparations were made for a corresponding project in Haapakoski. The VESPA project envisages the replacement of the turbines, a revision and partial replacement of the generators, as well as the modernisation of the automation system. When completed, the programme will increase the Iijoki power plant capacity by 44 MW. The budget of the project is € 50 million.



Pohjolan Voima's electricity supply in 2000–2006, TWh

- Electricity purchases
- Imports
- Wind power
- Condensing power
- CHP
- Nuclear power
- Hydropower

### Estlink cable connection

Connecting the Baltic states with the Nordic electricity market for the first time in history, the Estlink submarine cable was inaugurated in December. The cable will allow the transmission of electricity at 350 MW capacity between Finland and Estonia. Pohjolan Voima and Helsingin Energia own a combined share of 10.1% of AS Nordic Energy Link, the company responsible for the Estlink project. The value of the investment was € 110 million.

### New power plant investments under preparation

A decision was made to construct a bioenergy plant fired by wood fuels, peat, coal and refuse-derived fuels in Pori, at the Kemira Pigments Oy industrial site. The plant will generate electricity and heat for Kemira and the City of Pori. The power plant's electricity generation capacity is 65 MW. It will also produce steam at 140 MW and district heat at 70 MW capacity. With a budget of € 140 million, the power plant will be completed by the end of 2008.

In October, Pohjolan Voima's subsidiary PVO-Innopower decided to start work on the first phase of the 30 MW wind farm in Ajos, Kemi. The project envisages the construction of five 3-MW plants, two onshore and three on artificial islands offshore. The decision on the further investment on phase two shall be

made in 2007. The second phase would be built on artificial islands offshore. The total investment is € 50 million, with phase one accounting for € 24 million of the whole. The wind farm will be taken in use in early 2008.

PVO-Innopower also decided to build two new 3-MW wind power plants in Riutunkari, Oulunsalo. Moreover, PVO-Innopower acquired an existing 1.3-MW power plant from Oulun Seudun Sähköosuuskunta. The overall capacity of the Riutunkari wind farm will be 10.3 MW. The commercial exploitation of the new plants will start towards the end of 2007 according to plan.

In 2006, Pohjolan Voima began studies about the construction of a power plant attached to the Laanila power plant at the Kemira industrial site in Oulu. The plant would be fired with municipal waste sorted at its origin and with burnable industrial waste to the amount of 130,000 tonnes annually. Modern technology and fuel handling ensure that the operations cause no harmful emissions or smell problems. The power plant would produce process steam, electricity and district heat for the Kemira industrial facilities and the City of Oulu.

### Active development operations

Pohjolan Voima's intent is to be a significant actor in energy sector development in Finland. Besides its



Pohjolan Voima's electricity supply in 2006 • total 22.8 TWh

- 6.3% ■ Hydropower
- 35.5% ■ Nuclear power
- 5.7% ■ CHP, district heat
- 9.7% ■ Industrial CHP
- 21.4% ■ Condensing power
- 0.1% ■ Wind power
- 21.3% ■ Electricity purchases



new power plant investments, the company seeks to exploit innovations in the production of electricity. During the past few years, the focus has been on biotechnology and increased energy efficiency of power plants.

The improved operability of the current production capacity of the thermal power plants was studied in project focusing on the burner wear and corrosion phenomena.

Pohjolan Voima aims to start the development of a new multi-fuel concept for condensing power production in 2007. The aim is the design of a power plant meeting the multiple future emission challenges, while simultaneously flexible in use and easily regulated.

### Extensive biofuel programme

Pohjolan Voima is the leading biofuel utiliser in Europe. Begun in 1990, the biofuel programme is one of the means adopted by Pohjolan Voima to reconcile the increase in electricity needs with the control of carbon dioxide emissions.

Pohjolan Voima aims at efficiently utilising the biomasses available in the vicinity of its power plants. The R&D projects associated with the programme have focused on fuels, their cultivation and harvesting methods and combustion technologies. The biofuel programme has generated several hundred new jobs, mainly in fuel procurement.

In 2006, the agreement-based area of the cultivation of reed canary grass grew by 300 ha to 2,300 ha. The use of forest chips, stumps included, was about 1 TWh.

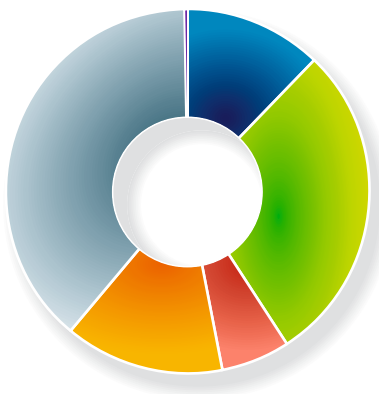
The Kokkola power plant decided to purchase a reed canary grass crusher which will facilitate the handling of the material at the power plant. The Kristiina power plant performed crushing tests with wood-based fuels as well as crush combustion tests in the powdered coal burner. The development will continue in early 2007.

The Vaskiluoto power plant studied the feasibility of reed canary grass and the agricultural by-product straw in energy use. The objective is to replace as much as 10% of the fuel used in the Vaasa coal-fired CHP plant by agrobiomass. Annually, this means about 0.4 TWh of energy or about 50,000 ha of cultivated land.

### Environmental policy underpinned by values

A basic requirement for Pohjolan Voima's persistent and long-term energy business is the concern for a safe, healthy and diverse environment. The operations are steered by the company's environmental policy based on its values: responsibility, reliability, competence.

The Group's companies set their own environmental objectives and targets based on the principles of the Group's environmental policy. Pohjolan Voima



Pohjolan Voima's electricity supply capacity on 1 January 2007 • total 3,394 MW

12.1%	■	Hydropower
28.8%	■	Nuclear power
6.0%	■	CHP, district heat
14.3%	■	Industrial CHP
38.5%	■	Condensing power
0.3%	■	Wind power

is committed to good management and continuous improvement of environmental issues.

State-of-the art environmental protection is not only compliance with binding requirements, but also efficient use of raw materials and careful operation and maintenance of power plants. The management of the whole also comprises safe handling, recycling and final disposal of by-products and waste. Pohjolan Voima's production companies follow their certified environmental management systems according to the ISO 14001 standard. Moreover, Teollisuuden Voima qualifies and has been recorded in the EMAS register.

#### No significant environmental deviations

In 2006 no significant environmental deviations or events took place at the Pohjolan Voima power plants. As a result of an incident caused by thunder, the maximum permissible water level was exceeded at two hydropower plants in the Iijoki river. No harm or risk was caused by the exceptionally high water. For the rest, all operations were in line with the terms of the power plant permits.

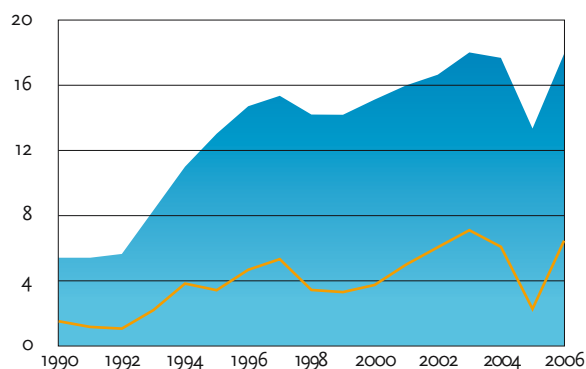
To maintain the fish stocks, 2.9 million fry were stocked in the Kemijoki and Iijoki water systems and in the sea area according to goals. The long depression in the lamprey stock persisted, especially in the Kemijoki river, and the number of lamprey assisted

in migrating over the dams was insufficient. Most of the land-based pools of the Raasakka fish farm were renovated and divided into small units in order to enhance production reliability and minimise environmental impacts.

The hydropower plants and watercourse regulation areas underwent normal environmental management work, such as shore erosion protection and renovation of the draining systems.

The Teollisuuden Voima operations complied with the environmental policy, environmental permits and environmental management system, with no identified environment-related deviations. As in previous years, the emissions from the Olkiluoto nuclear power plant were only fractions from the limits permitted by the authorities. The heat load of the cooling water to the surrounding waters was 27.4 TWh. The power plant generated 38 tonnes of spent nuclear fuel.

The carbon dioxide emissions from thermal power plant production was 6.5 million tonnes. Combined particle emissions were 0.5 thousand tonnes, sulphur dioxide emissions 6.4 thousand tonnes and, the nitrogen oxide emissions 11.3 thousand tonnes. 397 thousand tonnes of fly ash, bottom ash and desulphurisation gypsum were produced as by-products from the flue gas cleaning. 73% of this were reutilised in earthwork or by the construction industry.



Pohjolan Voima's production of electricity and CO<sub>2</sub> emissions in 1990–2006

- Production of electricity, TWh/year
- CO<sub>2</sub>, millions of tonnes/year

### Investments for the environment

The potential ways to diminish nitrogen oxides were studied, choosing a lower-emission burner solution that suits coal-fired power plants. The combustion technology of the Tahkoluoto power plant was also changed as part of this research project. As a result of the measures taken, the nitrogen oxide emissions from Tahkoluoto are now below the level imposed by the European LCP directive. The total investment in the burner was about € 2.5 million. Decisions have been made to install similar new technology in 2007 in the Kristiina and Vaskiluoto coal-fired power plants.

The environmental evaluation focusing on the interim by-product deposit and dumping area of the Kristiina power plant was completed. Situated in Lälby village in Kristiinankaupunki, the handling area will be used for extended handling, deposit and disposal of the fly and bottom ashes generated by the Kristiina power plant, as well as the gypsum and filter lime created as a by-product of desulphurisation. According to plans, the area will be the solution for the long-term disposal of the by-products from the Kristiina power plant. The operative volume of the area is estimated to be sufficient for about 35 years.

### HR policy aims at an encouraging workplace

Pohjolan Voima's operating principles envisage sup-

port and value given to its competent and productive personnel. The company is a safe and solid employer willing to develop the working environment to become as encouraging as possible. The aim of HR policy is a competent, motivated and committed personnel, ready to face change.

In 2006, the average number of employees working for the Group was 1,477\* in 73 municipalities. Men accounted for 80% and women 20% of the personnel. Equality is promoted by selecting the best candidate for each job based on their training, experience and suitability, irrespective of gender. 69% of the personnel had a technical training background and 21% a university-level technical degree. The average age is 46.9 years.

The company's good relationships with shop stewards and their unions have guaranteed a good, conflict-free situation in terms of industrial peace. Required under the Act on Co-operation within Undertakings, information is disseminated in Group-wide meetings, two in 2006. Moreover, the materialisation of the principles of the Co-operation Act is complemented through the co-operation committees at power plant locations, as well as the personnel representatives in the executive groups of the subsidiaries. Teollisuuden Voima is not represented in the Group meetings.

*\*The figure for personnel includes the Powest subgroup, and therefore it is different from the number given in the Financial Statements.*



Breakdown of Pohjolan Voima's personnel on average by production form in 2006 total 1,477 employees

55.9%	■	Nuclear power
29.9%	■	Thermal power
4.9%	■	Hydropower
9.3%	■	Others

### Strongly committed personnel

In 2006, Pohjolan Voima implemented two personnel surveys, one focusing on Teollisuuden Voima and the other on the rest of the Group companies. The two surveys show a slight improvement in almost all sectors. According to the survey, the personnel is more committed to their employer and work than Finnish employees on average. Indeed, the duration of an average permanent employment contract with Pohjolan Voima is 15 years.

Pohjolan Voima aims at creating a healthy, safe working environment. The company takes care of the physical, mental and social wellbeing of its employees. The allocation to occupational health care was about € 578,000, or € 390 per each employee.

There were 52 accidents during the year. Every accident is reported and analysed. The Group objective, or zero accidents, was reached by the Seinäjoki, Laanilan Voima and Kokkolan Voima power plants.

The operative executive group for HR development issues with its own training committee is directly subject to the Corporate Executive Team. The Teollisuuden Voima Corporate Executive Team has a working group focusing on training issues. Competence assurance questions continue to play a major role. Performance appraisal discussions were increasingly important. The focus of training was on company-specific internal training. Competence assurance will remain a major issue in 2007.

The Teollisuuden Voima personnel has increased considerably through the OL3 project. Started in 2005, the investment in the training and introduction of new personnel continued in 2006.

The year also saw the launching of consistent change in systems. The payroll system was revised, and a new HR information system was under preparation. These measures guarantee that the company can avail itself of updated systems and tools to support competence assurance. The new system will be completed in 2007. The changes will not involve Teollisuuden Voima which uses its own systems.

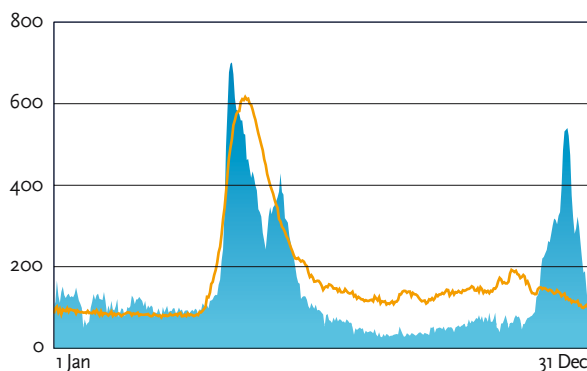
In 2006, Pohjolan Voima launched a survey to develop the operation and maintenance activities at the Kristiinankaupunki, Kotka Mussalo, Nokia, Seinäjoki, Pori Tahkoluoto and Vaasa Vaskiluoto thermal power plants. The objective is to identify the optimal mode of operation not only in view of the power plant operations but also from the personnel's perspective. The new operating model will be introduced according to plan in 2007.

### The year from production perspective

In 2006, Pohjolan Voima generated 17.9 TWh of electricity and supplied 4.8 TWh of heat to its shareholders.

### Record low rainfall decreased hydropower production

Pohjolan Voima's hydropower plants are located in



Flow rate  
at Raasakka, m<sup>3</sup>/s

- Average in 1990–2005
- In 2006

the Iijoki, Kemijoki, Kokemäenjoki and Tengeliönjoki water systems. Their combined capacity is 477 MW, of which Pohjolan Voima's share is 411 MW.

The production in 2006 was 1.4 TWh, or 87% of the normal. The low production output was due to the long, record dry summer and autumn.

Identified in late 2005, the damage in the Melo power plant dam in river Kokemäenjoki was repaired. The problem was caused by a faulty structure connecting the bottom of the earth cofferdam and the underlying core wall. The damage to the dam never caused any danger to people, the environment or the power plant.

The Supreme Court dismissed Pohjolan Voima's claim for compensation from the State for the business benefits lost due to the protection of the Iijoki river.

The lease contract regarding the use of state-owned hydropower in the four power plants in the Iijoki river terminated at the end of 2005, and the contract was not extended. The question about the utilisation right is now being evaluated by the environmental permit authority. The permit for the use of the power plants remains in force despite the difference of opinion.

€ 4.3 million in real estate tax was paid to 12 municipalities for the Pohjolan Voima hydropower plants, a sum corresponding to the municipal tax income of about 1,100 jobs in industry.

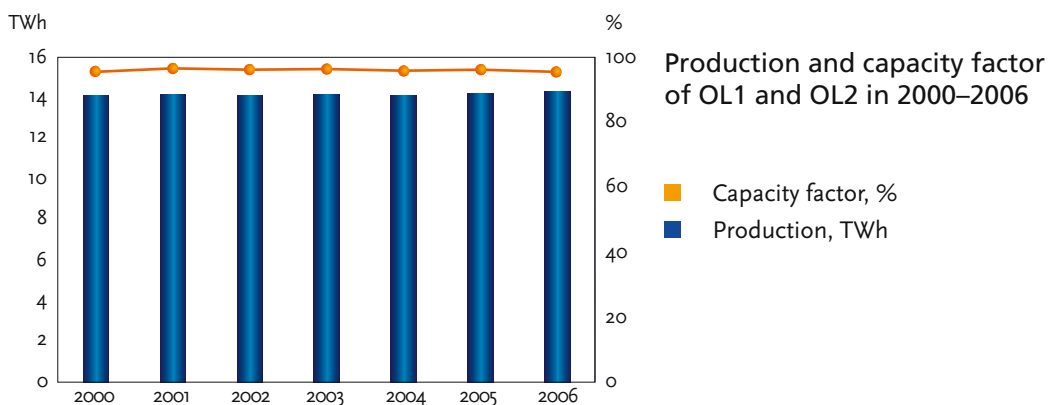
The increased social acceptability of hydropower

was clearly visible in several contacts with the stakeholders. The waterways used for hydropower production are associated with many forms of utilisation, and their reconciliation calls for well-functioning interaction with the immediate stakeholder groups. Pohjolan Voima was actively participating in the energy strategy work conducted by the Council of Oulu Region. Communications regarding hydropower were enhanced, and the co-operation with stakeholders in sectors, such as the fulfilment of the company's fishing industry obligations, was further activated.

### The Olkiluoto nuclear power plant sets another record

Teollisuuden Voima's nuclear power plant is located in Olkiluoto, Eurajoki. The net electrical output of the power plant is 1,720 MW of which Pohjolan Voima's share is 977 MW or 57%. In 2006, the Olkiluoto nuclear power plant reached the best annual production ever: 14.3 TWh of electricity generated. Pohjolan Voima's share of the whole was 8.1 TWh. The average load factor of the Olkiluoto plants was 95.4%.

Both power plant units run throughout the year without any significant problems causing diminished output. OL1 produced 7.0 TWh of electricity with a capacity factor of 93.8% while OL2 reached the best annual production in its history: 7.3 TWh of electricity at a 96.9% capacity factor. The power plant consumed 39 tonnes of uranium while 38 tonnes of spent



nuclear fuel was extracted from the reactors.

The original timetable of the OL3 power plant unit underwent changes. In early 2006, the plant supplier communicated that the construction work and component production were behind schedule, and according to the information provided by the plant supplier in December, the commercial use of the OL3 power plant unit would start in late 2010 or early 2011.

By the beginning of 2007, the construction site of OL3 had progressed to the concreting of the foundation of the reactor building and the reinforcement and concreting of the turbine building. The site employed about 1,000, half of whom were Finns. The manufacture of the main machinery and components in France, Germany and Japan progressed.

According to the audit of the quality management system of the OL3 construction site performed by an external inspection company DNV, the quality management system is in place and working.

Teollisuuden Voima paid € 3.5 million in real estate taxes.

### In thermal power production, condensing power was used to replace hydropower

Pohjolan Voima is a shareholder in 21 thermal power plants. Their combined production capacity is 2.779 MW, of which Pohjolan Voima's share is 1.996 MW. In

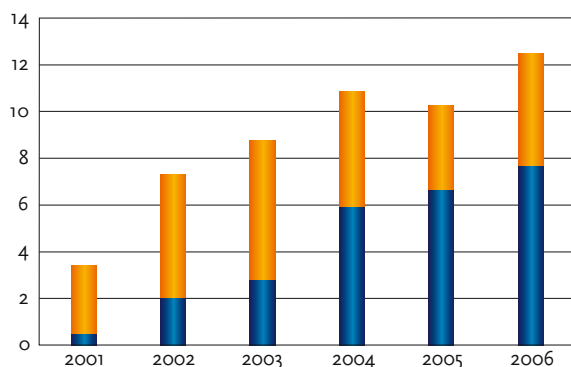
addition to electricity, the CHP plants supply district heat mainly to municipal energy companies and utilities, as well as steam for the needs of local industry.

Electricity production of the thermal power plants totalled 8.4 TWh, which was 142% higher than in 2005. The increase in condensing power production was particularly marked because it was used to replace the shortage in Nordic hydropower. The production of thermal power was also boosted by the increased power plant capacity. Electricity generated in condensing power plants accounted for 4.9 TWh and CHP plants for 3.5 TWh of the overall production of the thermal power plants.

The use of fuels by the power plants also increased from the previous year. The power plants utilised coal corresponding to 14.2 TWh, while peat accounted for 3.2 TWh, natural gas 1.7 TWh and bio-fuels for 6.2 TWh.

Since the Pohjolan Voima thermal power plants were in heavy use, the carbon dioxide emissions from the power plants exceeded their free emission allowances granted on the basis of the national allocation decisions. The deficit in emission allowances was 0.6 million tonnes.

In line with the draft for the allocation plan of the emission allowances for 2008–2012, the annual emission allowances granted to Pohjolan Voima would decrease by 2.8 million tonnes from the current level.



Use of biomass in Pohjolan Voima's bio-fuel programme 2001–2006, TWh\*

■ Peat  
■ Wood and energy crops

\* Total use of biomass by the power plants

This will result in a considerable increase in the need to purchase emission allowances, and thus also in production costs.

The Pohjolan Voima thermal power plants paid € 1.0 million in real estate tax.

### Wind power production in slight increase

In 2006, Pohjolan Voima's subsidiary PVO-Innopower generated 0.027 TWh of electricity with wind power. Pohjolan Voima's share was 0.019 TWh. The wind turbines are located in Kokkola, Kristiinankaupunki, Oulunsalo and Oulu. Moreover, Teollisuuden Voima has a 1-MW wind turbine in Olkiluoto.

The combined production capacity of PVO-Innopower's wind turbines is 13.3 MW. Pohjolan Voima's share is 10 MW.

### Electricity purchases remained at last year's level

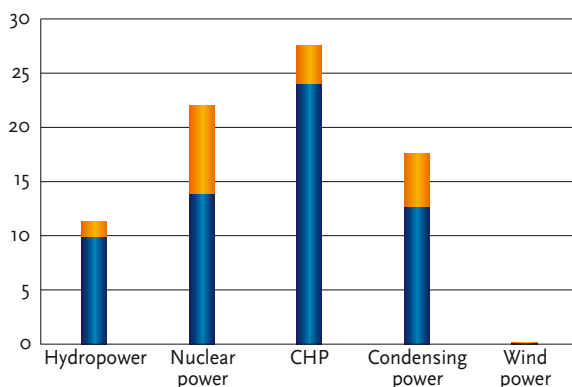
In 2006, Pohjolan Voima purchased 4.9 TWh of electricity from the Nordic market, which is the same as in 2005. Pohjolan Voima made no import-contract-based electricity purchases in 2006. Imports of electricity from Estonia started in January 2007 with the inauguration of the Estlink cable connection. Pohjolan Voima has an electricity purchase contract with the Estonian company Eesti Energia.

### Powest

Pohjolan Voima's subsidiary, Powest Oy, provides the Pohjolan Voima Group with financial and payroll administration services and owns companies whose businesses support the energy supply of its shareholders. The Powest Group employed 445 on average in 2006. The Group's turnover was € 113,5 million.

Powest's subsidiaries include Proma-Palvelut Oy, PVO-Alueverkot Oy, Nordic Energy Oy and Finestlink Oy. Proma-Palvelut Oy produces operation and maintenance services for thermal power plants. Powest owns 66% of Proma-Palvelut Oy while Etelä-Pohjanmaan Voima Oy holds the remaining 34% of the shares. PVO-Alueverkot controls the 110 kV access network connecting the Pohjolan Voima power plants to the Fingrid main grid. Nordic Energy is a player in the derivative electricity market, hedging its existing electricity contract stock. Finestlink owns 10.1% of the shares of AS Nordic Energy Link, the company responsible for the construction of the Estlink cable. Powest owns 60% and the Helsingin Energia 40% of Finestlink.

In 2006, Powest sold its holding in the electricity trading service provider Power-Deriva Oy, as well as in Enprima Oy, a consultant company. Nordic Energy demerged Solidus Oy, the company providing expert services for the electricity market.



Pohjolan Voima's share of Finnish electricity production in 2006, TWh

■ Pohjolan Voima  
■ Others

## Corporate Governance

Pohjolan Voima's governance is based on the Companies Act and the corporate documents. In addition to the regulations issued in the Companies Act and other applicable Finnish legislation the Group's corporate governance is guided by the recommendation made by the Helsinki stock exchange for the management and control system of listed companies. Pohjolan Voima complies with the recommendation unless the corporate documents stipulate otherwise.

The Pohjolan Voima Group comprises the parent company Pohjolan Voima Oy and its subsidiaries, which include the subgroups Teollisuuden Voima Oy and Powest Oy.

The Group's subsidiaries and associated companies have their own governing bodies as well as some committees and corporate documents. Pohjolan Voima plays an active role in the management of its subsidiaries. Pohjolan Voima's General Meeting of Shareholders issues directives to the Board of Directors regarding the composition of the Boards of Directors of the subsidiaries and, if necessary, certain decision by the subsidiaries. The parent company's Board of Directors and the Corporate Executive Team discuss the main principles of the Group's operations. Pohjolan Voima participates in the management and supervision of its subsidiaries through its representatives appointed to the governing bodies of these companies.

The Powest subgroup is not included in the Consolidated Financial Statements, as Pohjolan Voima has authority over Powest Oy but is not entitled to dividends.

### General Meeting of Shareholders

Supreme authority is vested in the General Meeting of Shareholders. The General Meeting of Shareholders takes decisions on statutory matters. It also elects the members of the Board of Directors in accordance with the procedure specified in the corporate documents and issues binding directives to the Board of Directors regarding the elections of the Board members of the subsidiaries and any significant investments.

### Board of Directors

The Board of Directors is responsible for managing the company and arranging its operations appropriately in accordance with legislation, the corporate

documents and any decisions taken in the General Meeting of Shareholders. The Board of Directors supervises the operations and management of Pohjolan Voima, as well as deciding on the Group's significant investments and borrowing. The Board of Directors discusses and approves, for example, the business code of conduct and the policies defining corporate responsibility and risk management of Pohjolan Voima. The Board of Directors makes an annual assessment of its own activities. The working order drawn up by the Board of Directors defines more closely its principal tasks and procedure.

The members of the Board of Directors are elected annually at the General Meeting of Shareholders. According to the Articles of Association the Board consists of 5 - 13 ordinary members. The Board members and their deputies are nominated by the shareholders. In the General Meeting of Shareholders on 21 March 2006, eight ordinary members were elected to the Board of Directors. The procedure for the election and organisation of the Board is specified in detail in the corporate documents.

The Chairman of the Board of Directors is appointed by the company's largest shareholder and the Deputy Chairman is appointed by the second largest shareholder. The President and CEO presents the issues on the agenda of the Board of Directors. The President and CEO is not a member of the Board of Directors.

In 2005, the total remuneration to the members of the Board amounted to € 279 200 (258 000).

The Board of Directors convened 13 times. 90% of the Board members were present at the meetings.

### Committees of the Board of Directors

Pohjolan Voima's Board of Directors elects annually from its number a Salary working group to develop the incentive and remuneration system of the Group and to approve the criteria for the incentive bonuses. The Board of Directors may authorize the Salary working group or the Chairman of the Board to approve the criteria for the remuneration of the President & CEO and the Corporate Executive Team. An incentive equivalent of up to 15% of the annual salary may be paid to the members of the Corporate



Executive Team. The incentive scheme does not include any shares or share derivatives. In 2006, Markku Tynkkynen, Esa Tirkkonen and Timo Rajala were members of the Salary working group. However, the President & CEO was not present when the working group was handling matters pertaining to the assessment and remuneration of the President & CEO.

In addition to the Salary working group the corporate documents have stipulated certain committees to be nominated to assist the Board of Directors and the Executive Team. The President & CEO presents the issues discussed in the committees to the Board. The preparation of the decisions of the Board and the tasks of the above-mentioned committees have been described in a document approved by the Board of Directors.

### President & CEO and Corporate Executive Team

Timo Rajala, M.Sc.(Eng.) serves as the company's President & CEO. Minna Korkeaoja, M.Sc. (Econ.) is deputy to the President & CEO.

In operational management, the President & CEO is supported by the Corporate Executive Team, which discusses the main principles related to the operations of the Group and the parent company. In addition to the President & CEO, the Executive Team comprises Minna Korkeaoja, Pertti Simola, and Jari Niemelä, and Timo Väisänen until 31 December 2006. Jussi Hintikka and Pekka Ottavainen were nominated members of the Executive Team on 1 February 2007.

Furthermore, the Corporate Executive Team has appointed operational management groups to act as working groups that prepare issues to be discussed, thus supporting the Corporate Executive Team and the directors responsible for the operations.

### Personnel representation in the administration

Communication between the personnel and the employer, and the opportunities for personnel input are ensured by representative co-operation. Group-level co-operation is called the Group Meeting. Two Group Meetings were held in 2006.

### Auditing and auditor

The principal task of statutory auditing is to verify that the financial statements give correct and sufficient information on the Group's results and financial position. The Annual General Meeting annually appoints one regular auditor, which shall be an auditing corporation approved by the Central Chamber of Commerce.

The Annual General Meeting elected PricewaterhouseCoopers Oy, Authorized Public Accountants, as the regular auditor. Eero Suomela, Authorized Public Accountant, was the auditor in charge. The fees paid for the auditing in the Group came to € 255 000 (240 000) in 2006. € 55 000 (35 000) was paid to the Authorized Public Accountants for services other than the audit.

### Internal control, risk management and internal auditing

The Board of Directors and the operational management are responsible for the arrangement and sufficiency of company-internal control. The aim of internal control is to ensure the efficiency and profitability of the operations, the reliability of information as well as compliance with the regulations and operating principles. Pohjolan Voima's administrative system and internal control are based on the corporate documents and on the confirmed policies and operating principles.

At Pohjolan Voima, risk management is integrated in the corporate operations planning process, business and management. The Board of Directors has confirmed the risk management policy. The director of risk management and the operational management group of risk management develop and monitor risk management and, if necessary, support the responsible persons in the implementation of risk management.

The operating principles and principal procedures of Pohjolan Voima's internal auditing have been defined in the audit charter confirmed by the Board of Directors. The operations of internal auditing support the management in the development of a good administrative system, risk management and internal control system, as well as in the assessment of their efficiency. Internal auditing function is subordinate to the President & CEO and reports to the Board of Directors.

# Board of Directors, 31 December 2006

## Ordinary Members

### Markku Tynkkynen

Chairman, Executive Vice President  
Business Functions and Resources, UPM-Kymmene Corporation  
Born 1952; M.Sc. (Paper Eng.)

Executive Vice President of UPM-Kymmene Corporation in charge of resources and business support functions, Member of the Boards of Teollisuuden Voima Oy (TVO), Kemijoki Oy and the Finnish Forest Industries Federation  
Member of the Energy Committee of the Confederation of Finnish Industries, EK

### Pekka Laaksonen

Deputy Chairman  
Senior Executive Vice President, Stora Enso Oyj  
Born 1956, M.Sc. (Econ.)

Employed by Enso since 1979, Head of Stora Enso Fine Paper since 2005  
Member of the Boards of several subsidiaries and associated companies  
Deputy Chairman of the Board of Suominen Corporation

### Kari Rämö

CEO, Kymenlaakson Sähkö Oy  
Born 1952; M.Sc. (Eng.)

Chairman of the Board of Kymppivoima Tuotanto Oy  
Member of the Election Committee of Finnish Energy Industries

### Tapani Sointu

Vice President, UPM-Kymmene Corporation  
Born 1955; M.Sc. (Econ.)

Vice Chairman of the Board of Steveco Oy  
Member of the Boards of Suomen Kuitulevy Oy and Puhos Board Oy

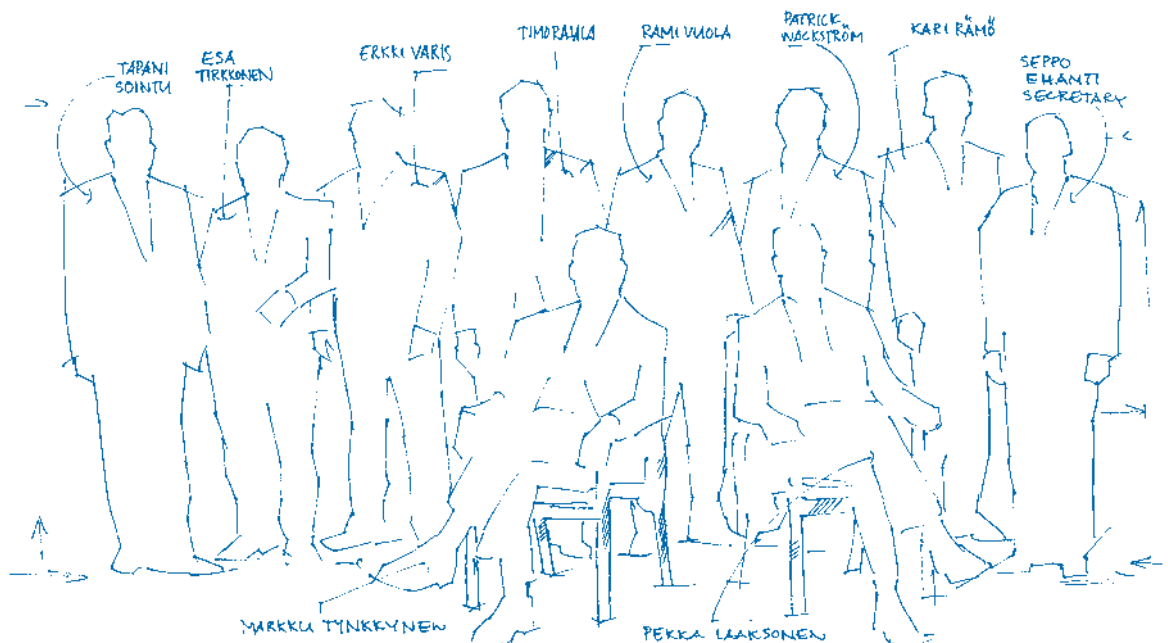
## Personal Substitutes

Jussi Pesonen  
President and CEO  
UPM-Kymmene Corporation  
Born 1960; M.Sc. (Eng.)

Timo Koivuniemi  
Senior Vice President, Energy  
Stora Enso Oyj  
Born 1948; M.Sc. (Eng.)

Pertti Laukkanen  
CEO  
Vantaan Energia Oy  
Born 1955; M.Sc. (Eng.)

Anja Silvennoinen  
Vice President, Energy  
UPM-Kymmene Corporation  
Born 1960; M.Sc. (Eng.)



## Ordinary Members

### Esa Tirkkonen

Deputy Chief Executive Officer, Kemira Oyj  
Born 1949; M.Sc. (Eng.)

Member of the Boards of Kemira GrowHow Oyj  
and Teollisuuden Voima Oy

### Erkki Varis

President and CEO, Oy Metsä-Botnia Ab  
Born 1948; M.Sc. (Eng.)

Chairman of the Board of Botnia South America S.A.  
Member of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company

### Rami Vuola

CEO, Etelä-Pohjanmaan Voima Oy (EPV)  
Born 1968; M.Sc. (Eng.)

CEO of EPV and Vaskiluodon Voima Oy since 2003  
Member of the Boards of Teollisuuden Voima Oy, Rapid Power Oy,  
Tornion Voima Oy, Etelä-Pohjanmaan Alueverkko Oy and Proma-Palvelut Oy

### Patrick Wackström

CEO, Porvoon Energia Oy  
Born 1958; engineer

Member of the Board of Päijät-Hämeen Voima Oy  
Member of the Electricity Trading Committee of Finnish Energy Industries

## Personal Substitutes

Elina Engman  
Vice President, Energy  
Kemira Oyj  
Born 1970; M.Sc. (Eng.)

Aarre Metsävirta  
Senior Executive Vice President,  
Deputy CEO  
M-real Corporation  
Born 1945; M.Sc. (Eng.)

Hannu Linna  
CEO  
Vaasan Sähkö Oy  
Born 1955; M.Sc. (Eng.)

Kari Hannus  
Vice Mayor  
City of Pori  
Born 1952; M.Sc. (Eng.)



# Corporate Executive Team in 2006

## Timo Rajala

President & CEO  
Pohjolan Voima Oy

Born in 1947, M.Sc. (Eng.), with the Group since 1975

Chairman of the Board of several Group companies  
Vice Chairman of the Board of Teollisuuden Voima Oy (TVO)  
Vice Chairman of the Board of Fingrid Oyj  
Member of the National Board of Economic Defence and its Executive General  
Chairman of the Committee on Energy Policy, Confederation of Finnish Industries EK

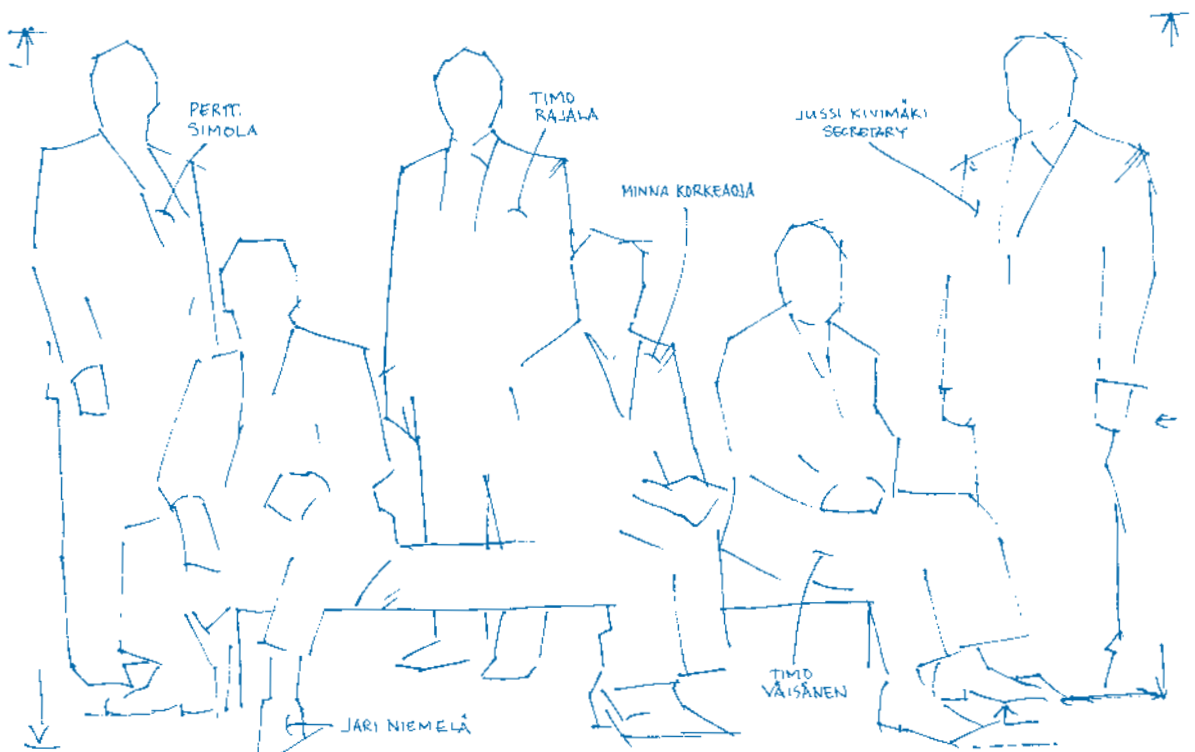
## Minna Korkea-öja

Executive Vice President

Financial Control, Communications, Corporate Planning, IT, Services

Born in 1964, M.Sc. (Econ.), with the Group since 1989

Member of the Board of several Group companies  
Member of the Board of Ramböall Gruppen A/S  
Member of the Board of Finnish Energy Industries  
Member of the Board of Energy Forum of Finland



### Jari Niemelä

Executive Vice President

Thermal Production, Technology, Project and Business Development

Born in 1958, M.Sc. (Eng.), with the Group since 1996

Chairman or member of the Board of several Group companies

Member of the Electricity Production Committee of Finnish Energy Industries

Member of the Energy working group of the Energy-intensive Industries

### Pertti Simola

President and CEO, Teollisuuden Voima Oy

Born in 1950, M.Sc. (Eng.), with the Group since 2004

Chairman of the Board of Posiva Oy

Member of the Board of the Central Chamber of Commerce

Member of the Board of the Rauma Chamber of Commerce

### Timo Väisänen

Executive Vice President

Treasury, Administration, Fuels and Power Procurement

Born 1959; M.Sc. (Eng.), with the Group from 1993 to 2006

Chairman or member of the Board of several Group companies

Member of the finance and tax commission of the Confederation of Finnish Industries, EK

Member of the National Board of Economic Defence, power economy pool committee



# Annual report by the Board of Directors 2006

## The electricity market

In 2006, electricity consumption in Finland was 90.0 TWh (84.5 TWh in 2005). 78.6 (67.5) TWh of electricity was produced in Finland, while net imports into Finland were 11.4 (17.0) TWh. Electricity imports from Russia were 11.6 TWh, an all time record. As in the past, Finland was a net exporter of electricity to the West.

The volume of the electricity trading on the Nordic electricity exchange, the Nord Pool, was 250 TWh, compared to 176 TWh in 2005. 2006 was a year of exceptionally scarce rainfall until late in the autumn, and consequently the production of hydropower diminished in all the Nordic countries. Electricity prices increased radically after the summer, reaching their peak towards the end of August. The average Nord Pool system price was € 48.59 (29.33) per MWh, while the annual average of the Finnish area price was € 48.57 (30.53) per MWh.

2006 was the second year of the EU's first emissions trading period. The price of emission allowances varied dramatically during the year, reaching as high as over € 30 per emission allowance in the spring. The prices of emission allowances took a downward turn in April, as the 2005 emission data was published, partly prematurely. At year's end, the price was about € 6 per emission allowance. Almost 60 (28) million emission allowances were traded in Nord Pool.

## Pohjolan Voima's electricity and heat production

In 2006, Pohjolan Voima's electricity supply was 29.8 (24.6) TWh. The Group's own electricity production accounted for 24.9 (19.7) TWh, of which the parent company's supplies to its shareholders were 17.9 (13.3) TWh. The subsidiaries supplied 7.0 (6.4) TWh to their other shareholders. Heat supplies were

5.3 (3.6) TWh. Purchases from the Nordic electricity markets were 4.9 (4.9) TWh.

Nuclear power made up 47.9% (57.7%) of the electricity supply. Teollisuuden Voima's Olkiluoto nuclear power plant generated 14.3 (14.2) TWh of electricity, of which Pohjolan Voima obtained 8.1 (8.1) TWh in accordance with its shareholding. The average capacity factor of the Olkiluoto plants was 95.4% (96.1%) and their combined annual generation set a new record for the second year in a row.

Hydropower accounted for 1.4 (1.8) TWh, or 4.8% (7.3%), of the electricity supply. Diminished production was due to the record dry summer and autumn.

Pohjolan Voima produced 5.5 (0.8) TWh of condensing power, which represented 18.3% (3.1%) of the electricity supply. Condensing power replaced the modest hydropower production, caused by the arid year, in the Nordic electricity market.

3.7 (3.0) TWh of electricity was generated by the CHP plants. 3.3 (2.2) TWh of peat and 7.0 (6.7) TWh of wood-based fuels were used.

## Pohjolan Voima's electricity supply in 2002–2006 (GWh)

	2002	2003	2004	2005	2006
Nuclear power	14,106	14,154	14,090	14,218	14,268
Hydropower	1,239	1,183	1,802	1,788	1,429
CHP	4,062	3,651	3,954	2,975	3,734
Condensing power	3,714	5,930	4,868	765	5,459
Wind	0	7	20	27	27
Imports from Russia	2,988	3,299	2,951	0	0
Purchases	1,756	1,698	2,288	4,852	4,868
Total	27,866	29,922	29,973	24,625	29,785

## Investments

Investments of the Pohjolan Voima Group, excluding financial investments, were € 325.3 (703.6) million.

Investments in biofuel plants were € 41.7 (8.9) million. Teollisuuden Voima invested € 197.1 (581.4) million in the OL3 project, € 24.0 (23.0) million in the related area and infrastructure work and € 40.3 (46.8) million in the renewal of the turbine plant of the OL1 plant unit, as well as in the changes and improvements performed in connection with the annual overhauls. PVO-Lämpövoima Oy invested € 2.5 million in the combustion technology changes at Tahkoluoto, with the objective of reducing nitrogen oxide emissions. PVO-Vesivoima Oy launched the Iijoki renovation programme by investing € 3.3 million in the renewal work at Kierikki and Haapakoski. The remaining investments were mainly made in repairs and renovations.

The sales of non-current assets were € 0.8 (6.9) million.

Rauman Voima Oy's bioenergy plant was completed towards the end of 2006. The new power plant generates 140 MW of process steam, 50 MW of district heat and 65 MW of electricity.

The engineering, licencing, construction, subcontracting and equipment manufacture of the Teollisuuden Voima OL3 project continued. The original construction timetable has changed. In December, the plant supplier communicated that the commercial utilisation of OL3 can start in late 2010 or early 2011. In line with the 2003 decision of the Pohjolan Voima Board, the company has invested € 274.9 (274.9) million in the OL3 project.

PVO-Innopower Oy studied the feasibility of the construction of a 30 MW wind farm in Ajos, Kemi, and made a decision in October to construct a 15 MW wind farm. The Ministry of Trade and Industry appropriated investment subsidies for the project. A decision to eventually expand the wind farm will be made later in 2007.

## Research and development

R&D expenses were € 16.7 (12.0 in 2005 and 11.6 in 2004) million, most of which allocated to nuclear waste management. Excavation work on the underground rock characterisation facility known as ONKALO continued under the final disposal project. Teollisuuden Voima accounted for € 2.7 (2.7) million of the finance for public programmes on reactor safety and nuclear waste management.

Besides investments in bioenergy plants, the biofuel programme also includes R&D operations. In 2006, the focal areas of R&D were biofuel handling and intake technologies, as well as the assessment of health impacts related to handling. Studies also continued on the technical and economical feasibility of the parallel use of biomass, wood, reed canary grass and straw, for coal-fired burners.

## Personnel

Pohjolan Voima performed a personnel survey in 2006. Compared to the previous survey of 2004, the results have improved in almost all subsectors. According to the questionnaire, the personnel are more committed to their employer and work than Finnish employees on average.

The payroll system was renewed, and the project to build up a new HR information system started. Updated systems and tools to support competence assurance will be in full use in 2007. Competence assurance was a focal area in 2006, and will also remain important in 2007.

The average number of employees working for the Group was 1,032 (938 in 2005 and 873 in 2004) and for the parent company 71 (73 in 2005 and 72 in 2004). At the end of the year, the Group personnel numbered 1,009 (933).

The average age of the personnel was 46.4 (45.3) years. Men formed 80% (80%) of the personnel. At year's end, the Group employed 209 wage earners and 800 salaried employees.

### The environment

All the power plants in Pohjolan Voima have valid environmental permits and Water Court permits. Environmental management is based on the certified environmental management systems in accordance with the ISO 14001 standard. The operations of Teollisuuden Voima were also in compliance with the environmental permits and the environmental management system. No significant deviations from the commitments of the environmental programme were identified during 2006. All operations related to the construction phase of the OL3 project are covered by a certified environmental management system.

Regulation of waterways and use of hydropower plants took place under the permit conditions, with the exception of the modest exceeding of the maximum permissible water limit at two hydropower plants at Iijoki. Resulting from a thunderstorm, this incident did not cause any damage. 2.9 (3.2) million fry were stocked in the Kemijoki and Iijoki watercourses and in the nearby sea areas. In several successive years, the number of lamprey migrating to the river mouths has been exceptionally small, and so Pohjolan Voima has been unable to fulfil the obligation regarding the number of lamprey to be conducted past the power plants.

At the thermal power plants, there were no deviations from regulatory compliance. The emissions from production increased from the previous year because the production of the condensing power plants and the number of power plants in use was higher. The carbon dioxide emissions from electricity and

heat produced and supplied to shareholders was 6.5 (2.3) million tonnes. Notes to the Financial Statements only report the CO<sub>2</sub> emissions of the subsidiaries, which amounted to 5.5 (1.3) million tonnes. The emissions of nitrogen oxides, sulphur dioxide and particles also grew. The sulphur dioxide emissions were 6.4 (2.6) thousand tonnes, the nitrogen oxide emissions 11.3 (4.1) thousand tonnes and the particle emissions 0.5 (0.2) thousand tonnes. All the thermal power plants of the Group fall within the sphere of the Emissions Trading Act.

Pohjolan Voima and its subsidiaries and associated companies are unaware of any environmental liabilities that have not been covered.

Pohjolan Voima's more detailed environmental information is published at the company Internet site at [www.pohjolanvoima.fi](http://www.pohjolanvoima.fi). Teollisuuden Voima provides information on the environmental issues related to nuclear power generation on its site at [www.tvo.fi](http://www.tvo.fi) and in a separate social responsibility report.

### Risk management

The aim of risk management is to ensure the materialisation of the strategy and the attainment of the business objectives, as well as to safeguard continuity and disturbance-free operations. Risk management takes place in line with the Group's risk management policy. Risk management is part of the management process, decision-making and day-to-day operations. It also constitutes part of the monitoring and reporting procedures. Risk management follows a centralised operating model. Each unit is responsible for the risk management related to its own operative risks, as well as for the respective reporting.

In line with the Group's insurance policy, all Pohjolan Voima companies are covered for risks of damage through insurances and other necessary measures.



## Changes in the Group structure

No new companies were acquired or Group companies divested during the financial year.

## Finances

Pohjolan Voima operates at cost. The shareholders pay the fixed costs in accordance with their ownership share, irrespective of whether they have used the capacity or energy share, as well as the variable costs according to the energy supplied. As a result of this operating principle, it is irrelevant to present any financial key indicators to understand the companies' business, financial status or result.

The aims and risks of financing operations have been defined in the financing policy adopted by the Board of Directors. The refinancing risk is managed through diversified sources of financing, sufficiently long loan maturity times and a balanced schedule of maturity. If loans are taken out in foreign currencies, the currency risk is eliminated by means of derivative contracts.

The Group's liquidity remained good. Net interest-bearing liabilities at the end of the year stood at € 1,790.1 (1,632.9) million. There were no liabilities in foreign currencies involving an exchange risk. The Group has the following credit ratings:

	Long term	Short term
<b>Pohjolan Voima Oy</b>		
Japan Credit Rating Agency	AA	
<b>Teollisuuden Voima Oy</b>		
Japan Credit Rating Agency	AA	
FitchRatings	A-	F2

For liquidity management, the Group was able to rely on domestic commercial paper programmes of € 900 (900) million, of which € 321 (306) million

was unused. At the end of the year, long-term credit facilities amounted to € 3,126 (3,225) million, of which € 2,373 (2,559) million was available.

At the end of the year, the Group had an equity-to-assets ratio of 32.9% (35.9%). The deferred tax liability is not included in the figure, as it is not expected to materialise.

As a result of a legislative amendment, the real property taxes paid by the Group rose to € 8.5 million, compared to € 6.0 million in 2005. The rise in the tax rate increased the production costs of hydropower, in particular.

The consolidated result was € -17.9 (-12.4) million. Due to the at cost principle followed, the result for the financial year of the subsidiaries is, as a rule, zero. When the changes in the depreciation differences of the subsidiaries were recognised at Group level in the profit or loss for the financial year and in the deferred tax liability, the result was an € 19.3 (18.1) million loss.

The Financial Statements do not recognise any eventual additional expenses or compensations due to the delay of the OL3 project.

## Shareholders' equity and share issues

The following issues were subscribed to during the year under review:

- Increase of share capital tied to series I shares (21 March 2006), 1,780 shares at the subscription price of € 0.101 million directed to Päijät-Hämeen Voima Oy.
- Increase of share capital tied to series I2 (2 October 2006), 3,789 shares at the subscription price of € 0.212 million directed to the City of Kokkola, 915 shares at € 0.051 million to Myllykoski Oyj, 10,204 shares at € 0.571 million to the City of Oulu, 888 shares at € 0.050 million to Oy Perhonjoki Ab, 2,608 shares at € 0.146 million to Päijät-Hämeen Voima

Oy and 3,923 shares at € 0.220 million to Vantaan Energia Oy.

- Increase of share capital tied to series I3 (2 October 2006), 21,328 shares at the subscription price of € 1.194 million directed to Etelä-Pohjanmaan Voima Oy, 6,963 shares at € 0.390 million to the City of Kokkola, 24,744 shares at € 1.386 million to Kymppivoima Tuotanto Oy, 2,460 shares at € 0.138 million directed to Myllykoski Corporation, 22,191 at € 1.243 million to the City of Oulu, 5,661 shares at € 0.317 million to Perhönjoki Ab, 3,479 shares at € 0.195 million to the City of Pori, 22,635 shares at € 1.267 million to Päijät-Hämeen Voima Oy and 928 shares at € 0.052 million to Vantaan Energia Oy.

- Increase of share capital tied to series G4 shares (2 October 2006), 211,991 shares at the subscription price of € 11.871 million directed to UPM-Kymmene Corporation.

- Increase of share capital tied to series G6 shares (2 October 2006), 18,603 shares at the subscription price of € 1.042 million directed at Kemira Oyj and 13,361 shares at € 0.748 million at the City of Pori.

- Increase of share capital tied to series K3 shares (2 October 2006), 14,607 shares at the subscription price of € 0.818 million directed to Päijät-Hämeen Voima Oy.

### Pohjolan Voima shareholders (general shareholding)

Shareholder	shareholding in%	
	2005	2006
Etelä-Pohjanmaan Voima Oy	7.519	7.604
City of Helsinki	0.833	0.829
Ilmarinen Mutual Pension Insurance Company	4.355	4.338
Kemira Oyj and Pension Foundation	3.082	3.071
Kemira GrowHow Oyj		

and Pension Foundation	1.756	1.749
City of Kokkola	2.443	2.474
Kymppivoima Tuotanto Oy	8.723	8.856
Kyro Corporation	0.182	0.000
Oy Metsä-Botnia Ab	1.575	1.569
M-real Corporation	2.866	2.855
Myllykoski Corporation	0.864	0.871
Nordic Energy Oy	0.004	0.000
City of Oulu	1.807	1.895
Outokumpu Oyj	0.107	0.090
Oy Perhönjoki Ab	2.685	2.704
City of Pori	1.226	1.242
Päijät-Hämeen Voima Oy	1.980	2.063
Rautaruukki Oyj	0.039	0.023
Stora Enso Oyj	15.603	15.565
UPM-Kymmene Corporation	42.035	41.873
Vantaan Energia Oy	0.316	0.329

The Extraordinary General Meeting of 2 October 2006 decided to change the shares in the B series into B, B2 and C2 shares, as well as to change certain shares in the G2 series into G4, G5 and G6 shares.

### Corporate management

The Annual General Meeting elected the following members to the Board of Directors: Markku Tynkkynen, Executive Vice President of UPM-Kymmene Corporation; Pekka Laaksonen, Senior Executive Vice President of Stora Enso Oyj; Patrick Wackström, CEO of Päijät-Hämeen Voima Oy; Kari Rämö, CEO of Kymenlaakson Sähkö Oy; Esa Tirkkonen, Deputy CEO of Kemira Oyj; Tapani Soinu, Vice President of UPM-Kymmene Corporation; Erkki Varis, President & CEO of Oy Metsä-Botnia Ab; and Rami Vuola, CEO of Etelä-Pohjanmaan Voima Oy.

Markku Tynkkynen was elected Chairman and Pekka Laaksonen Deputy Chairman in the organis-

ing meeting of the Board of Directors. The Board of Directors convened 13 (11) times in 2006.

### Legal actions pending

The Supreme Court dismissed PVO-Vesivoima Oy's claim for damages against the state for the business loss at the river Iijoki resulting from the enactment of the Rapids Protection Act. The Supreme Court found that there was no contractual relationship between the State and the company in this case.

The agreement between the State and PVO-Vesivoima on the use of the Iijoki hydropower, owned by the State, terminated at the end of 2005. The agreement was not extended. The termination of the agreement does not influence the operation of the power plants on the River Iijoki. PVO-Vesivoima applied for a permanent right to use the State's hydropower from the Northern Finland Environmental Permit Authority.

The appeal lodged against the permit of the Raasakka fish farm is pending with the Vaasa Administrative Court. Initiated by PVO-Vesivoima, the survey of title act to clarify the property-specified fishing rights of the rapid estate, based on sales of the shares in the rapid and water rights, became legally valid. The ruling was that no such rights existed.

The Finnish Association for Nature Conservation (Suomen luonnonsuojeluliitto ry) has lodged an appeal against the environmental permit awarded to Porin Prosessivoima Oy's new power plant in December. Irrespective of the pending appeal, the construction of the power plant can proceed according to the permit.

The dispute with Kyro Corporation over a decision taken by Pohjolan Voima Oy's Extraordinary General Meeting of 1 December 2004 was resolved at the same time as Kyro gave up its shares in Pohjolan Voima.

### Future outlook

Parliament adopted the amendment of the Emissions Trading Act in January 2007. The amendment envisages the new criteria for the allocation of the emission allowances (NAP2) for 2008–2012. The emission allowances for condensing power plants are decreasing by about 65% from the first period. Finland sent her preliminary allocation plan to the European Commission in October. The Commission has commented on the allocation plans of several countries insisting that the emission allowances should not be allocated beyond the level of emission materialised in 2005.

In 2006, Pohjolan Voima launched a survey to develop the operation and maintenance activities at the Kristiinankaupunki, Mussalo, Nokia, Seinäjoki, Pori Tahkoluoto and Vaasa Vaskiluoto thermal power plants. The aim is to identify the optimal operating model for strongly varying operating circumstances of the power plants. The decisions regarding the new operating model will be made in 2007.

In November, the Commission published a Communication on the development of the EU emissions trading in the post-2012 period (EU ETS Review). A proposal for a directive is expected in the latter part of 2007. The EU co-decision procedure will finalise the revised emissions trading directive by 2009–2010. The UN climate change conference in Nairobi enhanced the notion that the EU will continue its unilateral emissions trading system, with new cuts to emissions which will be increasingly tough as of 2013.

In January 2007, the Commission issued an extensive package of initiatives on energy and climate policy. In particular, the Commission's aim is to mitigate climate change as well as to improve the security of European energy supply and its competitiveness. Although the EU has no competence over en-

ergy policy, it can influence the member states' energy decisions and even their fuel choices in many ways, for example, through environmental objectives and obligations.

The amendment of the LCP (Large Combustion Plant) regulation is expected to enter into force in early 2007. Finland and the EU Commission have had differing views about the interpretation of the LCP directive which has delayed the entry into force of the flexibilities provided by the national emission reduction plan. The Commission interprets separate burners with one shared chimney for their combustion gases as one combustion plant. In Pohjolan Voima, this applies to the Tahkoluoto and Meri-Pori power plants. The Commission has started to study the interpretation of a shared chimney.

The Power Reserve Act was enacted in mid-December. The system is co-ordinated by Fingrid Oyj, which will pay the producers rent for keeping the peak power plants at 12-hour starting readiness in December to February. Among the Pohjolan Voima Group power plants, the system include the Kristiina and Vaasa oil-fired condensing power plants and the Mussalo natural gas-fired plant as of the beginning of 2007. The respective agreements will remain in force until 28 February 2009.

The investment project of Laanilan Voima for the utilisation of local energy waste in Oulu has been delayed due to the uncertainties related to the availability of energy waste and to the appeals regarding the construction of the plant. The environmental permit application regarding the waste incinerator was filed in October 2006. Public notice of the application has

been given, and formal response to notifications and opinions will be duly submitted in January 2007. The decision about the permit is expected in the early part of the year.

The environment and finance committees of Finnish Parliament took up the possibility to build new hydropower capacity. The programme of the new Government formed after the parliamentary elections will have a decisive impact on the possibility to promote the projects to add hydropower through supplementary construction. The bills to amend the Water Act and Dams Safety Act will be submitted to Parliament in the beginning of the new parliamentary period. Should the Acts enter into force in the prepared form, the legislation on hydropower will be clarified and simplified.

In January 2007, the Northern Finland Environmental Permit Authority decided to change the permits of the Kierikki and Maalismaa hydropower plants so that the entire chain of power plants on the river Iijoki can be utilised more efficiently.

### **Proposal of the Board of Directors regarding the distribution of profits**

The Group's distributable assets per 31 December 2006 were € 41,635,744.62, with the loss for the financial year accounting for € -4,574,667.80. The Board of Directors proposes to the Annual General Meeting that the loss be transferred to the retained earnings account and that no dividends be distributed.

## Accounts for 2006

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# Profit and Loss Account

Eur 1 000 • 1 Jan - 31 Dec	Group		Parent Company	
	2006	2005	2006	2005
<b>Turnover</b> (1)	<b>888 320</b>	600 925	<b>495 215</b>	276 691
Production for own use	22 355	16 845	-	-
Other operating income (2)	10 607	14 294	1 744	4 475
Raw materials and services (3)	-577 201	-326 371	-255 284	-60 904
Personnel expenses (4)	-65 101	-60 120	-6 168	-6 443
Depreciation and reduction in value (5)	-90 495	-91 056	-5 137	-1 147
Other operating expenses (6)	-207 542	-172 483	-227 426	-208 937
Share in profits of associated companies	11 684	10 348	-	-
<b>Operating profit or loss</b>	<b>-7 373</b>	-7 618	<b>2 944</b>	3 735
Financial income and expenses (7)	-27 230	-21 598	-7 149	-3 556
<b>Profit or loss before appropriations and taxes</b>	<b>-34 603</b>	-29 216	<b>-4 205</b>	179
Appropriations				
Increase (-) or decrease (+) in depreciation difference	-	-	174	1 551
Income taxes (8)	9 427	9 034	-544	-
Minority interest	9 279	7 756	-	-
<b>Profit or loss for the financial year</b>	<b>-15 897</b>	-12 426	<b>-4 575</b>	1 730

# Balance Sheet

Eur 1 000 • 31 Dec	Group		Parent Company	
	2006	2005	2006	2005
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets (9)	49 763	26 704	582	705
Tangible assets (10)	2 609 499	2 368 857	2 402	2 318
Investments (11)				
Holdings in Group companies	-	-	989 095	968 332
Other investments	431 576	411 134	329 205	335 811
	<b>3 090 838</b>	2 806 695	<b>1 321 284</b>	1 307 166
<b>Current assets</b>				
Inventories (12)	208 949	208 554	-	-
Non-current receivables (13)	42 554	37 988	41 557	36 721
Current receivables (14)	143 206	189 319	65 211	58 408
Securities held as liquid assets (15)	60 000	44 947	-	-
Cash in hand and at banks	40 867	23 728	7 842	20 373
	<b>495 576</b>	504 536	<b>114 610</b>	115 502
	<b>3 586 414</b>	3 311 231	<b>1 435 894</b>	1 422 668
<b>Equity and liabilities</b>				
<b>Shareholders' equity (16)</b>				
Share capital	58 159	57 675	58 159	57 675
Share issue	13 661	8 546	13 661	8 546
Share premium	387 663	379 278	384 194	375 809
Contingency reserve	547	547	547	547
Revaluation reserve	218 644	218 644	218 644	218 644
Invested retained earnings	7 209	-	7 209	-
Retained earnings	132 048	144 475	39 002	37 272
Profit or loss for the financial year	-15 897	-12 426	-4 575	1 730
	<b>802 036</b>	796 739	<b>716 841</b>	700 223
<b>Minority interest</b>	<b>278 807</b>	279 807	-	-
<b>Accumulated appropriations</b>				
Depreciation difference	-	-	1 387	1 562
<b>Liabilities</b>				
Deferred tax liability (17)	99 818	109 856	-	-
Non-current liabilities (18)	1 566 259	1 372 616	508 889	397 817
Current liabilities (19)	839 494	752 213	208 777	323 066
	<b>2 505 571</b>	2 234 685	<b>717 666</b>	720 883
	<b>3 586 414</b>	3 311 231	<b>1 435 894</b>	1 422 668

# Cash Flow Statement

Eur 1 000	Group		Parent Company	
	2006	2005	2006	2005
<b>Cash flow from operating activities</b>				
Operating profit or loss	-7 373	-7 619	2 944	3 735
Adjustments to operating profit or loss <sup>1)</sup>	81 048	77 682	5 117	-1 420
Change in net working capital <sup>2)</sup>	5 104	-11 596	-3 477	4 127
Interests paid	-26 754	-30 227	-16 280	-12 112
Interests received	10 245	7 207	11 761	9 405
Dividends received	2 286	1 945	1 665	1 665
Other financial items	-5 844	-2 918	-245	-1 091
Income taxes	-424	-18	-380	-
<b>Net cash flow from operating activities</b>	<b>58 288</b>	34 456	<b>1 105</b>	4 309
<b>Cash flow from investing activities</b>				
Acquisition of subsidiaries	-	-	-129 204	-59 062
Acquisition of other shares	-4 952	-134	-2 413	-25
Investments in tangible and intangible assets	-318 881	-706 574	-421	-923
Investment subsidies obtained	-	1 627	-	-
Demerged subsidiaries	-	-2 532	-	3
Divestment of shares	1 133	169	7	20
Proceeds from sales of tangible and intangible assets	6 915	2 659	6 135	260
Increase (-) or decrease (+) in loan receivables	-10 696	-8 808	4 800	-25 500
<b>Net cash flow from investing activities</b>	<b>-326 481</b>	-713 593	<b>-121 096</b>	-85 227
<b>Cash flow from financing activities</b>				
Withdrawals of non-current loans	254 613	435 234	114 439	62 307
Repayment of non-current loans	-63 274	-284 570	-3 367	-103 367
Increase (-) or decrease (+) in interest-bearing receivables	-19 398	-29 506	-4 836	6 694
Increase (+) or decrease (-) in current interest-bearing liabilities	12 614	503 718	-19 969	108 039
Share issue	100 778	48 316	21 194	9 985
<b>Net cash flow from financing activities</b>	<b>285 333</b>	673 192	<b>107 461</b>	83 658
<b>Net change in cash and cash equivalents</b>	<b>17 140</b>	-5 945	<b>-12 530</b>	2 740
Cash and cash equivalents on 1 Jan	23 727	29 672	20 373	17 633
<b>Cash and cash equivalents on 31 Dec</b>	<b>40 867</b>	23 727	<b>7 843</b>	20 373
<b>1) Adjustments to operating profit or loss</b>				
Depreciation and impairment	90 495	91 056	5 137	1 147
Gains (-) or losses (+) from the sale of non-current assets	-650	-3 281	-20	-2 658
Share of associated companies' profits or losses	-11 684	-10 348	-	-
Decrease in value of ongoing investments	-	-	-	91
Non-cash-based expense posting	2 887	255	-	-
	<b>81 048</b>	77 682	<b>5 117</b>	-1 420
<b>2) Change in working capital</b>				
Increase (-) or decrease (+) in inventories	-395	-1 621	-	-
Increase (-) or decrease (+) in non-interest-bearing receivables	-29 154	-10 404	-12 696	10 065
Increase (+) or decrease (-) in current non-interest-bearing liabilities	34 653	429	9 219	-5 938
	<b>5 104</b>	-11 596	<b>-3 477</b>	4 127



## Accounting Policies

### Consolidation principles

Pohjolan Voima Oy (business ID 0210161-4, domicile Helsinki) is the parent company of the Pohjolan Voima Group.

The consolidated Financial Statements include, in addition to the Parent Company, the companies in which the Parent Company holds more than half of the voting rights, either directly or indirectly, or companies over which it otherwise exercises a dominant influence as prescribed in Chapter 1, Section 5 and 6 of the Companies Act.

The Powest Group is an exception to the above. It has not been included in the consolidated Financial Statements, since Pohjolan Voima owns only K series shares, which do not entitle to dividend in its Parent Company.

Subsidiaries acquired during the financial year are included in the Financial Statements from the date of acquisition while those sold are included up to the date of their sale.

### Accounting principles applied for the consolidated financial statements

#### Mutual shareholdings

The consolidated Financial Statements have been compiled in accordance with the cost method. The price paid for the shares of energy-generating subsidiaries in excess of equity has been capitalised in full. This consolidation difference is depreciated according to the depreciation plan of the asset item in question.

#### Inter-company transactions and margins

All transactions between Group companies, internal receivables and liabilities, internal margins and internal distribution of profits have been eliminated.

#### Minority interest

Minority interests have been excluded from the results for the financial year as well as from the change in the depreciation difference, the consolidated shareholders'

equity and the accumulated depreciation difference, and are shown as a separate item in the Profit and Loss Account and the Balance Sheet.

#### Voluntary provisions

Voluntary provisions have been divided into unrestricted shareholders' equity and deferred tax liability. The change in voluntary provisions during the financial year has been divided between the earnings for the year and the change in deferred tax liability.

#### Associated companies

Associated companies have been consolidated using the equity method. The Profit and Loss Account includes a portion, corresponding to the shareholding of the Group, of the result and the change in the depreciation difference of the associated companies from which the tax liability has been deducted. The value of shares shown in the Balance Sheet is the proportion of the shareholders' equity and accumulated depreciation difference from which tax liability has been deducted.

The result of the associated companies is shown in other costs and expenses.

#### Items in foreign currencies

The value of liabilities and receivables, and contingent liabilities in foreign currencies have been adjusted to the exchange rate quoted by the European Central Bank on the closing date or to a contract rate. Exchange rate gains and losses from the conversion of debts and receivables have been entered in the Profit and Loss Account as exchange rate differences.

#### Non-current assets

Non-current assets have been recognised in the Balance Sheet at their original acquisition cost less the depreciation according to plan and the subsidies obtained. Revaluation has been made in 1992 and 1993 on hydropower buildings and dam structures, and these are included in the Balance Sheet values. No depreciation on revaluation is made.

Depreciation according to plan has been calculated according to the expected useful life. The useful life of the Olkiluoto 1 and Olkiluoto 2 nuclear power plant units has been reassessed, and as a consequence, the planned depreciation of their basic investment has been extended by 20 years to 2040. The impact of the extension of the depreciation times of the nuclear power plant units on the Group's depreciations in the financial year 2006 is € 9.1 million.

Useful life has been defined as follows:

- hydropower plants 40 to 80 years
- nuclear power plants 10 to 61 years
- condensing power plants 25 years
- CHP power plants 4 to 33 years
- wind turbines 10 to 20 years
- transmission lines 30 years
- other non-current assets 3 to 40 years

The depreciation plan also takes the annual utilisation of each plant into account.

## Inventories

Inventories have been valued at their original acquisition cost according to the FIFO principle. If the probable acquisition cost is lower than the original acquisition cost on the closing date, the difference is not entered as an expense, due to the at-cost principle.

## Turnover

When calculating turnover, indirect taxes and discounts are deducted from the sales revenues. Sales revenues are entered as income at the time of delivery.

## Research and development expenses

Production-related R&D expenses have been recorded as annual expenses during the year in which they originated.

## Pension arrangements

The pension schemes of the Group companies are run by a Finnish insurance company.

## Income taxes

The estimated taxes corresponding to the results of Group companies for the financial year, adjustments to taxes in previous financial years, and the change in deferred tax liability are all entered as taxes. Deferred tax liability is calculated using the confirmed tax rate on the closing date.

## Emission allowances

The accounting principles applied to emission allowances are based on the respective opinion issued on 15 November 2005 by the Accounting Board. If the materialised emissions exceed the emission allowances obtained without consideration, the expense corresponding to the tonnes in excess will be recognised on the closing day at market price, using the statutory reserves as the offset account. If the materialised amounts fall short of the emission allowances obtained without consideration, the party with the accounting obligation must record off-Balance Sheet assets in the Notes to the Accounts. However, purchases and sales of emission allowances are recognised as transactions on accrual basis.

## Handling of derivatives

The period of fixed interest rates applied to loans with floating interest rates has been prolonged through interest swap as well as interest cap or floor agreements. The interests related to these agreements have been matched on accrual basis in the Financial Statements, shown as net sums under interest expenses. The premium part of interest options has been allocated over the duration of the options.

Derivative contracts as well as their nominal and market values have been specified in the Notes to the Accounts.

Exchange derivatives are forward contracts used to convert raw material purchases made in foreign currencies into euro. The exchange rate differences of derivatives have been recorded to adjust the corresponding acquisition costs.

## Notes to the Profit and Loss Account

Eur 1 000	Group		Parent Company	
	2006	2005	2006	2005
<b>(1) Turnover</b>				
Sales of electricity produced	501 738	289 995	402 822	208 956
Sales of heat produced	110 310	81 820	87 903	62 296
Other sales	276 272	229 110	4 490	5 439
	<b>888 320</b>	<b>600 925</b>	<b>495 215</b>	<b>276 691</b>
<b>(2) Other operating income</b>				
Capital gains from sale of non-current asset items	699	3 328	24	2 693
Rental income	3 504	2 778	1 449	1 051
Other income	1 689	3 937	271	731
Electricity production subsidies	4 715	4 251	-	-
	<b>10 607</b>	<b>14 294</b>	<b>1 744</b>	<b>4 475</b>
<b>(3) Total materials and services</b>				
Fuels	238 301	120 641	-	-
Other raw materials, supplies and consumables	313 929	179 785	255 246	60 411
Purchases during the financial year	552 230	300 426	255 246	60 411
Change in inventories	-1 485	-1 121	-	-
External services	26 456	27 066	38	493
	<b>577 201</b>	<b>326 371</b>	<b>255 284</b>	<b>60 904</b>

### Emission allowances

As a rule, the emission allowances held by the Pohjolan Voima Group companies on 31 December 2006 corresponded to the annual CO<sub>2</sub> emissions, or exceeded them. If the materialised emissions exceed the emission allowances held by the company, the company has recognised the tonnes in excess as an expense at the market price quoted on the closing date.

	2006		2005	
	CO <sub>2</sub> , tonnes	1 000 €	CO <sub>2</sub> , tonnes	1 000 €
Emission allowances obtained without consideration	4 876 516		4 192 428	
Total emission from the Group companies	5 463 064		1 290 850	
Emission allowances held by the Group companies	5 655 697		1 385 140	
Emission allowances sold	829 832	13 853 <sup>1)</sup>	2 835 327	57 409 <sup>1)</sup>
Emission allowances purchased	1 581 681	25 865 <sup>2)</sup>	28 040	606 <sup>2)</sup>

<sup>1)</sup> Emission allowance sales are included in Other sales under Turnover, and they have been taken into consideration in determining the at-cost price (Sales of electricity and heat produced).

<sup>2)</sup> Emission allowances purchases are included under Materials and services and the purchased allowances held at the closing of the accounts under the Intangible assets in the Balance Sheet.

# Notes to the Profit and Loss Account

Eur 1 000	Group		Parent Company	
	2006	2005	2006	2005
<b>(4) Personnel expenses and average number of personnel</b>				
Salaries and fees				
Board Members and CEO	1 728	1 478	594	552
Other salaries and wages	50 662	46 130	4 371	4 212
	<b>52 390</b>	47 608	<b>4 965</b>	4 764
Pension expenses	8 193	8 254	728	1 231
Other personnel-related expenses	4 518	4 258	475	448
	<b>12 711</b>	12 512	<b>1 203</b>	1 679
Total personnel expenses	65 101	60 120	6 168	6 443
Average number of personnel				
Salaried employees	799	724	67	68
Wage-earners	234	214	4	5
Total	<b>1 033</b>	938	<b>71</b>	73
The retirement age of the Group company presidents, CEOs and certain other management members is 62 years according to agreements made with them.				
<b>(5) Depreciation and reduction in value</b>				
Planned depreciation				
Intangible rights	137	138	-	-
Goodwill	50	57	-	-
Other capitalised long-term expenses	2 735	2 869	147	205
Buildings and constructions	12 834	13 336	47	46
Machinery and equipment	63 451	68 370	286	449
Other tangible assets	2 799	2 322	-	-
Reduction in value of non-current assets	8 489	3 964	4 210	-
Investments	-	-	447	447
	<b>90 495</b>	91 056	<b>5 137</b>	1 147
<b>(6) Other operating expenses</b>				
Purchases of energy	37 033	27 058	220 565	201 754
Share of associated companies' profits or losses	-11 684	-10 348	-	-
Repair, servicing and maintenance services	27 888	25 213	200	329
Rents	19 129	16 691	1 845	1 856
Real estate taxes	8 485	5 972	58	58
Other	115 007	97 549	4 758	4 940
	<b>195 858</b>	162 135	<b>227 426</b>	208 937

Eur 1 000	Group		Parent Company	
	2006	2005	2006	2005
<b>(7) Financing income and expenses</b>				
Dividend income				
From associated companies	-	-	1 664	1 664
From others	622	281	2	1
	<b>622</b>	281	<b>1 665</b>	1 665
Interest income from non-current investments				
From Group companies	-	-	9 255	7 174
From associated companies	3 838	1 008	1 439	1 008
From others	5 462	5 740	-	-
	<b>9 300</b>	6 748	<b>10 694</b>	8 182
Other interest and financial income				
From Group companies	-	-	610	656
From associated companies	176	383	176	383
From others	3 391	797	644	267
	<b>3 567</b>	1 180	<b>1 430</b>	1 306
Total interest and financial income	<b>12 867</b>	7 928	<b>12 124</b>	9 488
Reduction in value of the investments in non-current assets	-	-	-	-
Interest and other financial expenses				
To Group companies	-	-	-10 950	-7 486
To associated companies	-8	-13	-8	-13
To others	-40 711	-29 794	-9 980	-7 210
Total interest and financial income	<b>-40 719</b>	-29 807	<b>-20 938</b>	-14 709
Total financial income and expenses	<b>-27 230</b>	-21 598	<b>-7 149</b>	-3 556
The item Other interest and financial income includes exchange rate differences, net	162	39	14	45
<b>(8) Income taxes</b>				
Taxes for the financial year	46	26	-	-
Taxes for the previous financial years	564	-	544	-
Change in deferred tax liability	-10 037	-9 060	-	-
	<b>-9 427</b>	-9 034	<b>544</b>	-

## Notes to the Balance Sheet

### (9) Intangible assets

Eur 1 000	Intangible rights	Other capitalised expenses	Pre- payments	Goodwill	<b>Total</b>
<b>Group</b>					
Acquisition cost on 1 Jan	1 919	60 428	436	534	63 317
Increases	25 933	556	635	-	27 124
Decreases	-606	-182	-184	-	-972
Transfers between accounts	-	-72	-113	-	-186
Acquisition cost on 31 Dec	27 246	60 730	774	534	89 284
Accumulated depreciation on 1 Jan	-525	-35 888	-	-201	-36 614
Accumulated depreciation on decreases and transfers	-	15	-	-	15
Depreciation during the financial year	-138	-2 735	-	-50	-2 923
Accumulated depreciation on 31 Dec	-663	-38 608	-	-251	-39 522
<b>Book value on 31 Dec 2006</b>	<b>26 583</b>	<b>22 122</b>	<b>774</b>	<b>283</b>	<b>49 762</b>
Book value on 31 Dec 2005	1 394	24 540	436	333	26 703
Subsidies obtained decreasing the acquisition cost					29
<b>Parent company</b>					
Acquisition cost on 1 Jan	33	1 767	-	-	1 800
Increases	-	24	-	-	24
Decreases	-	-32	-	-	-32
Transfers between accounts	-	-	-	-	-
Acquisition cost on 31 Dec	33	1 759	-	-	1 792
Accumulated depreciation on 1 Jan	-	-1 095	-	-	-1 095
Accumulated depreciation on decreases and transfers	-	32	-	-	32
Depreciation during the financial year	-	-147	-	-	-147
Accumulated depreciation on 31 Dec	-	-1 210	-	-	-1 210
<b>Book value on 31 Dec 2006</b>	<b>33</b>	<b>549</b>	<b>-</b>	<b>-</b>	<b>582</b>
Book value on 31 Dec 2005	33	672	-	-	705

Emission allowances on 31 Dec 2006: Intangible assets include emission allowance assets totalling € 25,921,000 recorded in the Group accounts. The combined value of the off Balance Sheet emission allowance assets at the Group's disposal is € 1,221,000 (192,350 tonnes of CO<sub>2</sub>).

**(10) Tangible assets**

Eur 1 000	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Pre-payments	Total
<b>Group</b>						
Acquisition cost on 1 Jan	44 681	442 433	1 876 235	283 258	940 864	3 587 471
Increases	1 278	14 878	61 397	1 394	247 548	326 495
Decreases	-52	-	-12 511	-	-2 537	-15 101
Transfers between accounts	-	6 233	31 649	2 486	-40 184	185
Acquisition cost on 31 Dec	45 907	463 544	1 956 770	287 138	1 145 691	3 899 050
Accumulated depreciation on 1 Jan	-	-174 633	-1 018 578	-25 404	-	-1 218 615
Accumulated depreciation on decreases and transfers	-	1	12 438	-14	-	12 425
Depreciation during the financial year	-	-12 834	-67 729	-2 799	-	-83 362
Accumulated depreciation on 31 Dec	-	-187 466	-1 073 869	-28 217	-	-1 289 552
<b>Book value on 31 Dec 2006</b>	<b>45 907</b>	<b>276 078</b>	<b>882 901</b>	<b>258 921</b>	<b>1 145 691</b>	<b>2 609 498</b>
Book value on 31 Dec 2005	44 681	267 800	857 657	257 854	940 864	2 368 856
Increases in value included in the acquisition cost per 31 Dec	-	66 296	-	198 849	-	-
Production machinery and equipment on 31 Dec	-	-	807 337	-	-	-
Subsidies decreasing the acquisition cost	-	-	-	-	-	12 437

**Capitalised interests during construction**

Eur 1 000	Other capitalised expenses	Buildings and constructions	Machinery and equipment	Other tangible assets	Pre-payments	Total
<b>Group</b>						
Acquisition cost on 1 Jan	3 530	31 503	114 325	2 609	50 792	202 759
Increases	-	61	259	-	31 022	31 342
Decreases	-	-	-	-	-238	-238
Transfers between accounts	-	-	-	-	-	-
Acquisition cost on 31 Dec	3 530	31 564	114 584	2 609	81 576	233 863
Accumulated depreciation on 1 Jan	-1 875	-19 242	-69 332	-1 623	-	-92 072
Accumulated depreciation on decreases and transfers	-	-	-	-	-	-
Depreciation during the financial year	-106	-481	-1 850	-33	-	-2 470
Accumulated depreciation on 31 Dec	-1 981	-19 723	-71 182	-1 656	-	-94 542
<b>Book value on 31 Dec 2006</b>	<b>1 549</b>	<b>11 841</b>	<b>43 402</b>	<b>953</b>	<b>81 576</b>	<b>139 321</b>
Book value on 31 Dec 2005	1 655	12 261	44 993	986	50 792	110 687

# Notes to the Balance Sheet

## (10) Tangible assets

Eur 1 000	Land and water areas	Buildings and constructions	Machinery and equipments	Other tangible assets	Pre-payments	Total
<b>Parent Company</b>						
Acquisition cost on 1 Jan	198	938	3 651	6	0	4 793
Increases	-	-	396	1	58	455
Decreases	-	-	-105	-	-	-105
Transfers between accounts	-	-	-	-	-	-
Acquisition cost on 31 Dec	198	938	3 942	7	58	5 143
Accumulated depreciation on 1 Jan	-	-474	-2 002	-	-	-2 476
Accumulated depreciation on decreases and transfers	-	-	68	-	-	68
Depreciation during the financial year	-	-47	-286	-	-	-333
Accumulated depreciation on 31 Dec	-	-521	-2 220	-	-	-2 741
<b>Book value on 31 Dec 2006</b>	<b>198</b>	<b>417</b>	<b>1 722</b>	<b>7</b>	<b>58</b>	<b>2 402</b>
Book value on 31 Dec 2005	198	464	1 649	6	0	2 317
Production machinery and equipment on 31 Dec			1 007			

## (11) Investments

Eur 1 000	Holdings in associated companies	Other shares and holdings	Other receivables	Total
<b>Group</b>				
Acquisition cost on 1 Jan	104 825	43 022	263 288	411 135
Increases	11 684	4 952	10 986	27 622
Decreases	-1 664	-5 226	-	-6 890
Transfers between accounts	-381	381	-291	-291
Acquisition cost on 31 Dec	114 464	43 129	273 983	431 576
<b>Book value on 31 Dec 2006</b>	<b>114 464</b>	<b>43 129</b>	<b>273 983</b>	<b>431 576</b>
Book value on 31 Dec 2005	104 825	43 022	263 288	411 135

Eur 1 000	Holdings in Group companies	Receivables from Group companies	Holdings in associated companies	Other shares and holdings	Total
<b>Parent company</b>					
Acquisition cost on 1 Jan	968 332	281 854	48 839	5 118	1 304 143
Increases	21 210	-	-	2 412	23 622
Decreases	-447	-4 800	-	-4 218	-9 465
Transfers between accounts	-	-	-	-	-
Acquisition cost on 31 Dec	989 095	277 054	48 839	3 312	1 318 300
<b>Book value on 31 Dec 2006</b>	<b>989 095</b>	<b>277 054</b>	<b>48 839</b>	<b>3 312</b>	<b>1 318 300</b>
Book value on 31 Dec 2005	968 332	281 854	48 839	5 118	1 304 143
Increases in value included in the acquisition cost per 31 Dec	265 145				



Eur 1 000	Group		Parent Company	
	2006	2005	2006	2005
<b>(12) Inventories</b>				
Fuels (coal + unrefined uranium)	86 823	86 339		
Raw materials, supplies (other fuels)	122 126	122 215		
	<b>208 949</b>	208 554		
Fuels (coal + unrefined uranium)				
Reacquisition price	143 463	123 560		
Book value	-86 823	-86 339		
Difference	<b>56 640</b>	37 221		
<b>(13) Non-current receivables</b>				
Loans receivable	8 752	4 113	7 919	3 083
Capital loan receivables	33 638	33 638	33 638	33 638
Non-current other receivables	164	237	-	-
	<b>42 554</b>	37 988	<b>41 557</b>	36 721
Receivables from Group companies				
Capital loan receivables			1	1
Receivables from associated companies				
Loans receivable	2 910	3 069	2 910	3 069
Capital loan receivables	33 638	33 638	33 638	33 638
	<b>36 548</b>	36 707	<b>36 548</b>	36 707

## Notes to the Balance Sheet

Eur 1 000	Group		Parent Company	
	2006	2005	2006	2005
<b>(14) Current receivables</b>				
Trade receivables	77 754	49 289	46 902	19 585
Loans receivable *)	5 440	5 000	5 000	5 000
Share issue receivables	-	71 304	-	-
Other receivables	30 388	21 379	1 450	15 556
Accrued income	29 624	42 347	11 859	18 267
	<b>143 206</b>	189 319	<b>65 211</b>	58 408
Receivables from Group companies				
Trade receivables			338	1 218
Other receivables			-	2 816
Accrued income			8 311	7 710
			<b>8 649</b>	11 744
Receivables from associated companies				
Trade receivables	327	428	66	222
Loans receivable	5 000	5 000	5 000	5 000
Accrued income	2 515	2 545	2 438	1 917
	<b>7 842</b>	7 973	<b>7 504</b>	7 139
Material items included in current accrued income				
Personnel expenses allocated to financial year	25	131	16	-
Interest income allocated to financial year	8 651	6 014	959	611
Interest expenses allocated to financial year	9 213	9 392	-	-
Income taxes allocated to financial year	203	328	163	327
Indirect taxes allocated to financial year	2 328	1 176	1 586	-
Other	9 204	25 306	9 136	17 329
	<b>29 624</b>	42 347	<b>11 859</b>	18 267
*) Loan receivables include Group account receivables of associated and other companies	-	509		
Interest-bearing receivables				
Non-current assets	273 315	263 124	277 054	281 854
Current assets	148 339	111 796	54 398	62 094
	<b>421 653</b>	374 920	<b>331 452</b>	343 948
<b>(15) Securities included in liquid assets</b>				
Units in investment funds with short-term interests				
Reacquisition price	60 038	40 452		
Book value	60 000	40 000		
Difference	<b>38</b>	452		
Certificates of deposit	-	4 947		
	-	44 947		

Eur 1 000	Group		Parent Company	
	2006	2005	2006	2005
<b>(16) Shareholders' equity</b>				
Share capital on 1 Jan	57 675	57 948	57 675	57 948
Invalidation in series of shares	-	-460	-	-460
Transfer from share issues	484	187	484	187
Share capital on 31 Dec	<b>58 159</b>	57 675	<b>58 159</b>	57 675
Share issue on 1 Jan	8 546	4 777	8 546	4 777
Transfer to share capital	-484	-187	-484	-187
Transfer to premium fund	-8 386	-6 029	-8 386	-6 029
Transfer to invested retained earnings	-7 209	-	-7 209	-
Share issues during financial year	21 194	9 985	21 194	9 985
Share issue on 31 Dec	<b>13 661</b>	8 546	<b>13 661</b>	8 546
Share premium fund on 1 Jan	379 278	387 925	375 809	384 455
Invalidation in series of shares	-	-14 676	-	-14 676
Emission gain in share issues	8 385	6 029	8 385	6 029
Share premium fund on 31 Dec	<b>387 663</b>	379 278	<b>384 194</b>	375 809
Contingency reserve on 1 Jan	547	547	547	547
Contingency reserve on 31 Dec	<b>547</b>	547	<b>547</b>	547
Revaluation reserve on 1 Jan	218 644	218 644	218 644	218 644
Revaluation reserve on 31 Dec	<b>218 644</b>	218 644	<b>218 644</b>	218 644
Invested retained earnings on 1 Jan	-	-	-	-
Share issues	7 209	-	7 209	-
Invested retained earnings on 31 Dec	<b>7 209</b>	-	<b>7 209</b>	-
Retained earnings on 1 Jan	132 048	144 475	39 002	37 272
Retained earnings on 31 Dec	<b>132 048</b>	144 475	<b>39 002</b>	37 272
Profit or loss for the financial year	<b>-15 897</b>	-12 426	<b>-4 575</b>	1 730
<b>Total shareholders' equity</b>	<b>802 036</b>	796 739	<b>716 842</b>	700 223
Depreciation difference				
Share of depreciation difference recognised under Shareholders' equity	75 335	94 626		
Distributable funds on 31 Dec				
Retained earnings			39 002	37 272
Profit or loss for the financial year			-4 575	1 730
Invested retained earnings			7 209	-
			<b>41 636</b>	39 002

# Notes to the Balance Sheet

Share capital by share category	Number	1 000 €
<b>Series A:</b> entitling the holder to obtain energy produced or supplied by PVO-Vesivoima Oy	13 350 077	22 453
<b>Series B:</b> entitling the holder to obtain 56.8% of the energy produced or supplied by Teollisuuden Voima Oy's Olkiluoto 1 or 2 units	7 124 507	11 983
<b>Series B2:</b> entitling the holder to obtain 60.2% of the energy produced or supplied by Teollisuuden Voima Oy's Olkiluoto 3 unit once it is finalised	1 496 008	2 516
<b>Series C:</b> entitling the holder to obtain energy produced or supplied by PVO-Lämpövoima Oy	7 107 592	11 954
<b>Series C2:</b> entitling the holder to obtain 56.8% of the energy produced or supplied by Teollisuuden Voima Oy's Meri-Pori coal-fired unit	359 198	604
<b>Series E1:</b> entitling the holder to obtain energy produced by Mussalon Kaukolämpö Oy	229 741	386
<b>Series G:</b> entitling the holder to obtain 49.9% of the energy produced by Oy Alholmens Kraft Ab	354 290	596
<b>Series G2:</b> entitling the holder to obtain 76.0% of the energy produced by Kymin Voima Oy	238 216	401
<b>Series G3:</b> entitling the holder to obtain 50.0% of the energy produced by Järvi-Suomen Voima Oy	115 850	195
<b>Series G4:</b> entitling the holder to obtain 72.0% of the energy produced by Rauman Voima Oy	84 495	142
<b>Series G5:</b> entitling the holder to obtain energy produced by Laanilan Voima Oy	39 286	66
<b>Series G6:</b> entitling the holder to obtain energy produced by Porin Prosessivoima Oy	55 500	93
<b>Series G7:</b> entitling the holder to obtain 90.0% of the energy produced by Wisapower Oy	661 300	1 112
<b>Series H:</b> entitling the holder to obtain energy produced by PVO-Huippuvoima Oy	500 000	841
<b>Series I:</b> entitling the holder to obtain 73.7% of the energy produced by the PVO-Innopower Oy's Oulunsalo, Oulu, Kokkola and Kristiinankaupunki wind turbines	22 300	38
<b>Series I2:</b> entitling the holder to obtain 74.8% of the energy produced by PVO-Innopower Oy's Riutunkari wind turbines	22 327	37
<b>Series I3:</b> entitling the holder to obtain 65.0% of the energy produced by PVO-Innopower Oy's Ajos wind farm	110 389	186
<b>Series K1:</b> entitling the holder to obtain energy produced or supplied by Kokkolan Voima Oy	130 000	219
<b>Series K2:</b> entitling the holder to obtain energy produced or supplied by Vieskan Voima Oy	25 178	42
<b>Series N:</b> entitling the holder to obtain 80.1% of the energy produced by Nokian Lämpövoima Oy	1 506 938	2 534
<b>Series V:</b> entitling the holder to obtain 50.0% of the energy produced by Vaskiluodon Voima Oy	1 046 823	1 761
		<b>58 159</b>

The owners of each series of shares are responsible for the overheads related to the series in question in proportion to their holdings, irrespective of whether they have used their capacity or energy share, as well as for the variable costs in proportion to the energy volumes supplied.

Eur 1 000	Group		Parent Company	
	2006	2005	2006	2005
<b>(17) Deferred tax liability</b>				
Deferred tax liability				
Of appropriations	<b>99 818</b>	109 856		
<b>(18) Non-current liabilities</b>				
Loans from credit institutions	867 224	698 904	152 979	56 346
Other non-current liabilities	699 035	673 712	355 910	341 471
	<b>1 566 259</b>	1 372 616	<b>508 889</b>	397 817
Amounts owed to Group companies				
Other non-current liabilities			<b>355 910</b>	341 471
Debts with maturity after 5 years or later				
Loans from credit institutions	553 394	374 050	150 000	50 000
Other non-current debts	78 740	78 221	-	-
	<b>632 134</b>	452 271	<b>150 000</b>	50 000

# Notes to the Balance Sheet

Eur 1 000	Group		Parent Company	
	2006	2005	2006	2005
<b>(19) Current liabilities</b>				
Bonds	-	30 000	-	-
Loans from credit institutions	61 680	16 132	3 367	3 367
Prepayments received	5 866	5 716	-	-
Trade payables	62 560	42 833	47 363	33 561
Other current liabilities *)	630 774	595 779	142 261	166 221
Accruals and deferred liabilities	78 614	61 753	15 785	119 917
	<b>839 494</b>	<b>752 213</b>	<b>208 777</b>	<b>323 066</b>
To Group companies				
Trade payables			39 229	26 822
Other current liabilities			-	8 579
Accruals and deferred liabilities			11 158	115 276
			<b>50 387</b>	<b>150 677</b>
To associated companies				
Trade payables	9 042	1 615	7 486	1 321
Other	307	-	-	-
Accruals and deferred liabilities	719	137	-	71
	<b>10 068</b>	<b>1 752</b>	<b>7 486</b>	<b>1 392</b>
Items with material importance included				
current accruals and deferred liabilities				
Personnel expenses allocated to financial year	12 343	11 664	799	861
Interest expenses allocated to financial year	27 443	19 765	12 352	7 955
Income taxes allocated to financial year	62	2	-	-
Indirect taxes allocated to financial year	3 010	56	-	-
Other	35 756	30 266	2 633	111 101
	<b>78 614</b>	<b>61 753</b>	<b>15 785</b>	<b>119 917</b>
*) Other current liabilities include Group account liabilities of associated and other companies	6 506	-		
Non-interest-bearing and interest-bearing liabilities				
Non-current				
Interest-bearing	1 566 259	1 372 616	508 889	397 817
	<b>1 566 259</b>	<b>1 372 616</b>	<b>508 889</b>	<b>397 817</b>
Current				
Non-interest bearing	193 953	116 984	68 150	162 470
Interest-bearing	645 541	635 229	140 627	160 596
	<b>839 494</b>	<b>752 213</b>	<b>208 777</b>	<b>323 066</b>

Eur 1 000	Group		Parent Company	
	2006	2005	2006	2005
<b>(20) Contingent liabilities</b>				
Mortgages				
As security for own debt	11 773	11 773	-	-
Pledged deposits				
As security for own liabilities	4 838	7 467	224	716
Guarantees				
Guarantees for loans				
On behalf of associated companies	81 557	99 533	81 522	99 495
Other guarantees				
As security for own liabilities	-	505	-	505
For Group companies	-	-	25 266	27 081
	<b>81 557</b>	100 037	<b>106 788</b>	127 081
Leasing liabilities				
Payments during following financial year	20 818	14 314	25	18
Payments in subsequent years	277 287	214 993	12	23
	<b>298 105</b>	229 307	<b>37</b>	42
Rental liabilities	22 732	24 864	<b>15 212</b>	16 902
Other liabilities	903 400	826 600	-	-
Nuclear waste management liabilities				
Quantification of the nuclear waste management liability	903 400	826 600		
Assets in the Nuclear Waste Management Fund (2 April)	864 100	826 600		
Guarantee under Section 44 of the Nuclear Energy Act	75 180	75 310	42 700	42 774
Nuclear waste management receivables pledged to the State Nuclear Waste Management Fund	267 540	256 554		

As part of the decision to invest in Teollisuuden Voima's OL3 nuclear plant unit, Pohjolan Voima Oy has a commitment to invest € 432.0 million in 2004–2009 and to give a shareholder loan of € 108.0 million. By 31 December 2006, Pohjolan Voima Oy had paid out € 274.9 million of its commitment.

Kymin Voima Oy and the Kymi plant of UPM-Kymmene Corporation make joint use of the Lamminmäki landfill. According to the permit given by the South-East Finland Regional Environment Centre, the landfill can be used until 2019. The total costs incurred for the closing stage are estimated to be € 2.0 million, with Kymin Voima Oy standing for about € 1.4 million of the whole. The full materialisation of these costs is uncertain, because the ash can possibly be utilised and, on the other hand, the amount of ash and waste produced depends on the future degree of use of the power plant.

# Notes to the Balance Sheet

Eur 1 000	Group		Parent Company	
	2006	2005	2006	2005
<b>(21) Derivative contracts</b>				
Capital values and market values of derivative contracts providing a hedge against exchange rate and interest risks were as follows:				
Interest derivatives				
Option contracts				
Purchased (nominal value)	1 340 000	1 370 000	-	-
Market value	-120	-3 217	-	-
Placed (nominal value)	1 320 000	1 320 000	-	-
Market value	2 563	-3 082	-	-
Interest swap contract (nominal value)	783 638	593 638	103 638	113 638
Market value	16 002	821	1 330	-910
Currency derivatives				
Forward contracts (nominal value)	261 401	153 220	132 814	-
Market value	-7 142	3 062	0	-

## Financing risks

The aims and risks of financing operations have been defined in the financing policy adopted by the Board of Directors. The refinancing risk is managed through diversified sources of financing, sufficiently long maturity of loans and a balanced schedule of maturity. Agreements on the maturity and refinancing of long-term credits are made so that a maximum of 25% of the outstanding credits will fall due within the next 12 months. The loan currency is euro. If loans are taken out in other currencies, the currency risk is eliminated by means of derivative contracts. The currency risks included in the raw-material purchased paid in foreign currencies are managed through currency derivatives.

The interest rate risk is monitored by means of duration, which indicates the sensitivity of the loan portfolio to changes in the interest rate level. The Group maintains a certain amount of liquid assets, credit limit arrangements and commercial paper programmes to reduce the liquidity risk. Free liquidity is invested in financial instruments issued by companies specified in the financing policy that can be liquidated quickly, if necessary.



## Shares and Holdings

	Production form	Domicile	Group holding in %	Parent Company holding in %		
<b>Group companies</b>						
Järvi-Suomen Voima Oy	Thermal power	Helsinki	50.000	50.000		
Kaukaan Voima Oy	Thermal power	Helsinki	100.000	100.000		
Keravan Lämpövoima Oy	Thermal power	Helsinki	100.000	100.000		
Kokkolan Voima Oy	Thermal power	Helsinki	100.000	100.000		
Kymin Voima Oy	Thermal power	Helsinki	76.000	76.000		
Laanilan Voima Oy	Thermal power	Helsinki	100.000	100.000		
Mussalon Kaukolämpö Oy	Thermal power	Helsinki	100.000	100.000		
Mussalon Kiinteistöt Oy		Helsinki	100.000	100.000		
Nokian Lämpövoima Oy	Thermal power	Helsinki	80.100	80.100		
Olkiluodon Vesi Oy		Helsinki	57.721			
Perusvoima Oy		Helsinki	57.721			
Porin Prosessivoima Oy	Thermal power	Helsinki	100.000	100.000		
Posiva Oy		Helsinki	34.633			
Posivia Oy		Helsinki	34.633			
PVO-Huippuvoima Oy	Thermal power	Helsinki	100.000	100.000		
PVO-Innopower Oy	Wind power	Helsinki	67.405	67.405		
PVO-Kiinteistöt Oy		Helsinki	100.000	100.000		
PVO-Lämpövoima Oy	Thermal power	Helsinki	100.000	100.000		
PVO-Pool Oy		Helsinki	100.000	100.000		
PVO-Vesivoima Oy	Hydropower	Helsinki	100.000	100.000		
Raahen Prosessivoima Oy	Thermal power	Helsinki	100.000	100.000		
Raahen Voima Oy	Thermal power	Helsinki	100.000	100.000		
Rauman Voima Oy	Thermal power	Helsinki	71.950	71.950		
Rouhialan Voimansiirto Oy		Helsinki	100.000	100.000		
Teollisuuden Voima Oy	Nuclear power	Helsinki	57.721	57.721		
TVO Nuclear Services Oy		Eurajoki	57.721			
Vieskan Voima Oy	Thermal power	Helsinki	100.000	100.000		
Wisapower Oy	Thermal power	Helsinki	89.980	89.980		
		Domicile	Group holding in %	Parent Company holding in %	Shareholders' equity	Profit or loss for the financial year
<b>Associated and participating interest companies</b>						
Oy Alholmens Kraft Ab		Pietarsaari	49.900	49.900		
Fingrid Oyj		Helsinki	25.080	25.080		
Polartest Oy		Helsinki	18.301		3 781	2 586
Tahkoluodon Polttoöljy Oy		Pori	32.000		38 <sup>1)</sup>	-82 <sup>1)</sup>
Tornionlaakson Voima Oy		Ylitornio	50.000			
Vaskiluodon Voima Oy		Vaasa	50.000	50.000		
Voimalohi Oy		Kemi	50.000		378	45
<b>Other holdings</b>						
<sup>2)</sup> Powest Group		Helsinki		80.519	34 691	12 036

<sup>1)</sup> Information from the Financial Statements as of 31 December 2005

<sup>2)</sup> The Powest subgroup is not included in the Pohjolan Voima Consolidated Financial Statements (see Accounting Policies, entitlement to dividends).

# Proposal of the Board of Directors regarding the result for the financial year

The Profit and Loss Account of the parent company Pohjolan Voima shows a loss of € 4,574,667.80.

The Board of Directors proposes to the Annual General Meeting that the loss be transferred to the retained earnings account and that no dividends be distributed.

Helsinki, 14 February 2007

Markku Tynkkynen  
Chairman

Pekka Laaksonen  
Vice Chairman

Patrick Wackström

Kari Rämö

Esa Tirkkonen

Tapani Sointu

Erkki Varis

Rami Vuola

Timo Rajala  
President and CEO

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# Auditor's Report

To the shareholders of Pohjolan Voima Oy

We have audited the accounting records, Financial Statements, Annual Report and the administration of Pohjolan Voima Oy for the financial year from 1 January to 31 December 2006. The Board of Directors and the President and CEO have prepared the Annual Report by the Board of Directors and the Financial Statements which include the Consolidated Balance Sheet, Profit and Loss Account, Cash Flow Statement and Notes to the Financial Statement, as well as the corresponding documents for the parent company. Based on our audit, we give our opinion on the Financial Statements, as well as on the Annual Report by the Board of Directors and the parent company's administration.

We have conducted our audit in accordance with generally accepted auditing standards. The accounting and the principles followed for the Financial Statements and Annual Report as well as their contents and presentation were examined to the extent necessary to obtain reasonable assurance that the Financial Statements and the Annual Report were free of any material omissions or misstatements. The purpose of the audit of administration is to examine that the members of the parent company Board of Directors as well as the President and CEO have complied with the stipulations of the Companies Act.

In our opinion, the Financial Statements and Annual Report have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of Financial Statements and the Annual Report. The Financial Statements and the Annual Report give a true and fair account, as defined in the Accounting Act, of the Group's and the parent company's operating results and financial position. The Annual Report is consistent with the Financial Statements. The Financial Statements, including the consolidated accounts, may be approved and the members of the Board of Directors of the parent company and the President and CEO be discharged from liability for the financial year audited. The Board proposal concerning the disposal of the distributable funds is in accordance with the Companies Act.

Helsinki, 12 March 2007

PricewaterhouseCoopers Oy

Eero Suomela  
APA, Authorised Public Accountant

## POHJOLAN VOIMA'S PRODUCTION CAPACITY, 1 JANUARY 2007

Plant	Location	Energy source	Year of completion	Electr. output (MW)	Pohjolan Voima's share (MW)	Production company
<b>Hydropower</b>						
Isohaara	Kemijoki	water	1949	106	106	PVO-Vesivoima Oy
Jumisko	Kemijoki	water	1954	30	30	PVO-Vesivoima Oy
Raasakka	Iijoki	water	1971	58	58	PVO-Vesivoima Oy
Maalismaa	Iijoki	water	1967	33	33	PVO-Vesivoima Oy
Kierikki	Iijoki	water	1965	34	34	PVO-Vesivoima Oy
Pahkakoski	Iijoki	water	1961	34	34	PVO-Vesivoima Oy
Haapakoski	Iijoki	water	1963	28	28	PVO-Vesivoima Oy
Melo	Kokemäenjoki	water	1971	67	67	PVO-Vesivoima Oy
Harjavalta	Kokemäenjoki	water	1939	73	15	Länsi-Suomen Voima Oy
Kaaranneskoski	Tengeliönjoki	water	1954	2.5	1	Tornionlaakson Voima Oy
Jolmankoski	Tengeliönjoki	water	1955	0.5	0	Tornionlaakson Voima Oy
Portimokoski	Tengeliönjoki	water	1987	10,5	5	Tornionlaakson Voima Oy
Total				477	411	
<b>Nuclear</b>						
Olkiluoto 1	Eurajoki	uranium	1978	860	488	Teollisuuden Voima Oy
Olkiluoto 2	Eurajoki	uranium	1980	860	488	Teollisuuden Voima Oy
Total				1,720	977	
<b>Wind power</b>						
Oulunsalo	Oulunsalo	wind	1999, 2003	4.3	3	PVO-Innopower Oy
Kokkola	Kokkola	wind	2003	2	1	PVO-Innopower Oy
Kristiinankaupunki	Kristiinankaupunki	wind	2004	3	2	PVO-Innopower Oy
Oulu	Oulu	wind	2001, 2005	4	3	PVO-Innopower Oy
Total				13,3	10	
<b>Thermal power</b>						
Kristiina 2	Kristiinankaupunki	coal	1989	242	242	PVO-Lämpövoima Oy
Tahkoluoto	Pori	coal	1976	235	235	PVO-Lämpövoima Oy
Vaskiluoto 2	Vaasa	coal	1998	230	115	Vaskiluodon Voima Oy
Meri-Pori	Pori	coal	1994	565	146	Fortum Power and Heat Oy
Mussalo 1	Kotka	coal, natural gas	1966	75	75	Mussalon Kaukolämpö Oy
Mussalo 2	Kotka	natural gas	1973	238	238	Nokian Lämpövoima Oy
Nokia	Nokia	natural gas	1997	70	70	Nokian Lämpövoima Oy
Kristiina 1	Kristiinankaupunki	oil	1974	210	210	PVO-Lämpövoima Oy
Vaskiluoto 3	Vaasa	oil	1972	160	160	PVO-Huippuvoima Oy
Seinäjoki	Seinäjoki	peat, wood	1990	125	63	Vaskiluodon Voima Oy
Alholmens Kraft 1	Pietarsaari	wood	1991	25	12	Oy Alholmens Kraft Ab
Alholmens Kraft 2	Pietarsaari	peat, wood, coal	2001	240	120	Oy Alholmens Kraft Ab
Kokkolan Voima	Kokkola	peat, wood	2001	20	20	Kokkolan Voima Oy
Vieskan Voima	Ylivieska	peat, wood	1994	6	6	Vieskan Voima Oy
Ristiina	Ristiina	wood	2002	8	8	Järvi-Suomen Voima Oy
Savonlinna	Savonlinna	wood	2003	17	0	Järvi-Suomen Voima Oy
Kymin Voima	Kuusankoski	peat, wood	2002	76	58	Kymin Voima Oy
Wisapower	Pietarsaari	black liquor	2004	140	140	Wisapower Oy
Laanila	Oulu	peat, wood	1982	19	19	Laanilan Voima Oy
Porin Prosessivoima	Pori	coal, oil	1987	13	13	Porin Prosessivoima Oy
Rauman Voima	Rauma	wood	2006	65	47	Rauman Voima Oy
Total				2,779	1,996	
<b>TOTAL CAPACITY</b>				<b>4,989</b>	<b>3,394</b>	

## POHJOLAN VOIMA OY SHAREHOLDERS ON 31 DECEMBER 2006

Group companies	holding, %
Etelä-Pohjanmaan Voima Oy	7.60
City of Helsinki	0.83
Ilmarinen Mutual Pension Insurance Company	4.34
Kemira Oyj (including Pension Foundation)	3.07
Kemira GrowHow Oyj (including Pension Foundation)	1.75
City of Kokkola	2.47
Kymppivoima Tuotanto Oy	8.86
Oy Metsä-Botnia Ab	1.57
M-real Corporation	2.86
Myllykoski Corporation	0.87
City of Oulu	1.90
Outokumpu Oyj	0.09
Oy Perhoniemi Ab	2.70
City of Pori	1.24
Päijät-Hämeen Voima Oy	2.06
Rautaruukki Oyj	0.02
Stora Enso Oyj	15.57
UPM-Kymmene Corporation	41.87
Vantaan Energia Oy	0.33
<b>Total</b>	<b>100.00 %</b>

# Glossary

## Area price

In the Nordic electricity exchange, the price for a bidding area that differs from the system price, if the transmission capacity is insufficient.

## Biofuel

Produced from biomass, biofuels are fuels used in power plants or motors. Traffic biofuels include liquid biofuels such as biodiesel or bioethanol which are liquids refined from vegetal or animal raw materials, used often as a compound with other liquid fuels. Cleansed biogas is also a traffic biofuel.

## Biomass

Biomass is organic matter developed through photosynthesis; the fuels produced from biomass are called biofuels. Biomass also includes waste flows suitable for municipal and industrial energy production.

## Combined heat and power production CHP

The heat produced in the combined heat and power production (CHP) plants is used as process heat and district heat. This will increase the gross efficiency of the power plants at best to over 90%. The fuels used at CHP plants include coal, peat, wood fuels, energy crops and natural gas. In terms of production costs, CHP plants are often more economical than condensing power plants.

## Condensing power production

At condensing power plants, as high a proportion as possible of the energy contained in the fuel is converted into electricity. The primary fuel of condensing power plants is coal. The natural gas or heavy fuel oil-fired reserve and peak-load power plants are used when the demand for electricity is exceptionally high, or when other power plants are out of production.

The steam process of Finnish nuclear power plants is also a condensing process.

## Electricity exchange

A public marketplace, where members of the exchange may buy and sell electricity.

## Elspot-trading

In the Nordic electricity exchange, Nord Pool, Elspot trading of electricity takes place in periods of 24 hours. The price of electricity is determined based on demand and offer.

## Emission trade

A system in accordance with the EU directive and national legislation with a view to restricting carbon dioxide emissions from, for example, power plants. The operators are allocated emission allowances, which can be bought and sold within the emissions trading regime.

## Fossil fuel

Fuel generated or transformed from organic material over a long period of time, deposited in the soil in the form of coal, oil or natural gas.

## Hydropower production

Hydropower plants can be regulated more rapidly than other power plants. The use of hydropower is particularly influenced by the volumes of water in the reservoirs. The investment costs of hydropower plants are high, whereas the operating costs are low.

## Kyoto Protocol

The Kyoto Protocol obliges industrial countries to reduce their emissions of six greenhouse gases. The Protocol includes binding emission reduction commitments for 2008–2012. The Kyoto Protocol

includes the Kyoto mechanisms, i.e. the project mechanisms (CDM, JI) and emission trading between the industrialised countries.

### Logging residue

Logging residue is produced from waste left in forests after felling. Logging residue consists of, for example, branches and crowns of spruce after final felling, delimbed trees from the thinning of young forests, and other crowns, branches and stumps removed during clearance and thinning

### Mankala-principle

An operating model whereby the company supplies electricity and heat to its shareholders at cost. The shareholders stand for the costs of the operations. This operating model is also called the "Mankala principle". The name dates back to a 1960s ruling, constituting a precedent, by the Supreme Administrative Court, according to which the shareholders of a company called Oy Mankala Ab were found not to have received taxable income when Mankala generated and supplied them with electricity at a price lower than the market price and the shareholders covered the company's costs on the basis of its Articles of Association.

### MW or megawatt

Output unit. 1 MW = 1 000 kW (kilowatts) = 1 000 000 W (watts)

### Nuclear power production

Nuclear power allows for profitable electricity production around the clock, throughout the year. The investment costs of a nuclear power plant are high, whereas the fuel costs are low. The fuel used in nuclear power plants is uranium.

### Reed canary grass

Reed canary grass (*Phalaris arundinacea*) is an energy crop, a perennial grass. The first crop can be harvested two years after sowing.

### Refuse-derived fuel

Waste that has been sorted and is suitable for being burnt.

### Renewable energy sources

For example, water, solar and wind energy, bioenergy, geothermal energy, wave energy and tidal power.

### System price

In the Elspot trading of Nord Pool, the Nordic electricity exchange, the market price of electricity determined on the basis of all purchase and sales offers, which does not take into consideration any capacity constraints in the transmission connections between the countries involved.

### Thermal power production

Thermal power can be divided into condensing power and combined heat and power (CHP).

### TWh or terawatt-hour

The unit of measurement of energy. 1 TWh = 1,000 GWh (gigawatt-hour) = 1 000,000 MWh (megawatt-hour) = 1,000,000,000 kWh (kilowatt-hour).

### V or volt

The unit of voltage. 1 000 V = 1 kV.

### Wind power

Electricity production by the wind power plants depends on the wind conditions. The annual production is about a quarter in comparison with all-year production at full capacity.



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The blade wheel of the Kierikki hydropower plant turbine is 3.8 m in diameter. Through the increase in capacity achieved during the renovation, the construction flow rate grew by 10 m<sup>3</sup>/s, increasing the machine power by 2 MW.

