



FINGRID



**ANNUAL REPORT 2002**





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## REVIEW BY THE PRESIDENT



Fingrid's mission is not only to ensure the operational reliability of the grid and to maintain a balance between electricity consumption and production at a given time but also to contribute to the proper functioning of the electricity market. This concerns both the domestic market in Finland and currently also the other Nordic countries. This is why the good management of all situations in the Nordic market area is important to Fingrid.

The drastic variations in the water reservoir situation had more impact on the Nordic electricity market than any other individual factor. From the average level in the early part of 2002, the water reservoir volumes rose considerably in early summer. However, the reservoirs began to diminish towards the end of the summer, and in November the reservoirs dropped below those of the driest water year in the 1990s. Scant water resources together with increased consumption towards the end of the year were reflected in the market price of electricity, which multiplied from the corresponding period in 2001.

The changes in the water reservoir volumes were also reflected in pronounced changes in cross-border transmissions. During the early part of 2002, almost 4 terawatt hours of electricity was imported from the other Nordic countries into Finland, and there was sufficient transmission capacity. In the summer, imports grew so much that the grid came close to the maximum transmission capacity. As a result of the summer which gave only little rain, imports gave way to abundant exports from Finland in the early autumn. The transmission capacity of the grid was not sufficient in all extreme situations. These situations were exceptional, which is why they do not give sufficient justification for extensive capital expenditure in the grid.

The electricity market has proven to be functional, and peak production capacity which has not been used for a length of time has also been brought into use. It is also to be hoped that the signals coming from the market guide the building of additional electricity production capacity in the correct direction. According to forecasts drawn up by Nordel, sufficient electricity production capacity will become a critical issue in the near future during peak loads. This situation would call for measures also in the other Nordic countries.

The operating models of the Nordic market area were developed further in 2002. The rearrangements of physical electricity exchange operations resulted in a situation where all transmission system operators (TSOs) in this market area now have an equal status as co-owners of Nord Pool Spot AS, which was separated from Nord Pool ASA. Significant results were also achieved in the management of momentary balance between electricity consumption and production, which is the responsibility of TSOs. Earlier, each Nordic country attended to its national balance, but an inter-Nordic procedure was adopted at the beginning of September. The objective is to further reduce the drawbacks inflicted on the market by transmission congestions in the grid by developing counter trading procedures and by implementing the projects covered by the Nordic Grid Master Plan.

The European electricity market development progresses slowly but in the right direction. The Council of the European Union passed the electricity market directive which defines the main principles and schedules for market liberalisation. A regulation influencing the rules applied to cross-border transmission was accepted at the same time. On the other hand, the Association of European Transmission System Operators (ETSO) accepted an arrangement whereby costs caused by transit transmissions are compensated between TSOs.

The operating model applied to the Finnish grid has proved to be very successful both in qualitative and financial terms. This has been indicated by international benchmarking studies, and our customers have also expressed their satisfaction. I feel that official supervision by authorities has worked well as far as the national grid is concerned. The expansion in the mandate of authorities, which has been suggested in the Electricity Market Act, partly reflects European trends which aim at extensive control by authorities in order to achieve a functioning market. In the current Finnish market, the control and monitoring of the Finnish grid probably does not require this type of extended authority. On the contrary, it might even impair the present system which is working well.

The third 400 kilovolt cross-border transmission connection between Finland and Russia was commissioned at the beginning of 2003. This raised the electricity transmission capacity from Russia into Finland by 40 per cent to a total of 1,400 megawatts. There was clear demand for the additional capacity,

and the entire import capacity has been reserved. It is no longer possible to increase electricity imports through the current cross-border connections situated in Southeastern Finland without compromising system reliability. Additional imports are also related to the Finnish energy and environmental policies, and they would require considerable investments in reinforcing the transmission grid.

Fingrid's annual capital expenditure in the grid will be in the region of 40 to 45 million euro in the coming years. Investment needs are caused not only by expansions of industrial production and increase in other consumption but also by the renewal of old parts of the grid. The grid additions related to the fifth nuclear power unit to be built in Finland do not have a significant impact on the level of capital expenditure. When developing the grid, it is important that we obtain information on the future needs of our customers as early as possible. It is our objective to increase co-operation concerning these issues.

Successful risk management and cost control have enabled a good financial performance by Fingrid. The outlook for 2003 is also good, which is why no adjustments permitted by the grid service contracts were made to the prices applied in 2003. The nominal grid service prices have remained at the same level since the year 2000. In 2003, we will launch development work for the tariff concerning the contract period commencing at the beginning of 2005. Good co-operation conducted within the Advisory Committee has a focal role in this work.

During the past year, we have highlighted Fingrid's mission, vision and values. Fingrid's central role in the Finnish energy system imposes on us an important social responsibility. Conscious of this, we have defined the principles of our corporate social responsibility. I consider it important that all Fingrid employees comply with these basic principles.

Fingrid's values include rewarding for excellent performance. During the past year, there have been good grounds for this with many of our employees. I would like to thank all our people for a job well done.



Timo Toivonen

# FINGRID OYJ

**TIMO TOIVONEN, President & CEO**  
**JUHA KEKKONEN, Executive Vice President**

## GRID SERVICE BUSINESS

Matti Tähtinen

- Customer Service
- Market Information
- Information Systems

## GRID ASSET MANAGEMENT

Kari Kuusela

- Environment
- Grid Planning and Development
- Investments
- Grid Maintenance
- Regional Operation
- Technology Development

## POWER SYSTEM OPERATION

Eero Kokkonen

- System Management
- Balance Management
- Grid Operation
- Security Functions

## CORPORATE SERVICES

- Treasury
- Finance
- Market Development
- Communications
- Personnel
- Administration

## FINGRID VARAVOIMA OY

Martti Merviö

- Management of Gas Turbine Capacity

## FINGRID IN BRIEF

- **Established on 29 November 1996**
- **Started operations on 1 September 1997**
- **Owns the Finnish national grid and all significant cross-border connections**
- **Approximately 14,000 kilometres of transmission lines and 100 substations**
- **Turnover EUR 273 million**
- **Balance sheet total EUR 1,379 million**
- **Number of personnel at the end of the year: 210**
- **Number of transmission customers: 100**

## FINGRID'S MISSION

As the transmission system operator in Finland, Fingrid's mission is to:

- maintain and develop the national grid for the customers' electricity transmission needs
- take care of the momentary balance between electricity consumption and production and to settle the electricity deliveries between the market parties
- promote the fluent functioning of the electricity market.

The company must attend to these duties so that:

- the grid is technically reliable
- the grid has sufficient commercial transmission capacity
- the operations are efficient and impartial.

## FINGRID'S VISION

Fingrid's vision is to be a forerunner in the electricity transmission business in the increasingly international electricity market, still safeguarding national interests.

## FINGRID'S VALUES

### RESPONSIBILITY IN ALL OPERATIONS

Fingrid's employees work with a long time perspective and reliably and take into account the requirements imposed by the environment and safety, especially bearing in mind Fingrid's responsible duty in society.

### PERFORMANCE

Fingrid's vision to be a forerunner in the electricity transmission business requires from Fingrid's employees an ability to focus on the essential and to seek progressive modes of operation. Good professional skills and cost consciousness are everybody's goals.

### PROPER EXTERNAL AND INTERNAL INTERACTION

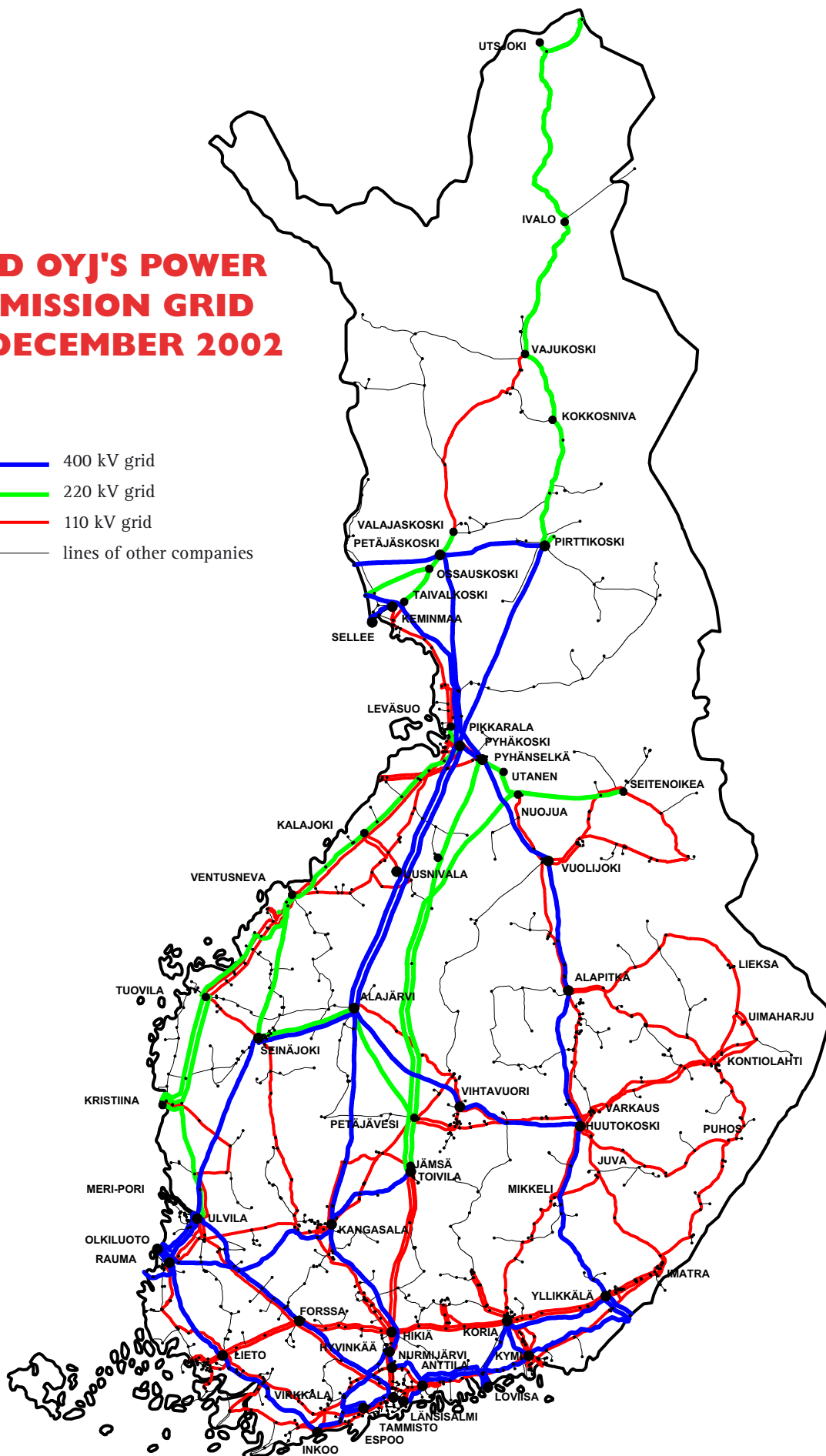
Fingrid's employees contribute to a credible corporate image through concrete action and genuine interaction. Consideration of the entirety and common good as well as efficient flow of information are included in everybody's responsibility. The responsibilities for external communications have been defined explicitly.

### RESPECT FOR THE INDIVIDUAL

Through their action, Fingrid's employees promote personal relations based on mutual confidence and appreciation. Each Fingrid employee has the right to expect from the company fair procedures, rewarding for excellent performance, and support for individual development which is applicable to the needs of the company.

# FINGRID OYJ'S POWER TRANSMISSION GRID AT 31 DECEMBER 2002

- 400 kV grid
- 220 kV grid
- 110 kV grid
- lines of other companies







## SALES OF GRID SERVICES

In 2002, Fingrid transmitted a total of 61.6 terawatt hours of electricity to its customers through its transmission grid.

The new three-year contract period of grid services commenced on 1 January 2002. The transmission prices were kept at the same level as in 2001, and no adjustments permitted by the contracts were made to the transmission prices applied in 2003. The real level of transmission pricing has decreased each year since the establishment of Fingrid. Customers now pay almost one quarter less for the grid service than when Fingrid's operations were launched in 1997.

Ensuring the long-term quality of grid service calls for extensive co-operation with the customers in grid planning. At the end of 2002, a decision was made to launch a project which will focus on analysing the development needs of the 110 kilovolt grid in particular and on verifying the regional grid plans in co-operation with the customers.

Grid transmission of electricity causes approximately 1 terawatt hour of losses per year. This accounts for approximately 1.2 per cent of all electricity use in Finland. Fingrid acquires the necessary loss electricity from the open electricity market. A purchasing

policy verified regularly is applied to the purchasing of loss electricity. Portfolio management support for loss electricity is purchased as a service from a broker specialised in the Nordic electricity market.

The entire commercial transmission capacity of 900 megawatts reserved for the fixed transmission service on Fingrid's cross-border connections from Russia was in use in 2002. The third 400 kilovolt cross-border connection between Finland and Russia was completed in November. This connection, which was brought into commercial use at the beginning of 2003, increased the electricity transmission capacity from Russia by 400 megawatts, raising the total commercial capacity to 1,300 megawatts. This translates into an annual import potential of more than 10 terawatt hours. In line with transmission reservations made in the autumn, the clientele using this service became more international, and the number of customers increased, too. A temporary cross-border transmission service was also in use at a power of 50 megawatts towards the end of the year. Approximately 7.9 terawatt hours of electricity was transmitted from Russia to the Nordic market when including the 110 kilovolt connections.





## ELECTRICITY MARKET DEVELOPMENT

The Nordic transmission system operators (TSOs) have repeatedly warned about the deteriorating energy and power balance in the Nordic market area. The market situation at the end of 2002 and beginning of 2003 emphasises the need to ensure sufficient electricity production capacity in the Nordic countries also in the future, which will call for efforts by the various market parties.

Several investigations aiming at improved functioning of the Nordic electricity market, launched by Nordel, were completed in 2002. These included the first Nordic Grid Master Plan and a report on the development of area price distribution and on increased counter trading.

Long-term negotiations concerning the ownership arrangements of Nord Pool Spot AS, the electricity exchange which operates physical electricity trading, were concluded in 2002. As of 1 July 2002, all Nordic TSOs and Nord Pool ASA have been co-owners of this company. Fingrid has an ownership share of 20 per cent. The new ownership structure enables an even more comprehensive development of the Nor-

dic physical electricity market, which is an asset also for the Finnish parties.

In conjunction with this, the Finnish company EL-EX Electricity Exchange Ltd became a subsidiary of Nord Pool Spot. EL-EX continues in Helsinki by operating the Elbas market place and by attending to Nord Pool Spot AS's and Nord Pool ASA's markets in Finland.

The new electricity market directive passed by the European Union in November is a significant step in view of the development of the European electricity market. The regulation accepted at the same time will influence the rules applied to cross-border transmissions and the operation of TSOs.

The Association of European Transmission System Operators (ETSO) completed an arrangement for the compensation of costs caused by transit transmissions between different TSOs. The new procedure facilitates electricity transmissions between different countries and promotes the single European electricity market. The new arrangement was introduced on 1 January 2003, and it replaced the earlier temporary arrangement. ETSO has rapidly attained a focal role as a negotiating party in the European electricity market development. Juha Kekkonen, Executive Vice President of Fingrid Oyj, continued as the Chairman of ETSO's Steering Committee.



## GRID DEVELOPMENT AND CAPITAL EXPENDITURE

The first Nordic Grid Master Plan was completed in 2002. It aims to anticipate the electricity transmission congestions which disturb the market mechanisms and to find the primary needs for grid reinforcements in the Nordic grid. This Plan will take concrete shape in the form of grid investments.

Approximately 40 million euro was used by Fingrid on capital expenditure in the grid in 2002. This sum will remain at the same level also in the near future. The objective is an as even level of capital expenditure as possible so that the substation and transmission line contractors can also develop their own operations over a long time perspective.

The most important project completed in 2002 was the building of the third 400 kilovolt cross-border transmission connection between Finland and Russia. This connection increased the transmission capacity between the countries by 400 megawatts.

Projects necessitated by increasing electricity consumption included the 400 kilovolt transmission line from Keminmaa to a steel mill in Tornio, the related upgrading of the Sallee 400 kilovolt substation with transmission line, and the renewal of a 110 kilovolt transmission line between Luukkala in Lappeenranta and Imatra.

Substations which have reached a service life of 40 years will be modernised and supplemented in Northern Finland. The busbar system modification carried out at the Pikkarala and Alajärvi substations in Ostrobothnia will increase the transmission capacity between Finland and Sweden in both directions. The replacement of aluminium towers with steel towers continued in Eastern Finland and Ostrobothnia. This replacement work extending over several years is being carried out because of corrosion problems encountered in aluminium towers.

About 40 million euro was used by Fingrid on the maintenance of the grid in 2002. Six regional maintenance agreements were signed during the year, concerning the basic maintenance of transmission lines and substations from 2003 to 2005.

Fingrid participated for the fourth time in an international benchmarking study in maintenance, involving 23 companies from different parts of the world. According to the results, Fingrid's maintenance continues to represent the top league among the benchmarked companies.



## R&D

For several years now, Fingrid's foremost technology research projects have been related to improving the operational reliability of the grid and the quality of electricity transmitted, to the increasingly efficient utilisation of the grid, and to the development of environmentally-friendly line structures.

In order to produce engineering methods and software based on operational reliability, a joint project with VTT Processes and TEKES was launched by Fingrid. Efforts aiming at improving the damping of low-frequency power oscillations in the main grid continued at the Power Systems Laboratory of the Helsinki University of Technology. This work is part of a co-operation project which aims at a more efficient operation of the Nordic grid.

A system enabling on-line assessment of the overload capacity of transformers was completed for the needs of operational control. In co-operation with some network companies in the Helsinki region, an experiment relating to substation automation and monitoring was launched. The results of the experiment will provide a basis for the potential introduction of a system where a centralised substation control room is no longer required.

Research into electromagnetic fields and their consequential phenomena continued in 2002. Fingrid also participated in Eurelectric's analysis and expert work aiming to enable the use of gas insulants as an electrotechnical insulating material also in the future.

*Current R&D projects and their results comprised a vital topic at Fingrid's Transmission Technology Seminar arranged for the company's customers and partners in September.*







## ENVIRONMENT

The environmental impact assessment (EIA) currently in progress on the Vihtavuori – Toivola line will be completed during the spring of 2003. Fingrid launched the environmental impact assessments for three 400 kilovolt transmission line routes. Line routes Loviisa – Hikiä in Hausjärvi and Olkiluoto – Huittinen will be assessed with respect to the reinforcement of the grid required by the policy decision concerning the building of a new nuclear power unit in Finland. Line route Ulvila – Kangasala will also be assessed. Existing rights-of-ways will be utilised as much as possible in the location of the new lines. This is also the starting point in the Government decision concerning national area use objectives.

A research report on the impacts of the Pernajanlah-ti transmission line on birdlife was completed in December 2002. According to the observations made, birds nesting in the area and migrating through this area have a very small risk of colliding with the transmission line.

The interim report of a study examining the number of birds nesting in transmission line areas, concerning bird counts in 2002, was completed. The final results with conclusions will be ready during 2003.

Fingrid revised its instructions for growth treatment in transmission line areas. In accordance with the new instructions, new growth will be cleared from transmission line areas at intervals of about one year less than now. Due to more frequent clearing, operational reliability will be improved while butterflies and meadow species also obtain more room for growth.

On the basis of a study ordered from the Finnish Environment Institute together with Finergy's Environmental Pool, management plans will be drawn up in the summer of 2003 for the best meadows found within the study. It will also be examined whether there are other habitats where transmission line areas have significance in retaining biodiversity. Such habitats could include bogs which are connected by transmission line areas.

In conjunction with the renewal of the transmission line running between Imatra and Luukkala in Lappeenranta, one of the dismantled towers of more than 70 years of age was transferred to the centre of Imatra as a museum tower. The tower is now a landmark and a historic sight, which also serves as part of the street lighting in Imatra.

*Research findings according to which transmission lines have great significance as a habitat of rare and endangered meadow species and butterflies led to a decision to draw up a specific meadow management plan.*





## POWER SYSTEM OPERATION

**D**rastic variations in the Nordic water reservoir situation in 2002 had a crucial impact on the transmissions of electricity. The water reservoirs were at average level until mid-April and abundant until the end of July. After this, the reservoirs began to diminish so that in mid-November, the reservoirs already went below the poorest water year in the 1990s. The situation continued to be bad throughout the winter, and scant water reservoirs were reflected clearly in the price level in the electricity market.

The transmission capacity offered to the market was sufficient almost all of the time during the first half of 2002, when cross-border electricity transmissions mainly consisted of imports into Finland. At the end of June, Finland constituted a price area of its own for a few hours, because the market wished to import more electricity than what the available transmission capacity was. This was followed by a period of six weeks during which the import need exceeded the maximum transmission capacity, as a result of which Finland was a price area of its own for a total of about 250 hours. Imports of electricity gradually turned to exports from Finland because of the increased price level caused by the diminishing water reservoirs. The export need was at its highest in November and December, and the transmission capacity was in full use during nights and weekends. Because of internal transmission congestion in the Finnish grid, counter trading was carried out frequently, and Finland also constituted its own price area at times.

During planned outages in the Finnish grid, transmission capacity was maintained through counter trading agreed upon with the market players, with the exception of the market situation at the end of the year when there were less opportunities for counter trading. The need for counter trading was reduced through successful outage scheduling.

The new cross-border connection from Russia was made live in November. At the same time, there were grid tests used for testing the system technology properties of the Russian direct current substation and of the power plant in Russia which was to be connected to the Finnish grid.

There were no significant disturbance situations affecting transmission capacity. The Nordic power system experienced two short-term frequency disturbance situations. Malfunctions in regional networks caused some disturbance, the impacts of which were also seen as voltage dips in the national grid.

A shared procedure for the acquisition of regulation power, drawn up by the Nordic TSOs, was introduced on 1 September 2002. The earlier country-specific procedure for maintaining momentary balance between electricity production and consumption was replaced with an inter-Nordic balance.

Contracts concerning the procurement of technical production reserves maintained at power plants were renewed in the autumn. The new contracts were signed for two years.

The first full year of the Network Control Centre passed without problems. The Network Control Centre is responsible for operational control, outage implementation and disturbance management in Fingrid's 110 kilovolt network. The Network Control Centre also assists the Power System Control Centre in disturbance clearance in the 400 and 220 kilovolt networks and manages a significant portion of planned outages at these voltage levels. As of March 2003, the Network Control Centre will also be responsible for all connections made in the national grid.

The accuracy and throughput time of national balance settlement stabilised to the target level during 2002. The throughput time of one month reserved for balance settlement has in practice been cut down to a few days. The volume of unsettled balance power has settled to a level of 30 to 50 megawatt hours. At the end of the year, there were a total of 22 parties providing balance service in Finland.

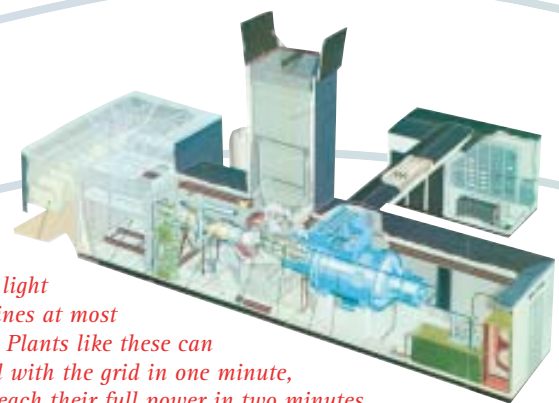
The power system simulator used for the training of operative personnel involved in the operation of the Finnish power system was brought into use. The first training sessions for persons involved in control room operations were arranged in the autumn.



## FINGRID VARAVOIMA OY

The gas turbine capacity available to Fingrid Varavoima Oy was 672 megawatts. Of this, 515 megawatts was composed of plants owned by the company and 157 megawatts of capacity which is available to the company through contracts giving a right of use. The capacity is sufficient for the current reserve power need.

The local operation and general maintenance of gas turbines and special service of the power engines are based on long-term contracts. A decision on the basic modernisation of control systems at eight plant units was made in 2002 in order to ensure the future availability of the plants. The modernisation will be carried out in 2003 and 2004.



*Aviation engines fired with light fuel oil are used as power engines at most reserve power plants of Fingrid. Plants like these can be synchronised with the grid in one minute, and they reach their full power in two minutes.*



## INTERNATIONAL BUSINESS OPERATIONS

International business operations have become an established part of Fingrid's normal business. In 2002, the turnover in international business operations grew to 0.5 million euro, which exceeded the objectives set.

In Estonia, Fingrid assisted Eesti Energia's grid business in the further development of documentation. The training of Estonian experts in Finland continued.

In Latvia, Fingrid continued providing consulting assistance for the rearrangement of the Latvian energy business, with the customers being the Latvian Ministries of Economy and Finance. This project will continue in 2003 by finalising the propo-

sed electricity market regulations. Fingrid will also arrange a series of seminars discussing the development of the electricity market in the Baltic countries.

Eesti Energia, Latvenergo, Lietuvas Energija and DC Baltija together ordered from Fingrid an analysis of the creation of an operating model for a reserve and regulation power market to be applied to the power system in the Baltic countries.

In Kazakhstan, Fingrid concluded the project funded by the World Bank concerning the creation of rules for the electricity market. Fingrid was to create operating models and related rules for the regulation power market and system services being developed in Kazakhstan.

*Fingrid's expertise in the transmission grid business has enjoyed good demand in the Baltic countries which are developing their procedures before joining the European Union.*





## PERSONNEL

Based on the personal development plans, Fingrid arranged centralised training for its personnel in grid technology, grid operation, information technology, electricity market, foreign languages and interaction skills.

Internal job rotation, which promotes the multiple skills of employees, was applied extensively during 2002. Fingrid launched a comprehensive development project for information and document management within the company.

Fingrid applies a pay system which is based on the requirements of each position to the various person-

nel groups. Moreover, there are quality, incentive and suggestion bonus schemes.

The Finnish Institute of Occupational Health carried out an atmosphere survey among Fingrid's personnel. The results indicated distinct improvements from the previous survey in almost all areas. The personnel consider Fingrid a good employer.

At 31 December 2002, the Fingrid Group had 210 employees while the corresponding figure a year before was 204.

*In the autumn, five years had elapsed from the launching of Fingrid's operations. The company's personnel celebrated this milestone through both matter-of-fact and entertaining programmes.*





## CORPORATE SOCIAL RESPONSIBILITY

**F**ingrid has a very focal role in the Finnish power system. Fingrid is responsible for the operation of the national electricity supply system, and the company is subject to a significant social responsibility by law alone.

Fingrid has specified its corporate social responsibility and divided it into two segments, core responsibilities and basic responsibilities. Through the core responsibilities, Fingrid aims to take into account those business aspects where, due to the nature of our operations, we have pronounced responsibility and influence. Fingrid's core responsibilities in corporate social responsibility are the responsibility

for the operation of the national power system and responsibility for land use and scenic impacts related to the electricity transmission grid. In addition to the core responsibilities, we take care of the basic responsibilities which are typically included in corporate social responsibility: economic responsibility, responsibility for the environment, and social responsibility.

Based on Fingrid's mission, vision and values, we specify key indicators and a reporting system for monitoring how well corporate social responsibility is fulfilled.

*In July, Fingrid participated in the Farmari 2002 agricultural exhibition in Hämeenlinna. The company's stand was dominated by a techno calf statue called "Oivallus" (Insight) by Miina Äkkijyrkkä. The statue has been made of decommissioned aluminium transmission line towers, groundwire marking used on the lines, and insulator components. After the exhibition, the techno calf was transferred outside Fingrid's Hämeenlinna office.*





## BOARD OF DIRECTORS



**Taisto Turunen**  
Chairman of the Board  
Director General,  
Ministry of Trade and Industry

Chairman of the Board of Vapo Oy. Member of the Supervisory Board of Gasum Oy. Involved in the work of several energy committees and task forces. Finland's representative in the energy organisations of the Nordic Council, IEA and the EU.



**Timo Rajala**  
1st Deputy Chairman  
President & CEO,  
Pohjolan Voima Oy

Chairman of the Boards of Teollisuuden Voima Oy, Oy Alholmens Kraft Ab, TXU Nordic Energy Oy and the subsidiaries of Pohjolan Voima Oy. Member of the Board of Atro Oyj, Chairman of the Board of Energiafoorumi ry, member of the National Board of Economic Defence.



**Tapio Kuula**  
2nd Deputy Chairman  
President,  
Fortum Power and Heat Oy

Chairman of the Board of Kemijoki Oy, Deputy Chairman of the Board of Teollisuuden Voima Oy, member of the Supervisory Board of Varmasampo, member of the National Board of Economic Defence, Chairman of the Board of AB Fortum Värme Holding (co-owned with the City of Stockholm), member of the Boards of several subsidiaries of Fortum.



**Timo Karttinen**  
President,  
Power Portfolio Management and Trading,  
Fortum Power and Heat Oy

Responsible for the optimisation and hedging of power generation and for sales to energy utilities. Member of the Boards of several subsidiaries and associated companies of Fortum. Member of the Board of Russian energy utility Lenenergo.



**Timo Pekkarinen**  
Government Counsellor,  
Ministry of Trade and Industry

Since 1971, worked at the Ministry of Trade Industry in various duties, including issues relating to the management of governmental ownership of companies.



**Pertti Simola**  
Vice President, Energy,  
UPM-Kymmene Group

Member of the Supervisory Board of Kemijoki Oy. Chairman of the Boards of Länsi-Suomen Voima Oy, Tyrvään Voimaosakeyhtiö, Kainuun Voima Oy. Deputy Chairman of the Boards of Mussalon Voima Oy, Wisapower Oy. Member of the Boards of Teollisuuden Voima Oy, TXU Nordic Energy Oy, PVO-Pool Oy, Oy Alholmens Kraft Ab, Kymin Voima Oy, Järvi-Suomen Voima Oy. Involved in the work of several energy organisations.



**Pertti Voutilainen**  
M.Sc. in Economics and Business Administration, M.Sc. in Engineering, retired as the President of Merita Bank Plc and Executive Vice President of MeritaNordbanken in 2000.

Chairman of the Boards of Metso Oyj, Viola Systems Oy. Deputy Chairman of Technopolis Oyj.



**Tarmo Rantalankila**  
Secretary of the Board,  
General Counsel,  
Fingrid Oyj

## DEPUTY MEMBERS OF THE BOARD OF DIRECTORS

Timo Ritonummi, Senior Adviser,  
Ministry of Trade and Industry

Matti Kaisjoki, Executive Vice President,  
Deputy to the President,  
Pohjolan Voima Oy

Juha Laaksonen, Chief Financial Officer,  
Fortum Oyj

Tapio Lehtisalo,  
Managing Director,  
Fortum Sähkönsiirto Oy

Pekka Kettunen, Senior Adviser,  
Ministry of Trade and Industry

Timo Koivuniemi,  
Senior Vice President,  
Stora Enso Oyj

Paavo Monni, M.Sc (Eng.),  
appointed by investor shareholders

## FINGRID'S ADVISORY COMMITTEE IN 2002



Magnus Buchert,  
Managing Director,  
Graninge Energia Oy, Chairman



Markku Rautiainen,  
Managing Director,  
Ääneseudun Energia Oy



Hannu Haase,  
Chairman of the Board,  
Isommus-Energia Oy



Mikko Rintamäki,  
Vice President, Energy,  
Outokumpu Oyj



Juha-Pekka Lappalainen,  
Vice President,  
Process Industry, Fortum Markets Oy



Lauri Suksi,  
Managing Director,  
Köyliön-Säkylän Sähkö Oy



Jukka Liimatainen,  
Vice President, Energy,  
Kemira Oyj



Risto Vaittinen,  
Managing Director,  
Oy Turku Energia - Åbo Energi Ab



Erik Mälkki,  
Vice President, Power Generation,  
Vattenfall Oy



Risto Vesala,  
Senior Vice President,  
Pohjolan Voima Oy



Arto Pajunen,  
Managing Director,  
Järvi-Suomen Energia Oy



Matti Tähtinen,  
Sales Director,  
Fingrid Oyj, Secretary



Esko Partio,  
Director, Energy,  
M-real Oyj

# FINANCIAL STATEMENTS

## REPORT OF THE BOARD OF DIRECTORS FOR 2002

The new three-year contract period for grid services commenced at the beginning of 2002. The transmission prices were kept at the same level as in 2001, and no adjustments permitted by the contracts were made to the prices applied in 2003. The level of transmission pricing has decreased each year in real terms since the establishment of the company. The real price of grid service is now almost one quarter lower than when Fingrid's operations were started.

The third 400 kilovolt cross-border transmission connection between the Finnish and Russian grids was commissioned at the beginning of 2003. Electricity importers have reserved the entire transmission capacity, which currently totals 1,300 megawatts.

The long-term negotiations concerning the ownership of Nord Pool Spot AS, which operates the physical electricity exchange, were concluded. All Nordic transmission system operators (TSOs) are now co-owners in this company.

As part of the development of the operating model applied in the Fingrid Group, Fingrid System Oy was merged into the parent company at the turn of the years 2002 and 2003.

### FINGRID IN THE ELECTRICITY MARKET

In Finland total consumption of electricity was 84 terawatt hours in 2002 of which Fingrid transmitted approximately 62 terawatt hours in its grid. This was 3.8 per cent more than in the previous year.

Weather conditions in 2002 were exceptional. Precipitation levels were low in all Nordic countries in the summer and autumn. Low water level in reservoirs at the end of the year restricted the supply of hydropower, and when the long period of cold weather increased electricity consumption, the market price of electricity multiplied from the level which prevailed during the early part of the year. Towards the end of the year, all significant coal and oil fired power plants which had been kept in reserve were taken into use. Despite all this, there were no power or energy sufficiency problems in Finland. Exceptionally high need for transmission capacity led in the Nordic market area to greater than forecasted transmission restrictions especially during the summer and at the end of the year.

For several years, forecasts drawn up by the Nordic TSOs have highlighted the constantly deteriorating energy and power situation in the Nordic countries. The situation which prevailed at the end of 2002 and beginning of 2003 emphasises the need to secure sufficient electricity production capacity in the Nordic countries also in the future.

Several analyses aiming at improved functioning of the Nordic electricity market, launched by Nordel, were completed in 2002. These included the first Nordic Grid Master Plan and a report on the development of area price distribution and on reducing transmission congestions in the grid.

Negotiations held over the past few years concerning the ownership arrangements of Nord Pool Spot AS, the electricity exchange which operates physical electricity trading, were concluded. Since 1 July 2002, all Nordic TSOs and Nord Pool ASA have been co-owners of this company. Fingrid has an ownership share of 20 per cent.

Fingrid System Oy, which has been responsible for system operation as well as power balance management and settlement, was

merged into Fingrid Oyj on 31 December 2002. Fingrid System Oy was a fully-owned subsidiary of the parent company. Its turnover in 2002 was EUR 78 million, and it employed 51 persons at the end of 2002. All of these employees were transferred to the parent company.

Association of European Transmission System Operators (ETSO) completed an arrangement for the compensation of costs caused by transit transmissions between different TSOs. The new procedure facilitating electricity transmission between different countries has been effective from 1 January 2003, replacing the earlier temporary arrangement.

### CAPITAL EXPENDITURE IN THE GRID

In 2002, Fingrid's capital expenditure in the grid amounted to EUR 40 million (EUR 33 million in 2001).

The most important project completed in 2002 was the building of the third 400 kilovolt cross-border transmission connection between Finland and Russia. This connection, which was brought into commercial use on 1 January 2003, increased the transmission capacity between the countries by 400 megawatts. Relating to increased electricity consumption by a large steel mill in Tornio, the upgrading of the Sellee 400 kilovolt substation with related transmission line was also brought to conclusion. Because of increased electricity consumption by industries in Southeastern Finland, an 80-year-old 110 kilovolt transmission line between Lappeenranta and Imatra was replaced with a new line which features a considerably higher transmission capacity.

Renewal projects for existing lines were launched for instance between Kouvola and Heinola and in Ostrobothnia. Aluminium towers were replaced with steel towers in Eastern Finland and Ostrobothnia. This replacement work extending over several years is being carried out because of corrosion problems encountered in aluminium towers.

### FINANCIAL RESULT

Turnover of the Fingrid Group in 2002 was EUR 273 million (EUR 242 million in 2001). Turnover grew on account of increased volume of balance power, exceptional Nordic power situation and increased electricity consumption. Profit before extraordinary items and taxes stood at EUR 39 million (EUR 33 million). Profit for the financial year was EUR 28 million (EUR 23 million). The financial result improved on the previous year and was very satisfactory.

The balance sheet total was EUR 1,379 million (EUR 1,338 million). The return on investment was 7.2 per cent (6.9 per cent) and the return on equity 16.0 per cent (14.4 per cent). The equity ratio was 17.1 per cent (16.1 per cent) when excluding the capital loans and 29.3 per cent (28.7 per cent) when including these.

The Group's gross capital expenditure in 2002 totalled EUR 50 million (EUR 44 million). EUR 1 million, i.e. 0.4 per cent (0.4 per cent) of turnover, was used for research and development.

Turnover of the Group's parent company, Fingrid Oyj, was EUR 233 million (EUR 209 million) and profit before extraordinary items and taxes EUR 37 million (EUR 31 million).

### FINANCING

The financial position of the company was good throughout the period examined. Net financial expenses were EUR 52 million



(EUR 52 million in 2001). The average interest rate of net liabilities, including capital loans, was 5.53 per cent (5.32 per cent). The operative cash flow of the Group deducted by capital expenditure was EUR 29 million (EUR 25 million), which enabled a redemption of EUR 22 million (EUR 17 million) in net interest-bearing liabilities. At the end of the year, the interest-bearing liabilities totalled EUR 874 million (EUR 859 million), of which EUR 724 million were long-term and EUR 150 million were short-term. The Group also had EUR 168 million (EUR 168 million) of capital loans.

The company covers the need for short-term financing with the Euro Commercial Paper Programme of USD 600 million and with a domestic Commercial Paper Programme of EUR 150 million. Long-term funding has primarily been arranged through the international Debt Issuance Programme of USD 750 million. On 9 December 2002, Fingrid signed a five-year EUR 400 million multicurrency revolving credit facility agreement with international and domestic banks. Available committed long-term credit facilities amounted to EUR 400 million at the end of the review period. Financial securities, money market holdings and bank balances at 31 December 2002 amounted to EUR 101 million (EUR 64 million). Interest rate and currency swaps, interest rate options and forward contracts totalled EUR 1,154 million (EUR 1,121 million). These involved a counterparty risk of EUR 3 million (EUR 11 million).

Moody's Investors Service and Standard & Poor's Ratings Services affirmed Fingrid's ratings for long-term and short-term financing: Aa3/P-1 (Moody's) and AA-/A-1+ (Standard & Poor's). Both Moody's and Standard & Poor's considered Fingrid's future outlook to be stable.

### **PERSONNEL AND REWARDING SYSTEMS**

The Fingrid Group employed 210 persons at the end of 2002 while the corresponding figure for the previous year was 204.

In addition to a compensation system which is based on the requirements of each position, Fingrid applies quality, incentive and suggestion bonus systems.

### **BOARD OF DIRECTORS**

Fingrid Oyj's Annual General Meeting was held on 25 March 2002. Taisto Turunen, Director General, was elected Chairman of the Board, Timo Rajala, President and CEO, as the First Deputy Chairman of the Board, and Tapio Kuula, President, as the Second Deputy Chairman of the Board. The Board members elected were Timo Karttinen, Executive Vice President, Timo Pekkarinen, Government Counsellor, Pertti Simola, Vice President, and Pertti Voutilainen, Chairman of the Board.

In its work, the Board of Directors has complied with the principles of Corporate Governance, which are based on the application instruction provided by the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers concerning the governance of public limited companies. The Board of Directors decides on the primary operating principles, strategies and major capital expenditure projects of the Group and approves the annual action plan and budget. The Board of Directors appoints the President of the company, approves its basic organisation and composition of the executive management group and decides on the compensation principles for executive management.

### **RISK MANAGEMENT**

The objective of Fingrid's risk management policy is to control risk-related damage or loss through cost-efficient measures. Eight different projects were included in the risk management programme in 2002, based on an annual risk analysis. Six of these projects were completed during the year: management of interest rate and currency risk, ensuring the confidentiality of market and customer information, management of risk relating to computer hardware premises, protection against malicious damage, investigating and improving the operational reliability of the operation control system, and defining the financial risk related to a major disturbance.

Fingrid hedges itself against currency risk relating to the balance sheet items and the business operations. Interest rate risk is managed by stabilising the financial costs during the tariff period, and the same principle is applied to the control of risk relating to the purchase of loss energy.

The internal auditor working directly under the President monitors issues such as the internal rules of the company. The internal auditor reports to the Board of Directors once a year.

### **ENVIRONMENT**

The environmental impact assessment currently in progress on the line Vihtavuori – Toivila will be completed during the spring of 2003. The environmental impact assessments for three 400 kilovolt line routes commenced during the latter part of 2002: Loviisa – Hausjärvi, Olkiluoto – Huittinen and Ulvila – Kangasala. An investigation carried out within the Pernajanlahti area, which was included in the Natura 2000 network of protected areas, concerning the potential impacts of the transmission line on birdlife, was completed in October 2002.

Fingrid revised its instructions for growth treatment in transmission line areas. In accordance with the new instructions, the transmission line areas will be cleared of new growth more frequently than before.

A museum tower was erected in the centre of Imatra to commemorate the oldest transmission line in the Finnish grid.

### **FUTURE OUTLOOK**

Turnover during 2003 is expected to develop in a stable manner. Turnover is influenced by factors which are difficult to anticipate, such as variations in the Nordic power system and in the sales of balance power.

The situation which prevailed at the end of 2002 and beginning of 2003 indicated that the growth in electricity consumption within the Nordic market area calls for new electricity production capacity and also grid reinforcements. Relating to planned fifth nuclear power unit and to increasing loads Fingrid implements the necessary grid reinforcements. Fingrid continues to contribute to a situation where the grid causes a minimum of restriction to the market mechanisms.

The electricity market directive passed by the Council of the European Union specifies the main principles and schedule for market liberalisation. Fingrid is actively involved in influencing the European procedures.



## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	1 Jan - 31 Dec 2002 1,000 €	1 Jan - 31 Dec 2001 1,000 €
<b>TURNOVER</b>	2	272,644	241,553
Other operating income		1,308	829
Materials and services	3	-84,220	-65,480
Staff expenditure	4	-13,796	-12,994
Depreciation and value adjustment	5	-53,200	-51,952
Other operating expenses	6	-31,714	-27,200
<b>OPERATING PROFIT</b>		<b>91,022</b>	<b>84,757</b>
Financial income and expenses	7	-52,453	-51,968
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>		<b>38,569</b>	<b>32,789</b>
Extraordinary items		0	0
<b>PROFIT BEFORE TAXES</b>		<b>38,569</b>	<b>32,789</b>
Income taxes	10	-2,530	-2,946
Change in deferred tax liability	10	-8,524	-6,691
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>27,516</b>	<b>23,152</b>

## CONSOLIDATED BALANCE SHEET

ASSETS	Notes	31 Dec 2002 1,000 €	31 Dec 2001 1,000 €
<b>NONCURRENT ASSETS</b>			
<b>Intangible assets</b>	11		
Goodwill		94,353	100,787
Other long-term expenses		95,068	98,089
		<b>189,422</b>	<b>198,875</b>
<b>Tangible assets</b>	12		
Land and water areas		9,874	9,452
Buildings and structures		41,759	42,188
Machinery and equipment		380,557	386,912
Transmission lines		577,354	574,062
Other tangible assets		77	52
Advance payments and purchases in progress		21,985	19,808
		<b>1,031,606</b>	<b>1,032,474</b>
<b>Investments</b>	13		
Equity investments in associated companies		6,236	821
Other investments		579	189
		<b>6,815</b>	<b>1 010</b>
		<b>1,227,842</b>	<b>1,232,360</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>			
Materials inventories		2,934	2,729
Advance payments and work in progress		1	1,548
		<b>2,935</b>	<b>4,277</b>
<b>Receivables, long-term</b>			
Receivables from associated companies	15	531	616
<b>Receivables, short-term</b>			
Accounts receivable		38,254	33,764
Receivables from associated companies	15	292	255
Other receivables		45	22
Prepayments and accrued income	16, 17	8,503	2,792
		<b>47,093</b>	<b>36,833</b>
<b>Financial securities</b>		<b>88,066</b>	<b>60,926</b>
<b>Cash in hand and bank receivables</b>		<b>12,957</b>	<b>3,413</b>
		<b>151,582</b>	<b>106,065</b>
		<b>1,379,425</b>	<b>1,338,425</b>

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31 Dec 2002 1,000 €	31 Dec 2001 1,000 €
<b>SHAREHOLDERS' EQUITY</b>			
	18		
Share capital		55,922	55,922
Premium fund		55,922	55,922
Retained earnings		96,681	80,788
Profit for the financial year		27,516	23,152
Capital loan		167,914	167,914
		<b>403,956</b>	<b>383,699</b>
<b>LIABILITIES</b>			
Deferred tax liability	21	46,237	37,714
Long-term liabilities	22, 23		
Bonds		601,559	471,006
Loans from financial institutions		121,964	137,520
Accruals	27	1,150	1,150
		<b>724,673</b>	<b>609,676</b>
Short-term liabilities			
Bonds		94,000	32,841
Loans from financial institutions		15,556	8,400
Advances received		0	1,039
Accounts payable		10,198	12,558
Liabilities to associated companies	25	2	1
Other liabilities	26	47,393	216,979
Accruals	27	37,409	35,519
		<b>204,559</b>	<b>307,337</b>
		<b>975,469</b>	<b>954,726</b>
		<b>1,379,425</b>	<b>1,338,425</b>

## CONSOLIDATED CASH FLOW STATEMENT

	2002	2001
	1,000 €	1,000 €
<b>CASH FLOW FROM OPERATIONS:</b>		
Cash from sales	267,339	233,728
Cash from other operating income	301	370
Charges paid for operating expenses	-131,243	-105,793
Cash flow from operations before financial items and taxes	136,397	128,305
Interests and charges paid for other financial costs for operations	-57,258	-56,435
Interests received from operations	2,742	3,893
Direct taxes paid	-2,979	-2,436
Cash flow before extraordinary items	78,902	73,327
Cash flow from extraordinary items (net)	0	-470
<b>Cash flow from operations (A)</b>	<b>78,902</b>	<b>72,857</b>
<b>CASH FLOW FROM INVESTMENTS:</b>		
Investments in tangible and intangible assets	-47,567	-50,529
Capital gain from tangible and intangible assets	2,956	2,176
Investments in other assets	-5,339	9
Repayment of loans receivable	84	84
Dividends received from investments	1	1
<b>Cash flow from investments (B)</b>	<b>-49,865</b>	<b>-48,259</b>
<b>CASH FLOW FROM FINANCIAL OPERATIONS:</b>		
Withdrawal of short-term loans	0	0
Repayment of short-term loans	-168,408	-56,885
Withdrawal of long-term loans	229,320	220,747
Repayment of long-term loans	-46,007	-168,614
Dividends paid and other profit distribution	-7,259	-7,259
<b>Cash flow from financial operations (C)</b>	<b>7,646</b>	<b>-12,010</b>
Net change in cash and cash equivalents (A+B+C), increase (+)/decrease (-)	36,684	12,587
Cash and cash equivalents 1 Jan	64,339	51,752
Cash and cash equivalents 31 Dec	101,023	64,339
<b>ADDITIONAL INFORMATION:</b>		
Cash and cash equivalents stated in the cash flow statement are composed of the following balance sheet items:	31 Dec 2002	31 Dec 2001
Cash in hand and bank receivables	12,957	3,413
Promissory notes of banks	0	0
Certificates of deposit	29,594	26,364
Commercial papers	43,471	34,562
Investments in money market funds	15,000	0
	101,023	64,339



## CONSOLIDATED KEY INDICATORS

		1998	1999	2000	2001	2002
<b>Extent of operations</b>						
Turnover	million €	226.3	234.6	235.5	241.6	272.6
Capital expenditure, gross	million €	83.2	105.1	39.3	43.5	50.2
- % of turnover	%	36.7	44.8	16.7	18.0	18.4
Research and development expenses	million €	0.7	0.5	0.9	1.0	1.1
- % of turnover	%	0.3	0.2	0.4	0.4	0.4
Personnel, average		264	275	272	221	211
Personnel, end of year		272	273	261	204	210
<b>Profitability</b>						
Operating profit	million €	98.3	96.6	88.0	84.8	91.0
- % of turnover	%	43.4	41.2	37.4	35.1	33.4
Profit before extraordinary items and taxes	million €	48.1	41.4	35.5	32.8	38.6
- % of turnover	%	21.2	17.6	15.1	13.6	14.1
Return on investment (ROI)	%	8.2	7.7	7.1	6.9	7.2
Return on equity (ROE)	%	31.9	22.4	16.9	14.4	16.0
<b>Financing and financial position</b>						
Equity ratio (excluding capital loans)	%	12.6	13.4	14.9	16.1	17.1
Equity ratio (including capital loans)	%	23.4	25.8	27.5	28.7	29.3
<b>Share-specific indicators</b>						
Earnings per share	€	13,159	11,516	9,676	8,975	10,839
Equity per share	€	48,216	54,703	60,118	64,898	70,990
<b>Number of shares at 31 Dec</b>						
- Series A shares	qty	2,078	2,078	2,078	2,078	2,078
- Series B shares	qty	1,247	1,247	1,247	1,247	1,247
Total	qty	3,325	3,325	3,325	3,325	3,325

### CALCULATION OF KEY INDICATORS

Return on investment, %	=	Profit before extraordinary items and taxes + interest and other financial expenses ----- Balance sheet total - non-interest-bearing liabilities (average for the year)	x 100
Return on equity, %	=	Profit before extraordinary items and taxes - taxes for the financial year ----- Shareholders' equity (excl. capital loans, average for the financial year)	x 100
Equity ratio, %	=	Shareholders' equity (excluding/including capital loans) ----- Balance sheet total - advances received	x 100
Earnings per share, €	=	Profit before extraordinary items and taxes - taxes for the financial year ----- Average number of shares	
Equity per share, €	=	Shareholders' equity (excluding capital loans) ----- Number of shares at closing date	



## PROFIT AND LOSS ACCOUNT PARENT COMPANY

	Notes	1 Jan - 31 Dec 2002 1,000 €	1 Jan - 31 Dec 2001 1,000 €
<b>TURNOVER</b>	2	233,145	209,452
Other operating income		1,294	1,036
Materials and services	3	-36,026	-24,700
Staff expenditure	4	-10,085	-9,095
Depreciation and value adjustment	5	-47,379	-46,040
Other operating expenses	6	-55,338	-51,602
<b>OPERATING PROFIT</b>		<b>85,611</b>	<b>79,050</b>
Financial income and expenses	7	-48,510	-48,502
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>		<b>37,101</b>	<b>30,548</b>
Extraordinary items	8	1,502	2,029
<b>PROFIT BEFORE PROVISIONS AND TAXES</b>		<b>38,603</b>	<b>32,578</b>
Provisions	9	-29,379	-22,351
Income taxes	10	-2,679	-2,897
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>6,546</b>	<b>7,330</b>

## BALANCE SHEET PARENT COMPANY

ASSETS	Notes	31 Dec 2002 1,000 €	31 Dec 2001 1,000 €
<b>NONCURRENT ASSETS</b>			
Intangible assets	11		
Goodwill		94,353	100,787
Other long-term expenses		94,855	92,219
		<b>189,209</b>	<b>193,006</b>
Tangible assets	12		
Land and water areas		9,802	9,380
Buildings and structures		36,474	36,574
Machinery and equipment		325,215	326,662
Transmission lines		577,354	574,062
Other tangible assets		77	52
Advance payments and purchases in progress		21,959	19,044
		<b>970,881</b>	<b>965,774</b>
Investments	13		
Equity investments in group companies		5,550	7,232
Equity investments in associated companies		6,641	1,692
Other shares and equity investments		579	189
		<b>12,770</b>	<b>9,113</b>
		<b>1,172,860</b>	<b>1,167,893</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>			
Materials inventories		1,440	1,460
Advance payments and work in progress		1	1,543
		<b>1,441</b>	<b>3,003</b>
<b>Receivables, long-term</b>			
Receivables from group companies	14	56,800	65,608
Receivables from associated companies	15	531	616
		<b>57,331</b>	<b>66,224</b>
<b>Receivables, short-term</b>			
Accounts receivable		38,254	32,657
Receivables from group companies	14	380	2,471
Receivables from associated companies	15	292	250
Other receivables		45	19
Prepayments and accrued income	16, 17	8,474	2,205
		<b>47,445</b>	<b>37,602</b>
Financial securities		88,066	60,926
Cash in hand and bank receivables		12,957	3,406
		<b>207,240</b>	<b>171,161</b>
		<b>1,380,100</b>	<b>1,339,054</b>

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31 Dec 2002 1,000 €	31 Dec 2001 1,000 €
<b>SHAREHOLDERS' EQUITY</b>			
	18		
Share capital		55,922	55,922
Premium fund		55,922	55,922
Retained earnings		4,828	4,757
Profit for the financial year		6,546	7,330
Capital loan		167,914	167,914
		<b>291,133</b>	<b>291,846</b>
<b>ACCUMULATED PROVISIONS</b>			
	19	158,595	128,125
<b>LIABILITIES</b>			
<b>Long-term liabilities</b>			
	22, 23		
Bonds		601,559	471,006
Loans from financial institutions		121,964	137,520
Accruals	27	1,150	1,150
		<b>724,673</b>	<b>609,676</b>
<b>Short-term liabilities</b>			
Bonds	22	94,000	32,841
Loans from financial institutions		15,556	8,400
Advances received		0	1,039
Accounts payable		9,709	9,409
Liabilities to group companies	24	1,845	6,432
Other liabilities	26	47,229	216,485
Accruals	27	37,360	34,802
		<b>205,699</b>	<b>309,407</b>
		<b>930,372</b>	<b>919,083</b>
		<b>1,380,100</b>	<b>1,339,054</b>

## CASH FLOW STATEMENT

### PARENT COMPANY

	2002 1,000 €	2001 1,000 €
<b>CASH FLOW FROM OPERATIONS:</b>		
Cash from sales	225,824	198,522
Cash from other operating income	826	810
Charges paid for operating expenses	-102,528	-82,242
Cash flow from operations before financial items and taxes	124,121	117,090
Interests and charges paid for other financial costs for operations	-57,403	-56,673
Interests received from operations	6,274	7,327
Direct taxes paid	-3,133	-2,252
Cash flow before extraordinary items	69,859	65,492
<b>Cash flow from operations (A)</b>	<b>69,859</b>	<b>65,492</b>
<b>CASH FLOW FROM INVESTMENTS:</b>		
Investments in tangible and intangible assets	-46,768	-49,151
Capital gain from tangible and intangible assets	2,956	196
Investments in other assets	-5,339	9
Repayment of loans receivable	4,948	6,088
Dividends received from investments	391	1
<b>Cash flow from investments (B)</b>	<b>-43,811</b>	<b>-42,857</b>
<b>CASH FLOW FROM FINANCIAL OPERATIONS:</b>		
Repayment of short-term loans	-168,952	-56,673
Withdrawal of long-term loans	229,320	220,747
Repayment of long-term loans	-46,007	-168,614
Group contributions received	3,532	1,148
Group contributions paid	0	-1,937
Dividends paid	-7,259	-7,259
Cash and cash equivalents transferred due to merger	9	0
<b>Cash flow from financial operations (C)</b>	<b>10,643</b>	<b>-12,587</b>
<b>Net change in cash and cash equivalents (A+B+C), increase (+)/decrease (-)</b>	<b>36,691</b>	<b>10,047</b>
Cash and cash equivalents 1 Jan	64,332	54,285
Cash and cash equivalents 31 Dec	101,023	64,332
<b>ADDITIONAL INFORMATION:</b>		
Cash and cash equivalents stated in the cash flow statement are composed of the following balance sheet items:	31 Dec 2002	31 Dec 2001
Cash in hand and bank receivables	12,957	3,406
Certificates of deposit	29,594	26,364
Commercial papers	43,471	34,562
Investments in money market funds	15,000	0
	<b>101,023</b>	<b>64,332</b>



# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2002

## 1. ACCOUNTING PRINCIPLES

### Scope of consolidated financial statements

The consolidated financial statements contain the parent company Fingrid Oyj and its fully-owned subsidiaries Fingrid Varavoima Oy and Fingrid Verkko Oy. The consolidated financial statements also include Fingrid System Oy, which merged into the parent company on 31 December 2002. Fingrid Verkko Oy was not operative during the year. The consolidated associated companies were Porvoon Alueverkko Oy (ownership 33.3%) and EL-EX Electricity Exchange Ltd (ownership 50%) until it was sold on 30 June 2002, and Asunto-Osakeyhtiö Lappeentie 22 (ownership 29.8%) until it was sold. Nord Pool Spot AS is consolidated from the date of acquisition on 1 July 2002.

### Principles of consolidation

Intercompany transactions, internal margins on inventories and fixed assets, internal receivables and liabilities as well as internal profit distribution are eliminated in consolidation. Ownership of shares between the Group companies is accounted for under the purchase method of accounting. The associated companies are consolidated using the equity method of accounting. The portion of the results of associated companies for the financial year, based on the Group's ownership in them, is stated as a separate item in the profit and loss account in financial income and expenses.

### Interest-bearing liabilities

The long-term interest-bearing liabilities consist of loans from financial institutions and bonds issued under the international and domestic Debt Issuance Programmes. The short-term interest-bearing liabilities consist of commercial papers issued under the domestic and international programmes and of the current portion of long-term debt and bonds maturing within a year. The outstanding issues under the Programmes are denominated in euros and foreign currencies. The Group has both fixed and floating rate debt and debt with interest rate structures. The interest is accrued over the maturity of the debt. The differential value of a bond issued over or under par value is accrued over the life of the bond. The arrangement fees of the revolving credit facilities are as a rule immediately entered as expenses and the commitment fees are accrued over the maturity of the facility.

### Interest rate and foreign exchange derivatives

In accordance with the financial policy, interest rate and cross-currency swaps, foreign exchange forwards and interest rate options are used for hedging the Group's interest and foreign exchange exposure of balance sheet items or commercial flows. The accounting principles for derivatives are the same as for the underlying balance sheet items. The interest flow of interest rate and cross-currency swaps and interest rate options is accrued over their maturity and booked under financial income and expenses. The interest portion of forward foreign exchange contracts hedging the balance sheet is accrued over their maturity and booked under financial income and expenses. Up-front paid or received premiums for interest rate options are accrued over the contract period.

### Electricity derivatives

The Group hedges the loss energy purchases by using bilateral contracts and electricity exchange products, such as forwards, futures and options. The price differences arising from these contracts are booked at maturity to adjust the loss energy purchases in the profit and loss account. Up-front paid or received premiums for options and their profit or loss are booked over those years, which the options are hedging.

### Foreign currency transactions

Commercial flows and balance sheet items denominated in foreign currencies are booked at the foreign exchange mid-rate quoted by the European Central Bank (ECB) at the transaction value date. Balance sheet items and the derivatives hedging the balance sheet are valued at the mid-rate quoted by ECB at the closing day. Realised foreign exchange gains and losses of interest-bearing assets and liabilities and of the derivatives are booked under financial income and expenses at maturity. The realised foreign exchange rate differences of derivatives hedging commercial flows adjust the corresponding item in the profit and loss account and are booked when the derivative contract is due.

### Valuation of fixed assets

Fixed assets are capitalised under immediate acquisition cost. Planned straight-line depreciation on the acquisition price is calculated on the basis of the economic lives of fixed assets. Depreciation on fixed assets taken into use during the financial year is calculated project-specifically from the month of introduction.

The depreciation periods are as follows:

Goodwill.....	20 years
Other long-term expenses	
Right of use to line areas.....	30-40 years
Other rights of use according to economic lives, maximum.....	10 years
Computer systems, operational control.....	15 years
Computer systems, others.....	3 years
Buildings and structures	
Substation buildings and separate buildings.....	40 years
Substation structures and machinery.....	30 years
Buildings and structures at gas turbine power plants.....	20 years
Separate structures.....	15 years
Machinery and equipment	
Gas turbine power plants.....	20 years
Machinery and equipment.....	3-10 years
Transmission lines	
Transmission lines 400 kV.....	40 years
Direct current lines.....	40 years
Transmission lines 110-220 kV.....	30 years
Aluminium towers of transmission lines (400 kV).....	20 years

Goodwill is depreciated over a 20-year period, since power transmission operation is a long-term business in which income is accrued over several decades.

### Valuation of inventories

Inventories are entered according to the FIFO principle at the acquisition cost, or at the lower of replacement cost or probable market price.

### Cash in hand, bank receivables and financial securities.

Cash in hand and bank receivables include cash assets and bank balances. Financial securities include certificates of deposit, commercial papers and investments in short-term money-market funds. Quoted securities and comparable assets are valued at the lower of original acquisition cost or market price.

### Deferred tax liabilities

In the consolidated financial statements, deferred tax liabilities are only calculated from timing differences.

### Research and development

Research and development expenses are entered as annual expenses.

### Comparability

Connection fees which can be returned are stated under the note Investments, which is a deviation from past years' principle.



## 2. TURNOVER BY BUSINESS AREAS AND MARKET AREAS

Almost the entire turnover of the Fingrid Group was derived from the grid business. The market area of the Group comprises mainly Finland.

3. MATERIALS AND SERVICES, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Purchases during financial year	82,038	64,438	33,631	23,618
Change in inventories, increase (-) or decrease (+)	1,323	-1,461	1,542	-1,358
Materials and supplies	83,361	62,977	35,174	22,260
External services	859	2,503	853	2,440
<b>Total</b>	<b>84,220</b>	<b>65,480</b>	<b>36,026</b>	<b>24,700</b>

4. PERSONNEL COSTS, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Wages, salaries and bonuses	10,746	10,349	7,771	7,151
Pension costs	2,122	1,673	1,614	1,252
Other additional staff costs	927	972	700	692
Staff expenditure in profit and loss account	<b>13,796</b>	<b>12,994</b>	<b>10,085</b>	<b>9,095</b>
Executive salaries and bonuses:				
Presidents	255	247		
Board members	91	85	91	85
Average number of personnel in the company during financial year:				
Salaried employees	211	218	154	153
Workers	0	3	0	0
Personnel at year end	210	204	157	144

5. DEPRECIATION ACCORDING TO PLAN, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Goodwill	6,433	6,433	6,433	6,433
Other long-term expenses	6,558	6,090	5,409	4,936
Buildings and structures	1,587	1,491	1,258	1,162
Machinery and equipment	18,428	18,714	14,085	14,285
Transmission lines	20,193	19,223	20,193	19,223
<b>Total</b>	<b>53,200</b>	<b>51,952</b>	<b>47,379</b>	<b>46,040</b>

6. OTHER OPERATING EXPENSES, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Rents	2,264	2,265	2,221	2,165
Contracts, assignments etc. undertaken by outsiders	24,892	21,176	48,955	46,464
Others	4,558	3,759	4,162	2,973
<b>Total</b>	<b>31,714</b>	<b>27,200</b>	<b>55,338</b>	<b>51,602</b>

7. FINANCIAL INCOME AND EXPENSES, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Portion of net income (loss) of associated companies	-226	-220		
Dividend income from Group companies			391	0
Dividend income from associated companies	0	0	0	0
Dividend income from others	1	1	1	1
Interest and other financial income from Group companies			3,545	3,555
Interest and other financial income from others	3,023	2,839	2,943	2,765
Interest and other financial expenses to Group companies			-177	-264
Interest and other financial expenses to others	-55,250	-54,588	-55,213	-54,559
<b>Total</b>	<b>-52,453</b>	<b>-51,968</b>	<b>-48,510</b>	<b>-48,502</b>

8. EXTRAORDINARY ITEMS, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Extraordinary income/Group contribution to subsidiaries			1,502	2,029

9. PROVISIONS, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Difference between depreciation according to plan and depreciation carried out in taxation			-29,379	-22,351

10. TAXES, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Income taxes for financial year	-2,530	-2,946	-2,679	-2,897
Change in deferred tax claim	0	-212		
Change in deferred tax liability	-8,524	-6,479		
<b>Total</b>	<b>-11,053</b>	<b>-9,637</b>	<b>-2,679</b>	<b>-2,897</b>
Tax effect of extraordinary items	-	-	436	588

11. INTANGIBLE ASSETS, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
<b>Goodwill</b>				
Cost at 1 Jan	128,664	128,664	128,664	128,664
Increases 1 Jan - 31 Dec	0	0	0	0
Cost at 31 Dec	128,664	128,664	128,664	128,664
Accumulated depreciation according to plan 1 Jan	-27,877	-21,444	-27,877	-21,444
Depreciation according to plan 1 Jan - 31 Dec	-6,433	-6,433	-6,433	-6,433
Book value 31 Dec	94,353	100,787	94,353	100,787
Accumulated depreciation difference 1 Jan			-36,455	-30,022
Increase in depreciation difference reserve 1 Jan - 31 Dec			-6,433	-6,433
Accumulated depreciation in excess of plan 31 Dec			-42,888	-36,455
<b>Other long-term expenditure</b>				
Cost at 1 Jan	117,733	108,950	108,913	98,821
Transfers between items	-394	0	-394	0
Increases 1 Jan - 31 Dec	3,979	10,609	8,487	10,092
Decreases 1 Jan - 31 Dec	-56	-1,826	-56	0
Cost at 31 Dec	121,262	117,733	116,950	108,913
Accumulated depreciation according to plan 1 Jan	-19,644	-14,302	-16,694	-11,758
Decreases, depreciation according to plan 1 Jan - 31 Dec	8	748	8	0
Depreciation according to plan 1 Jan - 31 Dec	-6,558	-6,090	-5,409	-4,936
Book value 31 Dec	95,068	98,089	94,855	92,219
Accumulated depreciation difference 1 Jan			-33,373	-26,617
Decrease in depreciation difference reserve 1 Jan - 31 Dec			15	0
Increase in depreciation difference reserve 1 Jan - 31 Dec			-9,413	-6,755
Accumulated depreciation in excess of plan 31 Dec			-42,770	-33,373

12. TANGIBLE ASSETS, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
<b>LAND AND WATER AREAS</b>				
Cost at 1 Jan	9,452	9,431	9,380	9,359
Increases 1 Jan - 31 Dec	422	21	422	21
<b>Cost at 31 Dec</b>	<b>9,874</b>	<b>9,452</b>	<b>9,802</b>	<b>9,380</b>
<b>BUILDINGS AND STRUCTURES</b>				
Cost at 1 Jan	47,575	45,448	41,001	38,875
Increases 1 Jan - 31 Dec	1,158	2,127	1,158	2,127
Decreases 1 Jan - 31 Dec	-73	-1	-73	-1
<b>Cost at 31 Dec</b>	<b>48,660</b>	<b>47,575</b>	<b>42,086</b>	<b>41,001</b>
Accumulated depreciation according to plan 1 Jan	-5,387	-3,897	-4,427	-3,266
Decreases, depreciation according to plan 1 Jan - 31 Dec	16	1	16	1
Depreciation according to plan 1 Jan - 31 Dec	-1,530	-1,491	-1,201	-1,162
<b>Book value 31 Dec</b>	<b>41,759</b>	<b>42,188</b>	<b>36,474</b>	<b>36,574</b>
Accumulated depreciation difference 1 Jan			-4,313	-3,777
Increase in depreciation difference reserve 1 Jan - 31 Dec			-485	-537
Decrease in depreciation difference reserve 1 Jan - 31 Dec			12	2
<b>Accumulated depreciation in excess of plan 31 Dec</b>			<b>-4,785</b>	<b>-4,313</b>
<b>MACHINERY AND EQUIPMENT</b>				
Cost at 1 Jan	452,309	432,209	379,263	358,371
Increases 1 Jan - 31 Dec	12,079	21,307	12,645	21,052
Decreases 1 Jan - 31 Dec	-778	-1,207	-778	-161
<b>Cost at 31 Dec</b>	<b>463,610</b>	<b>452,309</b>	<b>391,129</b>	<b>379,263</b>
Accumulated depreciation according to plan 1 Jan	-65,397	-47,265	-52,602	-38,427
Decreases, depreciation according to plan 1 Jan - 31 Dec	773	582	773	111
Depreciation according to plan 1 Jan - 31 Dec	-18,428	-18,714	-14,085	-14,285
<b>Book value 31 Dec</b>	<b>380,557</b>	<b>386,912</b>	<b>325,215</b>	<b>326,661</b>
Accumulated depreciation difference 1 Jan			-9,537	-7,162
Increase in depreciation difference reserve 1 Jan - 31 Dec			-12,168	-3,144
Decrease in depreciation difference reserve 1 Jan - 31 Dec			-1	769
<b>Accumulated depreciation in excess of plan 31 Dec</b>			<b>-21,706</b>	<b>-9,537</b>
<b>TRANSMISSION LINES</b>				
Cost at 1 Jan	653,053	645,594	653,053	645,594
Increases 1 Jan - 31 Dec	24,092	7,468	24,092	7,468
Decreases 1 Jan - 31 Dec	-1,695	-9	-1,695	-9
<b>Cost at 31 Dec</b>	<b>675,450</b>	<b>653,053</b>	<b>675,450</b>	<b>653,053</b>
Accumulated depreciation according to plan 1 Jan	-78,991	-59,777	-78,991	-59,777
Decreases, depreciation according to plan 1 Jan - 31 Dec	322	9	322	9
Depreciation according to plan 1 Jan - 31 Dec	-19,427	-19,223	-19,427	-19,223
<b>Book value 31 Dec</b>	<b>577,354</b>	<b>574,062</b>	<b>577,354</b>	<b>574,062</b>
Accumulated depreciation difference 1 Jan			-44,447	-38,196
Increase in depreciation difference reserve 1 Jan - 31 Dec			-2,718	-6,316
Decrease in depreciation difference reserve 1 Jan - 31 Dec			720	64
<b>Accumulated depreciation in excess of plan 31 Dec</b>			<b>-46,446</b>	<b>-44,447</b>
<b>OTHER TANGIBLE ASSETS</b>				
Cost at 1 Jan	52	52	52	52
Increases 1 Jan - 31 Dec	25	0	25	0
<b>Cost at 31 Dec</b>	<b>77</b>	<b>52</b>	<b>77</b>	<b>52</b>
<b>Production machinery and equipment, portion of book value at 31 December, 1,000 €</b>	<b>377,429</b>	<b>382,883</b>	<b>322,089</b>	<b>324,177</b>

13. INVESTMENTS, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
<b>Equity investments in Group companies</b>				
Cost at 1 Jan			7,232	7,232
Decreases (merger) 1 Jan - 31 Dec			-1,682	0
Cost at 31 Dec			5,550	7,232
<b>Equity investments in associated companies</b>				
Cost at 1 Jan	821	1,041	1,692	1,692
Increases 1 Jan - 31 Dec	6,284	0	7,069	0
Decreases 1 Jan - 31 Dec	-869	-220	-2,120	0
Cost at 31 Dec	6,236	821	6,641	1,692
Undepreciated goodwill of associated companies 31 Dec	4,172	250		
<b>Other shares and equity investments</b>				
Cost at 1 Jan	189	198	189	198
Transfers between items	391	0	391	0
Increases 1 Jan - 31 Dec	-1	-9	-1	-9
Cost at 31 Dec	579	189	579	189
<b>Total</b>	<b>6,815</b>	<b>1,010</b>	<b>12,770</b>	<b>9,113</b>

Shares and equity investments 31 Dec 2002	Ownership %	
	Group	Parent
<b>Subsidiary shares:</b>		
Fingrid Varavoima Oy, Helsinki	100.0	100.0
Fingrid Verkko Oy, Helsinki	100.0	100.0
<b>Associated companies:</b>		
Nord Pool Spot AS, Oslo, Norway	20.0	20.0
Porvoon Alueverkko Oy, Porvoo	33.3	33.3

14. RECEIVABLES FROM GROUP COMPANIES, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
<b>Long-term:</b>				
Loans receivable			56,800	65,608
<b>Short-term:</b>				
Accounts receivable			0	374
Other receivables			0	0
Prepayments and accrued income			380	2,097
			380	2,471
<b>Total</b>			<b>57,180</b>	<b>68,079</b>

15. RECEIVABLES FROM ASSOCIATED COMPANIES, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
<b>Long-term:</b>				
Loans receivable	531	616	531	616
<b>Short-term:</b>				
Accounts receivable	289	252	289	246
Prepayments and accrued income	3	3	3	3
	292	255	292	249
<b>Total</b>	<b>823</b>	<b>871</b>	<b>823</b>	<b>865</b>

16. PREPAYMENTS AND ACCRUED INCOME, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Interests and other financial items	1,581	985	1,581	985
Taxes	731	277	731	276
Value added tax	0	188	0	0
Accruals of sales and purchases	5,123	963	5,096	594
Other	1,069	379	1,067	350
<b>Total</b>	<b>8,504</b>	<b>2,792</b>	<b>8,474</b>	<b>2,205</b>

17. UNRECORDED EXPENSES AND PAR VALUE DIFFERENTIALS ON THE ISSUE OF LOANS INCLUDED IN PREPAYMENTS AND ACCRUED INCOME, 1,000 €				
	Group		Parent company	
	2002	2001	2002	2001
Arrangement fees	0	224	0	224
Par value differentials	151	249	151	249
<b>Total</b>	<b>151</b>	<b>474</b>	<b>151</b>	<b>474</b>

18. SHAREHOLDERS' EQUITY, 1,000 €				
	Group		Parent company	
	2002	2001	2002	2001
Share capital 1 Jan	55,922	55,922	55,922	55,922
Share capital 31 Dec	55,922	55,922	55,922	55,922
Premium fund 1 Jan	55,922	55,922	55,922	55,922
Premium fund 31 Dec	55,922	55,922	55,922	55,922
Profit from previous financial years 1 Jan	103,940	88,047	12,087	12,015
Dividend distribution	-7,259	-7,259	-7,259	-7,259
Profit from previous financial years 31 Dec	96,681	80,788	4,828	4,757
<b>Profit for the financial year</b>	<b>27,516</b>	<b>23,152</b>	<b>6,546</b>	<b>7,330</b>
Capital loans 1 Jan	167,914	167,914	167,914	167,914
Capital loans 31 Dec	167,914	167,914	167,914	167,914
<b>Shareholders' equity 31 Dec</b>	<b>403,956</b>	<b>383,699</b>	<b>291,133</b>	<b>291,846</b>
<b>Distributable shareholders' equity</b>	<b>10,995</b>	<b>11,606</b>	<b>11,374</b>	<b>12,087</b>

The share capital is divided as follows:	Number of shares qty	% of all shares %	% of votes %
Series A shares	2,078	62.49	83.32
Series B shares	1,247	37.51	16.68
<b>Total</b>	<b>3,325</b>	<b>100.00</b>	<b>100.00</b>

Series A shares confer three votes each at a shareholders' meeting and series B shares one vote each. Series B shares have preference with respect to dividends as stipulated in the Articles of Association. In 2002-2006, this dividend is 5.93% p.a. of the subscription price of the share.

Shareholders by different categories:	Number of shares qty	% of all shares %	% of votes %
Public enterprises	834	25.08	33.44
Private enterprises	834	25.08	33.44
Public organisations	410	12.33	16.44
Financial and insurance institutions	1,247	37.51	16.68
<b>Total</b>	<b>3,325</b>	<b>100.00</b>	<b>100.00</b>



Shareholders:	Number of shares qty	% of all shares %	% of votes %
Fortum Power and Heat Oy	834	25.08	33.44
Pohjolan Voima Oy	834	25.08	33.44
Republic of Finland	410	12.33	16.44
Mutual Pension Insurance Company Varma-Sampo	415	12.48	5.55
Mutual Pension Insurance Company Ilmarinen	350	10.53	4.68
Tapiola Mutual Pension Insurance Company	150	4.51	2.01
Suomi Insurance Company Ltd	75	2.26	1.00
Pohjola Non-Life Insurance Company Ltd	75	2.26	1.00
Sampo Life Insurance Company	54	1.62	0.72
Tapiola General Mutual Insurance Company	50	1.50	0.67
Tapiola Mutual Life Assurance Company	35	1.05	0.47
If Industrial Insurance Company Ltd	25	0.75	0.33
Tapiola Corporate Life Insurance Company Ltd	12	0.36	0.16
Insurance Company Henki-Fennia	6	0.18	0.08
<b>Total</b>	<b>3,325</b>	<b>100.00</b>	<b>100.00</b>

CAPITAL LOANS, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Debenture of capital loan nature 1997	137,914	137,914	137,914	137,914
Debenture of capital loan nature 1999	30,000	30,000	30,000	30,000
	<b>167,914</b>	<b>167,914</b>	<b>167,914</b>	<b>167,914</b>

In accordance with Chapter 5, Section 1 of the Companies Act, the principal, interest and other compensation for capital loans can be repaid only after debts with higher claim in the event of the liquidation or bankruptcy of the company.

#### Debenture of capital loan nature 1997

The loan becomes due on 15 May 2027, but, if the company so decides, it can be paid back on 15 May 2007 and 15 May 2017 at 100% rate. The coupon rate is 6.8% p.a. until 15 May 2007, after which the interest rate is the 6 month euribor + 1.9% p.a. until 15 May 2017. After this, the coupon rate is the 6 month euribor + 2.9% p.a.

#### Debenture of capital loan nature 1999

The loan becomes due on 30 November 2029, but, if the company so decides, it can be paid back on 30 November 2009 and 30 November 2019 at 100% rate. The coupon rate is 6.388% p.a. until 30 November 2009, after which the interest rate is the 6 month euribor + 2.28% p.a. until 30 November 2019. After this, the coupon rate is the 6 month euribor + 3.28% p.a.

The capital loans are publicly quoted and registered in the book-entry security system of Finnish Central Securities Depository Ltd.

19. ACCUMULATED PROVISIONS, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Accumulated depreciation in excess of plan, the difference between depreciation according to plan and depreciation carried out in taxation			158,595	128,125

20. OBLIGATORY PROVISIONS, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Obligatory provisions 1 Jan	0	730	0	260
Increase / decrease in obligatory provisions 1 Jan - 31 Dec	0	-730	0	-260
<b>Obligatory provisions 31 Dec</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

21. DEFERRED TAX LIABILITIES AND CLAIMS, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
Deferred tax liabilities				
Resulting from provisions	46,237	37,714		
<b>Total</b>	<b>46,237</b>	<b>37,714</b>		

22. BONDS, 1,000 €				Group		Parent company	
				2002	2001	2002	2001
Domestic:	Maturity date						
Bond II/1997	18.04.2006	6.00%	66,098	66,098	66,098	66,098	
International:							
USD	35,000	26.04.2002	variable interest	0	32,841	0	32,841
EUR	100,000	24.02.2003	3.50%	94,000	100,000	94,000	100,000
CAD	15,000	15.03.2004	variable interest	10,400	10,400	10,400	10,400
USD	25,000	28.05.2004	variable interest	27,144	0	27,144	0
AUD	10,000	18.06.2004	variable interest	6,030	6,030	6,030	6,030
USD	35,000	13.08.2004	variable interest	39,800	39,800	39,800	39,800
CHF	50,000	23.08.2004	variable interest	32,945	32,945	32,945	32,945
CHF	50,000	19.04.2005	variable interest	34,150	0	34,150	0
USD	15,000	03.05.2005	variable interest	16,725	0	16,725	0
USD	35,000	23.05.2005	variable interest	38,461	0	38,461	0
GBP	10,000	28.06.2005	5.44%	15,600	0	15,600	0
USD	35,000	25.08.2005	7.21%	38,300	38,300	38,300	38,300
CHF	16,000	06.06.2007	2.00%	10,180	10,180	10,180	10,180
EUR	22,000	14.06.2007	variable interest	22,000	0	22,000	0
USD	35,000	09.07.2007	variable interest	35,497	0	35,497	0
GBP	10,000	07.08.2007	5.5225%	15,576	0	15,576	0
JPY	3,000,000	23.05.2008	0.925%	27,700	27,700	27,700	27,700
FIM	100,000	04.09.2008	4.75%	16,819	16,819	16,819	16,819
EUR	15,000	03.03.2009	4.25%	15,000	15,000	15,000	15,000
JPY	3,000,000	15.07.2009	1.84%	24,000	24,000	24,000	24,000
EUR	10,000	31.03.2010	interest rate structure	10,000	10,000	10,000	10,000
JPY	1,000,000	12.07.2010	2.00%	10,215	10,215	10,215	10,215
JPY	3,000,000	05.07.2011	1.31% *	28,200	28,200	28,200	28,200
JPY	3,000,000	25.07.2012	1.3575% **	25,400	0	25,400	0
FIM	210,000	19.08.2013	5.20%	35,319	35,319	35,319	35,319
Bonds, long-term total				601,559	471,006	601,559	471,006
Bonds, short-term total				94,000	32,841	94,000	32,841
<b>Total</b>				<b>695,559</b>	<b>503,847</b>	<b>695,559</b>	<b>503,847</b>

\* callable 5 July 2004

\*\* callable 25 July 2006

23. LOANS FALLING DUE FOR PAYMENT IN FIVE YEARS OR MORE, 1,000 €				Group		Parent company	
				2002	2001	2002	2001
Bonds				192,653	177,433	192,653	177,433
Loans from financial institutions				59,748	75,295	59,748	75,295
<b>Total</b>				<b>252,401</b>	<b>252,728</b>	<b>252,401</b>	<b>252,728</b>

24. LIABILITIES TO GROUP COMPANIES, 1,000 €				Group		Parent company	
				2002	2001	2002	2001
Short-term:							
Accounts payable						1,220	2,979
Other debts						18	3,427
Accruals						608	26
<b>Total</b>						<b>1,845</b>	<b>6,432</b>

25. LIABILITIES TO ASSOCIATED COMPANIES, 1,000 €				Group		Parent company	
				2002	2001	2002	2001
Short-term:							
Accounts payable				2	1	0	0
<b>Total</b>				<b>2</b>	<b>1</b>	<b>0</b>	<b>0</b>

26. OTHER DEBTS, 1,000 €				Group		Parent company	
				2002	2001	2002	2001
Short-term:							
Other loans/Commercial papers (international and domestic)				40,549	208,957	40,549	208,957
Value added tax				5,023	6,128	4,862	5,738
Electricity tax				1,438	1,548	1,438	1,548
Other short-term debt				383	346	380	242
<b>Total</b>				<b>47,393</b>	<b>216,979</b>	<b>47,229</b>	<b>216,485</b>

27. ACCRUALS, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
<b>Long-term:</b>				
Accruals of sales	1,150	1,150	1,150	1,150
<b>Short-term:</b>				
Interests and other financial items	27,637	29,331	27,637	29,331
Wages, salaries and additional staff costs	2,649	2,949	2,625	2,273
Accruals of sales and purchases	7,112	2,856	7,097	2,815
Other	11	383	0	383
<b>Total</b>	<b>37,409</b>	<b>35,519</b>	<b>37,360</b>	<b>34,802</b>
	<b>38,559</b>	<b>36,669</b>	<b>38,510</b>	<b>35,952</b>

28. PLEDGES, MORTGAGES AND CONTINGENT LIABILITIES, 1,000 €	Group		Parent company	
	2002	2001	2002	2001
<b>Leasing liabilities (motor vehicles)</b>				
Leasing liabilities for the next year	92	82	92	65
Leasing liabilities for subsequent years	60	81	60	70
	152	163	152	135
<b>Commitment fee of revolving credit facility</b>				
Commitment fee for the next year	400	0	400	0
Commitment fee for subsequent years	1,576	0	1,576	0
	1,976	0	1,976	0
<b>Pledges/bank balances</b>				
Pledge for the Customs Office	26	26	26	26
Guarantee for work in progress	5	0	5	0
Pledge for electricity exchange purchases	6,501	682	6,501	682
	6,532	708	6,532	708
<b>Other contingent liabilities</b>				
Guarantee given on behalf of an associated company	0	3,600	0	3,600
	0	3,600	0	3,600
<b>Total</b>	<b>8,660</b>	<b>4,471</b>	<b>8,660</b>	<b>4,443</b>

<b>Other financial liabilities</b>				
Purchase commitments concerning electricity, TWh	0.4	0.8	0.4	0.0
Most of the commitments concern the year 2003. The longest commitments extend until 2004.				

## 29. LEGAL PROCEEDINGS AND PROCEEDINGS BY AUTHORITIES

There are no ongoing legal proceedings or proceedings by the authorities with material adverse effect on the Group's operations. The Energy Market Authority is reviewing the reasonableness of Fingrid Oyj's pricing.

30. DERIVATIVE AGREEMENTS, 1,000 €	Group and Parent			
	2002	2002	2001	2001
	Market value 31 Dec 2002	Nominal value 31 Dec 2002	Market value 31 Dec 2001	Nominal value 31 Dec 2001
<b>Interest and currency derivatives</b>				
Cross-currency swaps	-25,653	401,217	10,959	266,800
Forward contracts	2,503	107,698	4,394	213,513
Interest rate swaps	-23,816	550,463	-18,845	640,919
Call options, bought	330	95,000	0	0
<b>Total</b>	<b>-46,636</b>	<b>1,154,378</b>	<b>-3,492</b>	<b>1,121,232</b>
<b>Electricity derivatives</b>				
Futures contracts, Nord Pool	-511	933	-18	1,146
Forward contracts of electricity, Nord Pool	20,543	79,285	688	30,587
Forward contracts of electricity, others	18,427	13,022	2,303	24,801
Call options, bought (219 GWh)	644		0	
<b>Total</b>	<b>39,103</b>	<b>93,240</b>	<b>2,973</b>	<b>56,534</b>

Interest rate and currency derivatives are mark-to-market on the closing date so that the derived net cash flow was calculated on a net present value basis.

Item "Forward contracts of electricity, others" includes fixed price physical purchase commitments concerning electricity purchases and bilateral electricity derivative contracts. Options are hedging the years 2005 and 2006.

Fingrid's risk management adheres to the Group's risk management policy accepted by the Board of Directors. Risk management refers to those procedures that are used for identifying and assessing the risks caused by various threats and, if necessary, for hedging against damage or loss related to the risks. The other policies of the Fingrid Group support comprehensive risk management. The objective of Fingrid's risk management policy is to control risk-related damage or loss through cost-efficient measures. Hedging against risks must be carried out whenever the costs caused by hedging are reasonable in relation to the magnitude of the risk. Fingrid assumes a major risk on its own responsibility only through calculated deliberation and when this is the most lucrative option. The main projects for the annual risk management programme are selected on the basis of an annual risk analysis.

#### **FINANCIAL RISK MANAGEMENT**

The Board of Directors of Fingrid Oyj approves a financial policy for each year, stating the operational requirements for external funding, investments and risk management of the parent company and taking into account the Group's operational environment as effectively as possible. The treasury reports four times a year to the Board of Directors. Fingrid's objective is to hedge itself comprehensively against financial market fluctuations. The company has a long-term diversified debt portfolio where the target is to eliminate foreign exchange risks and where the interest rate risks have been adjusted to the tariff period of the company.

##### **Liquidity management**

There has to be a sufficient level, meaning more than 100%, of liquid assets and undrawn committed credit lines from financial institutions covering the short-term debt, i.e. debt falling due in less than 12 months. The maturity profile of the debt portfolio is kept even. The investments are made in a diversified manner in securities having a good rating, and there are restrictions concerning individual counterparties. The securities are mainly in note form and with a good liquidity.

##### **Foreign exchange risk**

The principle of the company is to hedge itself against all foreign exchange risks, and the company does not have open exposures. In order to hedge the foreign currency denominated debt portfolio and business-related currency risks, the company may use various derivative instruments such as currency futures, forward contracts, currency options and cross-currency swaps.

##### **Interest rate risk**

The principle of the company is to adjust the interest expenses to the tariff period. During the tariff period the interest rate risk is measured by duration and since 2002, additionally, by VaR-methodology (Value-at-Risk). The VaR-methodology measures for a certain confidence level over a chosen time horizon that the cash flow deducted by net financial expenses, hedging costs, capital expenditure, taxes and dividends is sufficient to improve the equity ratio. The company manages interest rate risks through interest rate options and interest rate swaps and further by keeping the interest rate refixing profile evenly distributed over the years. These methods together decrease the immediate impact of interest rate fluctuations on the interest rate expenses during the tariff period.

##### **Counterparty risk in financing**

The company is exposed to counterparty risk through derivative agreements and financial investments. The company only has derivatives outstanding with counterparties having a good rating, and there are restrictions concerning each individual counterparty. Moreover, the company requires from each counterparty International Swap Dealers Association's (ISDA) Master Agreement before entering into a derivative transaction. The counterparty risks of financial derivatives did not incur any losses during the financial year.

#### **MANAGEMENT OF RISK RELATING TO LOSS ENERGY PURCHASES**

The principle of the company is to adjust the loss energy purchases to its tariff period. More than 95% of the remaining tariff period 2003-2004 was hedged at the end of year 2002. The company hedges its loss energy purchases through electricity exchange products and bilateral contracts. Bilateral purchasing contracts are subjected to competitive bidding. In the above item of the notes, these instruments were valued at market value on the closing date simply using then prevailing market prices. It is assumed that the price level of bilateral price hedging contracts is the same as the closing rate of a similar product on the Nord Pool power exchange at the closing of 31 December 2002. The market price of price hedging contracts which are not quoted publicly has been estimated on the basis of the average price difference of annual products and the price level of the closing rate on 31 December 2002. The foreign exchange risks relating to the contracts have been fully hedged. Upper limits have been defined for the counterparties of bilateral contracts.



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## 32. SEPARATION OF BUSINESSES IN ACCORDANCE WITH THE ELECTRICITY MARKET ACT

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### Management of balance operation

In accordance with a decision issued by the Energy Market Authority, Fingrid Oyj shall separate the duties pertaining to national power balance operation from the other businesses by virtue of Chapter 7 of the Electricity Market Act.

The profit and loss account of Fingrid System Oy, which is included in the Fingrid Group, for the duties pertaining to national power balance operation have been derived from the accounts of Fingrid System Oy. The income and expenses have been divided over the separated operations using the matching principle. Depreciation on fixed assets has been accounted for using the principles applied by the Group.

Average number of personnel during the year was 10, which was the same as a year before. Return on investment was 4.1 per cent (27.8 per cent).

SEPARATED PROFIT AND LOSS ACCOUNT, 1,000 €	MANAGEMENT OF BALANCE OPERATION	
	1 Jan - 31 Dec 2002	1 Jan - 31 Dec 2001
<b>TURNOVER</b>	48,603	38,048
Other operating income	0	0
Materials and services	-46,130	-35,052
Staff expenditure	-856	-910
Depreciation and value adjustment	-505	-476
Other operating expenses	-1,062	-880
<b>OPERATING PROFIT</b>	50	730
Financial income and expenses	-46	-62
<b>PROFIT BEFORE PROVISIONS AND TAXES</b>	4	669

### Grid operation

The operations carried out by Fingrid Group essentially conform to grid operations including system responsibility and balance management and international business operation, whose overall contribution is minimal.

Therefore, Fingrid Group's financial statements represent the financial statements of grid operations.



## **THE BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT**

In accordance with the consolidated balance sheet at 31 December 2002, the shareholders' equity of the Fingrid Group contains € 10,995,467 of distributable profits.

In accordance with the balance sheet at 31 December 2002, the shareholders' equity of Fingrid Oyj contains € 11,373,631.52 of distributable profits.

The company's Board of Directors will propose to the Annual General Meeting of Shareholders that  
- € 1,994.71 of dividend per share be paid in accordance with article 5 of the Articles of Association, totalling € 6,632,410.75.  
- € 4,741,220.77 be carried over as retained earnings.

Helsinki, 10 February 2003

Taisto Turunen Chairman	Timo Rajala 1st Deputy Chairman	Tapio Kuula 2nd Deputy Chairman
Timo Karttinen	Timo Pekkarinen	Pertti Simola
Pertti Voutilainen	Timo Toivonen President and CEO	

## **AUDITOR'S NOTATION**

The financial statements for the financial year 2002 have been prepared in accordance with Generally Accepted Accounting Principles.

A report on the audit carried out has been submitted today.

Helsinki, 11 February 2003

PricewaterhouseCoopers Oy  
Authorised Public Accountants

Henrik Sormunen  
Authorised Public Accountant

TRANSLATION

## AUDITOR'S REPORT

To the shareholders of Fingrid Oyj

We have audited the accounting, the financial statements and the corporate governance of Fingrid Oyj for the period from January 1, 2002 to December 31, 2002. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of the audit of corporate governance is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors concerning the distributable assets is in compliance with the Companies Act.

We have examined the profit and loss account as well as additional information on the separated business, presented in the notes to the financial statements. In our opinion, these have been prepared in accordance with the Electricity Market Act and other rules and regulations based on the Act.

Helsinki, February 11, 2003

**PricewaterhouseCoopers Oy**  
Authorised Public Accountants

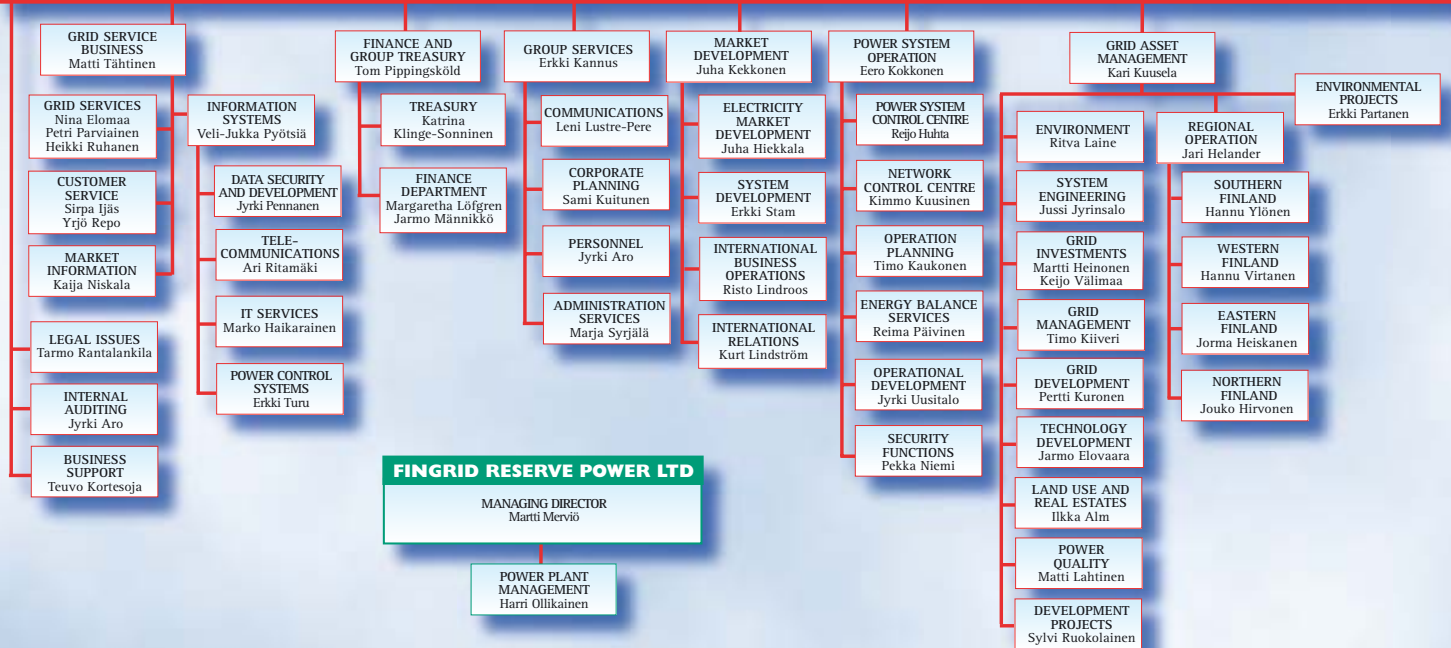
Henrik Sormunen  
Authorised Public Accountant

# FINGRID OYJ | FEBRUARY 2003

BOARD OF DIRECTORS

PRESIDENT & CEO  
Timo Toivonen

## FINGRID OYJ





## **FINGRID OYJ**

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