FINGRID

ANNUAL REPORT 2006

Keeping the lights on in Finland

FINGRID IN BRIEF

- Established on 29 November 1996
- Started operations on 1 September 1997
- Owns the Finnish main grid and all significant cross-border connections
- Approximately 14,000 kilometres of transmission lines and 104 substations
- Customers comprise electricity producers, major industrial enterprises, and regional and distribution network companies
- Number of transmission customers at the end of the year: 100
- Revenue 351 million euros
- Balance sheet total 1,514 million euros
- Owns 20 per cent of electricity exchange Nord Pool Spot AS
- Number of personnel at the end of the year: 233

FINGRID'S MISSION

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

- take care of electricity transmission in the main grid
- develop the main grid
- maintain a continuous balance between electricity consumption and production
- settle the electricity deliveries between the market parties at a national level
- promote the functioning of the electricity market.

The company must attend to these duties over a long time span so that the grid is technically reliable and has sufficient transmission capacity and that the environmental impacts are adapted to the public interests. The operations must be 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, whilst safeguarding national interests.

FINGRID'S FOREMOST STRENGTHS

Fingrid's foremost strengths include:

- high professional expertise of personnel
- procedures proven to be efficient on an international scale
- reliable power system and good quality in all operations
- close co-operation with customers, and trust shown by the market and authorities
- efficient performance with the company's numerous partners and service providers.

FINGRID OYJ (FINGRID PLC) I FEBRUARY 2007

GRID SERVICE

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REVIEW BY THE CEO

Energy was one of the foremost topics throughout Europe in 2006. In the European Union, energy is at the top of the political agenda. The cornerstones of energy policy comprise competitiveness, the environment, and security of supply. It has turned out to be very challenging to balance these objectives in a constantly changing operating environment.

The European discussion has highlighted the price of electricity and the functioning of the electricity market as well as the impact of the emissions trading system on the price of electricity and on the global competitiveness of European industries. The security of electricity supply was brought to the public eye especially after the major disturbance which started in Germany in November, leaving 15 million consumers without electricity.

In Finland, too, the sufficiency and security of supply of electricity and the functioning of the electricity market were discussed in public. An exceptionally cold period commended in the third week of 2006. A new electricity consumption record, approx. 14,800 megawatts, was reached on 20 January 2006. There was not enough time to start all condensing power plants because the weather turned cold very quickly, and hydropower production encountered problems resulting from the cold. At the same time, it was also very cold in the St Petersburg region, and, despite a reliable import history of 40 years, Russia restricted electricity exports to Finland suddenly and at a very short notice. However, Nordic cooperation worked well as it was possible to import electricity from Sweden in order to balance the situation.

Last winter revealed the need to secure the availability of domestic power production capacity, which is decreasing further in the coming years. Based on preparatory work launched by Fingrid earlier, an arrangement supported by a separate act was drawn up at the end of the year. In the arrangement, Fingrid secures approx. 600 megawatts of additional power for consumption peaks. However, a simultaneous period of cold weather in Finland, Sweden and North-West Russia may still lead to a situation where electricity consumption needs to be restricted if Russia wishes to limit its electricity exports at the same time. Due to insufficient production capacity in North-West Russia, export restrictions are used as a reserve in the power system in the St Petersburg region.

The dry summer period reduced the Nordic water reservoirs to a minimum level. This, together with shutdowns in nuclear power production in Sweden ordered by authorities, changed the transmissions so that imports of electricity from Sweden to Finland in the early part of the year gave way to exports from Finland to Sweden. The abundant rainfall towards the end of the year normalised the water reservoirs and decreased electricity exports from Finland. The transmission capacity was occasionally insufficient. The mild latter part of the year facilitated the situation even though the submarine cable between Finland and Sweden was out of operation for more than two months at the turn of the year as a result of damage.

The area prices of electricity in Finland and Sweden have followed each other well in recent years. There has been shortage of transmission capacity for 5 to 10 per cent of the time. This means that for most of the time, the size of the market has been at least 235 terawatt hours while the size of the Finnish market is 90 terawatt hours. Once the second submarine cable between the countries will be ready in 2010, the estimated restrictions in transmissions will account for less than 5 per cent of time. Unfortunately, there are clearly more transmission restrictions on the other borders of Nordic price areas.

Capital expenditure in the transmission grid has a focal role in eliminating congestions which disturb the market. The Nordic transmission system operators (TSOs) have been trailblazers in Europe by drawing up a shared programme for priority cross-sections which are important in view of the entire region. For the development of the Nordic electricity market, it is of utmost importance that these priority cross-sections outlined jointly within Nordel, the co-operation organisation of the Nordic TSOs, a few years ago will be put into reality. Fingrid considers it important that congestions disturbing the future market will be eliminated by means of capital expenditure projects, not by forming new price areas. In 2007, Nordel will prepare an extension plan concerning new reinforcements in the Nordic grid. Fingrid uses a proactive grid development approach, which gives us an opportunity to anticipate the occurrence of congestions. Fingrid supports the application of such a proactive model also at the Nordic level.

The division of bottleneck revenues must also support the acceleration of new construction projects. Nordel's chairmanship, which was transferred to Fingrid in the summer of 2006, provides an opportunity to improve the success of the TSOs also in achieving the above-mentioned objectives.

The integration of the Nordic countries into the European electricity market is well under way. The integration is founded on a well-functioning wholesale market. This calls for a sufficient transmission capacity between countries, efficient congestion management mechanisms, and a liquid spot market for electricity in the various parts of Europe. The TSOs have a crucial role here: by working together, the TSOs create the market infrastructure.

Estlink, the submarine cable between Finland and Estonia, was inaugurated towards the end of 2006. The cable is the first link between the electricity markets in the Nordic and Baltic countries. For Finland, Estlink is the first step in opening an eastern route towards the European electricity market.

The transmission capacity from Russia to Finland was in almost full use throughout 2006, and it has also been reserved completely for 2007. Finland and Russia draw on long collaboration traditions in the development and operation of this capacity; the volume of electricity transmitted on these connections accounts for about half of all electricity exported by Russia. Electricity trade on the connections continues to be developed in good co-operation between Fingrid and the Russian TSO. More difficult power balance in the St Petersburg region has led to a situation where the Russian party restricts electricity exports to Finland as necessary. Fingrid considers it important to enhance the utilisation of regulation options on the connections so that the needs of the Finnish and Nordic power system are also taken into account. Developments in the European and Russian electricity markets will open new perspectives into the operation of these transmission connections.

In December 2006, the Finnish Ministry of Trade and Industry rejected United Power Oy's application for a submarine cable from Russia to South-Eastern Finland. The project, which attracted considerable media publicity, was rejected because it would have led to increased dependence on imports of electricity and because of estimates concerning security of supply. The rejection criteria also included the adverse impacts of the connection on the Nordic power system; these impacts were indicated by Fingrid and confirmed by the Energy Market Authority.

Fingrid has an extensive ongoing capital expenditure programme. The grid additions required by the third nuclear power unit being built at Olkiluoto are partly complete, and they will be fully ready in 2008. A new gas turbine plant will be completed in the summer of 2007. In addition to several line construction projects, there are also many ongoing substation projects. Inquiries for the construction of the submarine cable connection between Finland and Sweden will be drawn up during the spring of 2007. Fingrid and Svenska Kraftnät will investigate the construction of a third 400 kilovolt line from Northern Finland to Sweden. In 2007, Fingrid will also draw up an analysis of the renovation and modernisation needs of gas turbine capacity available to Fingrid and of the potential need for additional gas turbine capacity. All these projects are raising the company's annual capital expenditure level to about 100 million euros.

Fingrid's positive profit trend enabled a 5 per cent reduction in the price level of main grid service as of the beginning of 2007. A similar reduction was made a year earlier. The real price level of the grid service has been decreased by some 40 per cent during Fingrid's history. A new contract period for the main grid service will commence at the beginning of 2008. Extensive customer co-operation relating to the preparation of the new contract has revealed that customers are fairly satisfied with the structure of the tariff. This is why potential changes to the structure of the contract and its terms will probably be relatively small. Stability continues to be the goal with the price level. However, Fingrid's extensive capital expenditure programme will not provide further latitude for a continued decreasing price trend.

The year 2006 marked the 10th jubilee year from the founding of Fingrid. When the company was being established, it was imposed clear objectives in terms of efficiency, market promotion and customer operations. To date, these objectives have been achieved very well. Indicators in all sectors show continuously improved performance. Fingrid's personnel deserve the credit for this.

Timo Toivonen, Fingrid's President and CEO, who had headed Fingrid throughout its existence and who had had a focal role in the electricity transmission business even before that, retired at the end of 2006. I would like to extend my warm thanks to Timo for his extensive input in Fingrid and in the entire Finnish society.

Jukka Ruusunen

ELECTRICITY MARKET DEVELOPMENT

In 2006, the Nordic electricity market was characterised by diminished supply, which was partly the result of smaller water reservoirs after the record-dry spring and summer. Rainfall during the latter part of the year together with a mild early winter facilitated the energy situation; special precautions for a complicated energy situation were taken in Norway in particular. The market price of electricity also decreased significantly.

The functioning of the electricity market continued to be subject to a lively public debate. The increasing price of electricity in recent years was linked with issues such as lack of competition, operation of the electricity exchange, and emissions trading mechanisms. Bottlenecks in transmission grids also attracted criticism, although congestions between Finland and Sweden decreased from 2005, and Finland was part of the Nordic electricity market for more than 93 per cent of the time.

The Nordic transmission system operators (TSOs) continued joint efforts within Nordel, their co-operation organisation, to improve the functioning of the market. In April 2006, Nordel submitted an intermediate report of ongoing projects to the Nordic Council of Ministers. The Nordic countries have agreed on five priority cross-sections to reinforce the Nordic grid. An implementation decision has been made for four of these projects and a letter of intent exists for the fifth. Shared rules have been sought for the management of transmission congestions, but this work has taken longer than anticipated.

Nordel drew up a proposal concerning the harmonisation of balance service. If implemented, the proposal would harmonise the cost structure and pricing of balance services in the various Nordic countries. The proposal was endorsed by customers in all four countries, and it is progressing to the implementation stage. Partly related to the proposal, the intraday exchange trade Elbas will expand to the entire market area.

In 2006, Nordel also examined the need for centralised supervision of the regulating power market, rules for securing peak load capacity, and the creation of a Nordic market for operation reserves.

In order to improve market transparency, the Nordic TSOs and the electricity exchange Nord Pool Spot began to publish information required by the new regulations of the European Union on their websites. Transparency is one of the focal areas in market development, both in the Nordic countries and other parts of Europe.

Several law proposals affecting the functioning of the market mechanisms were made in Finland in 2006. These included facilitating the network access of small-scale power plants, securing the production of condensing power plants which are under threat of being closed down, and supporting peat condensing power by means of a feed-in tariff. The implementation of the latter two of these has been entrusted to Fingrid.

The completion of the Estlink cable between Finland and Estonia joined the Baltic countries to the European electricity market and opened concrete opportunities for the integration of the Baltic and Nordic electricity markets. The Baltic TSOs are also increasingly active in co-operation both with their neighbouring areas and in European TSO co-operation within ETSO.

The functioning of the energy market and securing the supply of energy were high on the political agenda in other parts of Europe, too. ETSO worked actively to renew the principles according to which TSOs compensate transit transmissions of electricity to each other. No agreement was reached here in 2006, so the procedure used in 2006 will be applied as of the beginning of 2007. The preparation of new principles continues.

The new procedures for transmission capacity management, based on the cross-border transmission regulation of the European Union, became effective in 2006.

ETSO prepared a proposal concerning the harmonisation of balance management within the EU, and ETSO also launched an analysis into the impacts of wind power on the power system. For the first time ever, ETSO drew up a regional outlook for the balance between electricity consumption and production in the whole of Europe in the winter period of 2006/2007.

The Estlink cable between Finland and Estonia was inaugurated in December. The cable is the first link between the Baltic countries and the Nordic electricity market. The transmission capacity of the cable is 350 megawatts.

Alongside Nordic electricity market co-operation, Fingrid contributes to the development of the European market. In 2006, Fingrid held the chairmanship of Nordel, the co-operation organisation of the Nordic transmission system operators. Fingrid also has an active role in ETSO (European Transmission System Operators).

POWER SYSTEM OPERATION

During the early part of 2006, electricity transmissions between Finland and Sweden mainly consisted of imports into Finland. Deteriorated water reservoir situation in the Nordic countries in the summer together with standstills at nuclear power plants in Sweden from the late summer onwards changed the transmission situation so that exports from Finland were in majority. The rainy and warm autumn in the Nordic countries led to daily variations in the import and export situations.

The replacement of aluminium towers, which continued throughout the winter period in Northern and Central Finland, restricted the transmission capacity made available to the market. The restrictions resulting from the replacement work and restrictions in import capacity on the Fenno-Skan connection, carried out by Svenska Kraftnät because of the internal transmission situation in Sweden, led to the occasional separation of Finland into a price area of its own in the winter. In the spring and summer, separation of price areas only occurred randomly. In the autumn, transmission capacity was occasionally insufficient in imports at night time. In 2006, Finland and Sweden constituted a shared price area for 93 per cent of the time.

The weather in Finland in January was very cold, and a new record in electricity consumption, approx. 14,800 megawatts, was reached on 20 January 2006. At the same time, Russia restricted electricity exports to Finland at short notice. For the first time ever, Fingrid gave the electricity market notices of a threat of power shortage. However, the actual operating situation did not progress to power shortage or to interruptions in electricity supply. Fingrid's transmission equipment with its support systems worked as planned during the peak load situation.

At Midsummer, the lowest electricity consumption in Finland was just over 6,000 megawatts. This is almost 2,000 megawatts higher than in the previous years, because the Finnish pulp and paper industry now applies a new practice for Midsummer shutdowns. There were no voltage control problems due to the increased consumption and production capacity used.

In August 2006, Russia suddenly restricted electricity transmissions to Finland. This was due to a substation fault in the grid in the St Petersburg region, as a result of which some transformers feeding the St Petersburg region were overloaded. The Russians activated their production reserves and restricted exports to Finland in order to control the situation. Electricity was imported from Russia almost at the full volume with the exception of the annual service of the transmission connection.

The Fenno-Skan submarine cable was out of use for more than a week at the turn of February and March 2006 because of a transformer failure. The annual service of the connection in September was interrupted and postponed to a later date at the request of Svenska Kraftnät owing to the transmission and production situation in Southern Sweden. The submarine cable was damaged in early December off Rauma on the Finnish coast. The repair work was completed in mid-February 2007.

The Finnish grid experienced less disturbance situations in 2006 than on average in the previous years. However, wildfires caused by the dry summer led to more frequent outages in electricity transmission than in the earlier years. A fertilizer spreader mounted on a helicopter became entangled in a 110 kilovolt line in August, causing the falling of several towers between Juva and Imatra.

Challenging connections required by the grid construction projects for the connection points of the Olkiluoto nuclear power plant and the cities of Helsinki and Tampere were completed during the year as planned.

Fingrid signed new balance service agreements with the balance providers, with the agreements extending until the end of 2007. The volume of unsettled balancing power in 2006 remained at the very low level achieved earlier.

Fingrid purchased its loss energy from the Nordic electricity market both through bilateral contracts and from the electricity exchange. The volume of transmission losses was at the average level of approx. 1 terawatt hour. The purchasing costs of loss energy grew from the previous years as a result of higher market prices of electricity.

During the review period, the verifier prescribed in the Finnish Emissions Trading Act inspected Fingrid's all gas turbine power plants and the monitoring methods for carbon dioxide emissions. The monitoring methods for emissions and the emission volumes declared by Fingrid were accepted as correct.

In December 2006, a fault occurred in the Fenno-Skan direct current cable between Finland and Sweden outside Rauma on the coast of Finland. After the repair of the fault, the transmission connection was brought back into commercial operation on 13 February 2007. Due to the favourable operating situation, the cable fault did not cause significant disturbance to the electricity market.

In order to secure electricity transmissions by its customers, Fingrid's capital expenditure in the Finnish grid over the past 10 years has totalled approx. 300 million euros. Outages experienced by consumers as a result of faults in the transmission grid have remained at a marginal level of a couple of minutes annually.

GRID SERVICES

Fingrid transmitted 67.3 terawatt hours of electricity through its transmission grid in 2006. The volume of electricity transmitted in the main grid increased by 7.9 per cent from 2005. The exceptionally high growth rate was due to the long labour market dispute in the Finnish forest industry in 2005, as a result of which electricity consumption was lower than normal in that year.

Fingrid decreased the price level of the grid tariff by 5 per cent at the beginning of 2006. The company's positive cost trend together with the rise in equity ratio to a level of 25 per cent, which is deemed to be sufficient in the present operating environment, enabled a decision on decreasing the price level by another 5 per cent at the beginning of 2007. In real terms, the price level of the grid tariff has been decreased by almost 40 per cent during Fingrid's history.

The planning of the tariff for the next four-year main grid contract period of 2008-2011 was launched in the autumn together with related discussions with the customers. The reactive power agreements and reactive power reserve agreements were renewed in December for a four-year period commencing on 1 January 2007.

Specification of the details of the ongoing grid connection of the 3rd plant unit at the Olkiluoto nuclear power plant had a crucial role in the development of the grid. Towards the end of the year, preparations were launched for the connection of a new corresponding power plant unit to the grid either in Loviisa or Olkiluoto. Co-operation with authorities responsible for regional land use plans, concerning these potential grid connections, was started simultaneously.

In order to secure the system security of the Finnish grid and long-term transmission needs, an analysis was initiated into the construction of a third alternating current connection between Finland and Sweden in the north during the early part of the next decade.

The terms which govern connection to the main grid and the technical system requirements imposed on power plants were specified and updated in 2006. Approval in accordance with the regulations of the European Union was obtained for the specified terms and requirements. The new connection terms and technical system requirements will be applied as of the beginning of 2007 in new grid and power plant connections. The connection terms are supplemented by separate instructions, which support the detailed engineering of the connection and specify the requirements concerning the connection of wind power units and direct current connections to the grid.

Fingrid arranged an annual theme afternoon for its customers in March. The topics of the event focused on transmission technology and especially on the development of the transmission capacity of the grid. Fingrid's regional grid planning model has gained positive feedback, and customers consider that the present regular planning procedure is appropriate.

The full commercial transmission capacity of 1,300 megawatts on the transmission connections between Finland and Russia was in use. The utilisation rate of these connections, measured in energy, was high: 93 per cent. Five market players utilised the opportunity to import electricity. A total of 10.6 terawatt hours of electricity was imported to the Nordic electricity market from Russia. A capacity lot of 250 megawatts which became available at the turn of 2006-2007 was divided between three present electricity importers.

There were no significant technical disturbances on the Russian connections in 2006. The system agreement which exists between Fingrid and OAO FSK EES, the Russian transmission system operator, and which governs the operation of the cross-border connections, will be revised. The agreement will specify the daily specification procedure so as to ensure the flexible reciprocal use of the capacity, and the reporting procedure relating to restrictions will also be clarified.

There has been increasing interest in constructing new cross-border connections from Russia to Finland. One example of these is the submarine cable project from the Sosnovyi Bor nuclear power plant in Russia to Finland. This project attracted much media publicity. Experiences gained during 2006 of the sufficiency of electricity especially in the St Petersburg region and the restrictions in electricity exports relating to economic growth in Russia must be taken into account when assessing the availability of even present-level imports and consequent system security risks.

Trial operation of the Estlink direct current connection between Finland and Estonia started in October 2006. Full-scale commercial operation of the link commenced at the beginning of 2007. An agreement has been signed on the operation of the connection with AS Nordic Energy Link, which owns the cable, and OÜ Põhivõrk, the Estonian transmission system operator. It has been agreed that responsibility for the operation of the connection will be taken in turns for periods of six months at a time. Fingrid will be responsible for the first six-month period. Co-operation relating to Estlink will consolidate significantly the collaboration between Fingrid and the transmission system operators in the Baltic countries and will gain new modes stemming from practical needs.

Fingrid's traditional theme event attracted almost 100 representatives from the energy industry to Espoo for an afternoon.

During Fingrid's 10-year existence, the company has reduced the transmission price of electricity by some 40 per cent in real terms. The most recent price reduction took place at the beginning of 2007.

A new landscape tower named "Pirkanpylväs" was completed in Lempäälä as part of the 400 kilovolt transmission line being constructed from Ulvila to Kangasala. The installation of crossarms was in progress in November. Paul Aston is shown here working at a height of 42 metres.

CAPITAL EXPENDITURE AND GRID MAINTENANCE

Fingrid used a total of 53 million euros for capital expenditure in the grid in 2006. The capital expenditure level will rise to approx. 100 million euros per year in the coming years. The focus in capital expenditure in 2006 was in Southern Finland, but decisions made on new capital expenditure projects will shift the focus to Northern Finland.

The first phase in the reinforcement of the grid connection of the Olkiluoto nuclear power plant was completed in July 2006, when the modernisation of the 110 kilovolt transmission line from Olkiluoto to Rauma was brought to conclusion. A new substation was completed in Huittinen during the latter part of the year, with three present 400 kilovolt lines connected to this substation. The construction of the new substation at Olkiluoto and the building of the new 400 kilovolt transmission line from Olkiluoto to Huittinen continued, both of these due to be complete in the autumn of 2007.

The Tammisto substation in Vantaa, which secures electricity supply in the Helsinki region, was expanded. An expansion was also made at the Espoo substation, enabling the connection of Estlink, the direct current connection between Finland and Estonia, to the Finnish grid.

The construction of a 400 kilovolt transmission line from Ulvila to Kangasala continued in 2006. A landscape tower designed for this line in Lempäälä, close to the Helsinki-Tampere motorway, was erected in December. Fingrid arranged an opinion poll on the colour of the tower in the autumn of 2005. The respondents were also given an opportunity to suggest a name for the tower. Out of the more than 300 replies, the jury picked “Pirkanpylväs”.

Preparations for the upgrading of the Ulvila and Kangasala substations were launched. The Kangasala substation will have a static reactive power compensator, which will dampen low-frequency power oscillations and hence increase the system security of the grid.

Other ongoing undertakings included modernisation projects at several substations and the construction of the new substation in Petäjävesi. Among the new projects launched were the renewal of the Koria-Orimattila and Kankaanpää-Lålby transmission lines. The replacement of aluminium towers, which had originally been erected in the 1970s, with steel towers continued in Northern and Central Finland.

The technical specification of Fenno-Skan 2, the second submarine cable connection between Finland and Sweden, continued in 2006. The route of the cable was chosen on the basis of the results of a seabed survey carried out in the summer of 2006. The connection due to be ready in 2010 will raise the transmission capacity between the two countries by 800 megawatts. The submarine cable from Rauma in Finland to Finnböle in Sweden will be constructed together with Svenska Kraftnät.

The construction of a 100 megawatt gas turbine power plant at the Olkiluoto power plant area continued throughout 2006. The construction work had commenced in 2005, and the plant will be completed and commissioned in 2007.

Fingrid used a total of approx. 12 million euros for grid maintenance management and local grid operation in 2006. Two million euros were spent on the maintenance management of gas turbine plants.

The construction of the Olkiluoto gas turbine power plant progressed according to schedule. The topping-out ceremony took place in October, and the plant is due to be ready in June 2007.

Seabed survey for the Fenno-Skan 2 cable project was completed in the early summer. The m/v Franklin, which was used in the analysis out on the open sea, scanned the cable route using various measuring instruments.

Thanks to capital expenditure by Fingrid, the transmission capacity between Finland and Sweden has almost doubled in 10 years. The completion of the Fenno-Skan 2 cable connection at the end of this decade will increase this capacity further. Transmission capacity across the Russian border has been raised by 50 per cent.

RESEARCH AND DEVELOPMENT

The focal areas in Fingrid's research and development in 2006 included analysis and control methods for managing operational security and power transfers, technical solutions and maintenance management which enhance system security, and adapting the power transmission system to its environment. During the year, some 40 research and development projects were in progress, with a total cost of approx. 1 million euros.

The objective in the development of the operation support system was to improve the management of information and information systems needed in control room work. The results of the related analysis supported the purchase of a tailored application. The new application uses several different information systems and presents the necessary protection, switching or load information on a map and in a graphically usable format.

As part of the construction of the Fenno-Skan 2 direct current connection between Finland and Sweden, Fingrid ordered several reports relating to the voltage increase on the HVDC overhead line between Rauma and Rihtniemi and to the modified structure of the sea electrode on the Finnish side. The analyses simulated and measured issues such as subharmonic interaction phenomena between the direct current connection and adjacent power plants.

Current densities of electromagnetic fields to which personnel working at substations are exposed were measured using measuring instruments specifically developed for this purpose. The preliminary results suggest that the limit values for exposure, based on the relevant EU directive, are not exceeded even in transmission line work. The measurements will continue in 2007 at reactor switching stations.

The new operation support system presents the necessary protection, switching or load information on a map and in a graphically usable format.

Fingrid's research and development efforts have paid special attention to maintaining and promoting the system security of the grid by developing the engineering tools, network solutions, and grid operation and maintenance. During the past 10 years, the Finnish transmission grid has not had a single disturbance with extensive consequences.

ENVIRONMENT

The environmental impact assessment (EIA) process for the 400 kilovolt transmission line project Keminmaa-Petäjäskoski was completed in 2006. Publication proceedings for the environmental impact assessment report of the 220 kilovolt line Petäjäskoski-Kaukonen-Vajukoski were arranged in the relevant municipalities. EIA processes for the 400 kilovolt transmission lines Seinäjoki-Tuovila, Länsisalmi-Vuosaari and Hyvinkää-Hikiä were started towards the end of the year. Environmental reports of a total of four different 110 kilovolt lines were completed last year.

Fingrid and the Ministry of the Environment drew up a recommendation for the method of marking transmission lines in regional land use plans. Background reports of transmission line routes were prepared for Regional Councils.

In December 2006, the environmental permit authority of Western Finland granted Fingrid an environmental permit for the gas turbine power plant being constructed at the Olkiluoto power plant area. The water permit application for the Fenno-Skan 2 direct current connection was prepared during 2006. The application will be submitted to the environmental permit authority of Western Finland during the early part of 2007.

Landscape tower "Pirkanpylväs" was erected on the 400 kilovolt Ulvila-Kangasala transmission line, which reinforces the main transmission grid in the Satakunta and Pirkanmaa regions. A set of blue-and-green landscape towers illuminated with LEDs was completed in Eurajoki beside Highway 8 on the 400 kilovolt transmission line being constructed from Olkiluoto to Huittinen.

There were several ongoing research projects in 2006, focusing on issues such as significance of transmission line areas for biodiversity and biological coppice growth prevention by using the fungus *Chondrostereum purpureum*. Completed reports studied the importance of the surrounding scenery to the movements of butterflies in transmission line areas and the impacts of ditching of bogs on carabid beetle populations in marshland environments in Central Ostrobothnia. The results of these studies show that clearing of transmission line areas has positive impacts on the occurrence of individual species.

Fingrid agreed with the Finnish Environment Institute on research co-operation which will concentrate on the identification of transmission line areas which are valuable to meadow species. This study will be carried out by utilising remote mapping material. Fingrid was also involved in a preliminary study on the nature management of open areas in the region of Satakunta. The study compiles information on the potential to maintain and increase biodiversity.

A new set of landscape towers was completed beside highway 8 in Eurajoki in Western Finland. The blue-and-green landmark illuminated with LEDs is part of the 400 kilovolt transmission line being constructed from Olkiluoto to Huittinen.

The implementation of new transmission line projects depends more and more crucially on attending to environmental responsibility as well as possible. Over the years, Fingrid has launched environmental impact assessments for more than 20 transmission line projects.

In November 2006, ten years had elapsed from the founding of Fingrid Oyj. The company arranged a decennial jubilee seminar for representatives of its main stakeholders. In addition to the main grid, the seminar also had another topic: the tale of the ship St. Michel, which sank near the island of Borstö off the coast of Finland in 1747. Fingrid produced the English-language book St. Michel 1747, which was published in conjunction with the seminar.

CORPORATE SOCIAL RESPONSIBILITY

Fingrid's nation-wide grid is an integral part of the power system in Finland. Fingrid's performance has a direct impact on the functioning of Finnish society and on the everyday life and welfare of all Finns.

Corporate social responsibility is included in Fingrid's foremost business principles. The dimensions of Fingrid's corporate social responsibility are responsibility for the functioning of the power system at a national level, economic responsibility, responsibility for the environment, and social responsibility. The fulfilment of corporate social responsibility is monitored systematically by means of indicators specified for each dimension.

Open interaction with the various stakeholders has a vital role in the practical implementation of corporate social responsibility. Fingrid has increased and consolidated opportunities for this interaction by establishing three new stakeholder forums in order to enhance technology co-operation and expertise, environmental matters, and relations with authorities. Some 60 representatives of Fingrid's customers and other stakeholders participate in the work of the company's various committees.

Fingrid is responsible for the operation of the Power and District Heat Pool of the National Board of Economic Defence, applying the principle of public-private partnership. The Power and District Heat Pool is in charge of the detailed preparedness and contingency planning concerning the production, transmission and distribution of electricity and district heat. The main duty of the Power and District Heat Pool is to create facilities for securing power supply in Finland during extraordinary conditions.

Fingrid was involved in drawing up the Finnish act which secures the security of supply of electricity by ensuring that condensing power capacity, which is under threat of being closed down, will be kept in readiness for use so that a balance between electricity production and consumption is retained. The arrangement covers approx. 600 megawatts of condensing power capacity. The act came into force on 15 December 2006.

The year 2006 was characterised by a lively discussion on energy matters. Issues brought to the public eye included the functioning of the electricity market, development of the Nordic grid, and construction and operation of cross-border transmission connections.

Fingrid 1996–2006

The total length of transmission lines administered by Fingrid is more than 14,000 kilometres. The lines run on land owned by thousands of private persons, communities and enterprises. Open interaction with landowners and those living next to transmission lines has become an increasingly important form of stakeholder operations within the company.

PERSONNEL

As in previous years, the focus in Fingrid's personnel training was on language training and on professional supplementary training. Training was also arranged in conference and negotiation skills and in the principles of the electricity market. A training seminar was arranged for those in supervisory position.

The company's induction programme was streamlined to facilitate the work induction of both new personnel and those participating in job rotation. An average of 45 hours per person were used for personnel training, professional supplementary training and other training.

Fingrid applies a pay system which is based on the requirements of each position to the various personnel groups. Moreover, there are quality, incentive and suggestion bonus schemes.

At 31 December 2006, the Fingrid Group had 228 employees while the figure a year before was 224.

The programme of Fingrid's decennial festivities included an information event and a sailing trip to the Suomenlinna fortress island off Helsinki for the company's personnel.

When Fingrid was being established, competent and experienced personnel were transferred into it. Maintaining and developing the professional expertise of personnel is important to the company. In 2006, an average of 45 hours per employee were used for training.

CORPORATE GOVERNANCE

In its business, Fingrid Oyj adheres to the recommendation concerning Corporate Governance, given in December 2003. Fingrid's Board of Directors decides on operational guidelines and significant strategic policy decisions and approves the primary principles which guide the company's business. The Board approves the annual action plan, budget and primary capital expenditure projects and annually reviews the risks relating to the company's operations and the management of such risks. Moreover, the Board appoints the CEO of the company and approves its basic organisation and composition of the executive management group. The working order of the Board specifies the course of procedure of the above issues in more detail.

The Board of Directors has two committees: control committee, and reward and appointment committee. The members of the control committee are Marjukka Aarnio, Risto Autio, Arto Lepistö and Anja Silvennoinen. The control committee had three meetings in 2006. This committee is appointed by the Board of Directors and it assists the Board. The control committee is to supervise Fingrid's financial reporting and the quality of work of auditors and internal auditor. It also supervises the company's risk management.

The reward and appointment committee consists of Tapio Kuula, Arto Lepistö and Timo Rajala. The committee had two meetings in 2006. The reward and appointment group is appointed by the Board of Directors and it assists the Board. This committee approves the remuneration to be paid to the CEO and other members of the executive management group on the basis of principles specified by the Board of Directors. The committee also prepares the appointments of the CEO, deputy CEO and persons belonging to the executive management group as well as surveys their successors.

Deviation from recommendation: The recommendation concerning the Corporate Governance of listed companies requires that more than half of the Board members should be members independent of the company. Fingrid's Board of Directors has considered that out of the seven Board members, Marjukka Aarnio, Risto Autio and Arto Lepistö are independent of the company. The Board of Directors considers that the objective and professional handling of matters by the Board has been ensured.

In addition to the stipulations laid down in the Finnish Companies Act, Securities Markets Act and corresponding general regulations, Fingrid's decision making is especially subject to obligations prescribed by the Electricity Market Act concerning the unbiased treatment of customers and an obligation to develop the market with a view to the overall interests.

Vital matters having bearing on Fingrid's customer interface are prepared by the company's Advisory Committee. Moreover, Fingrid's Articles of Association, ownership contracts and principles concerning the work of the Board of Directors ensure objective handling of matters. In accordance with the recommendation on Corporate Governance, the members of the control committee should be independent of the company. The Board of Directors considers it important that practical expertise in the energy industry is also represented in the control committee, which is why it is deemed necessary that Anja Silvennoinen is a member of the control committee.

Fingrid's financial trend over the past 10 years has been positive. Equity ratio has been raised from 10 per cent to 25 per cent while at the same time Fingrid has exceeded the tariff reduction and operational efficiency objectives which were imposed on it at the establishment stage.

BOARD OF DIRECTORS

Tapio Kuula
Chairman of the Board
President,
Fortum Power and Heat Oy

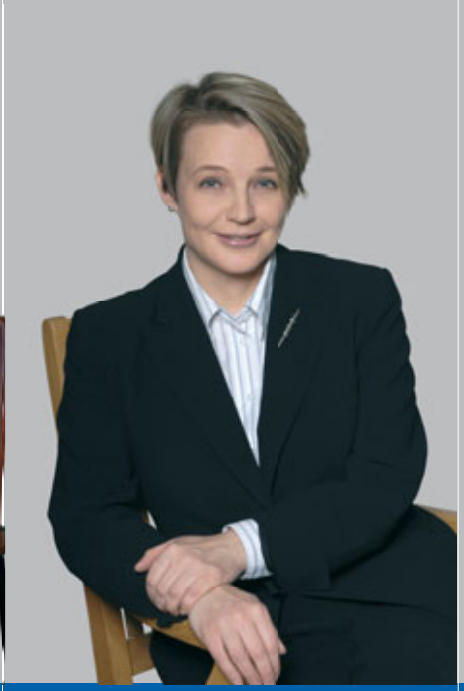
Chairman of the Boards of Kemijoki Oy, Teollisuuden Voima Oy and AB Fortum Värme Holding (co-owned with the City of Stockholm). Deputy Chairman of the Boards of JSC Territorial Generating Company 1 (TGC-1) and JSC Lenenergo, member of the Board of JSC TGC-9. Deputy Chairman of the Board of OKG Aktiebolag. Member of the Supervisory Board of Varma (Varma Mutual Pension Insurance Company), member of the National Board of Economic Defence, member of the Energy Policy Committee of the Confederation of Finnish Industries EK.

Arto Lepistö
1st Deputy Chairman
Deputy Director General
Head of the Energy Market Division
Ministry of Trade and Industry, Energy Department

Involved in the development of the energy market and related regulations in various duties. Participated in the work of various committees and task forces as their chairman and member, and served as Finland's representative in the organisations of the EU and IEA.

Timo Rajala
2nd Deputy Chairman
President & CEO,
Pohjolan Voima Oy

Deputy Chairman of the Board of Teollisuuden Voima Oy. Chairman of the Boards of Oy Alholmens Kraft Ab and the subsidiaries of Pohjolan Voima Oy. Chairman of the Energy Policy Committee of the Confederation of Finnish Industries EK, member of the National Board of Economic Defence and its Central Section, member of the Finnish Section of the International Chamber of Commerce (ICC), member of the Economic Policy Committee of the Central Chamber of Commerce of Finland, member of the Board of Savon Voima Oyj.



Marjukka Aarnio
Industrial Counsellor,
Head of the Division for Employment and Economic Development Centres
Ministry of Trade and Industry, Industries Department

Since 1989, worked at the Ministry of Trade and Industry at the Business Development and Industries Department in regional business policy and SME development, involved in several regional business development task forces and committees. Chairperson of the Contingency Advisory Committee of Employment and Economic Development Centres.

Risto Autio
Director, Alternatives
Varma Mutual Pension Insurance Company

Responsible for investments in private equity funds and in unlisted enterprises.

Timo Karttinen
Senior Vice President,
Fortum Oyj
Responsible for the company's business development

Deputy Chairman of the Board of the Association of Finnish Energy Industries, member of the Supervisory Board of Gasum Oy, member of the Supervisory Board of AS Eesti Gaas, Chairman of the Supervisory Board of Fortum Wroclaw S.A., member of the Trade Policy Committee of the Confederation of Finnish Industries EK.

Anja Silvennoinen
Senior Vice President, Energy,
UPM-Kymmene Oyj

Since 2004 worked at UPM-Kymmene Oyj as Senior Vice President, Energy, being responsible for global energy issues. Before UPM worked in several positions within the energy industry, management consulting, and Ministry of Trade and Industry of Finland. Member of the Supervisory Board of Kemijoki Oy, and member of the Boards of various subsidiaries of Pohjolan Voima Oy. Member of the National Board of Economic Defence, Energy Sector. Chairperson of the Energy Committee of the Finnish Forest Industries Federation and Vice Chairperson of CEPI Energy Committee.

Tarmo Rantalankila
Secretary of the Board
General Counsel,
Fingrid Oyj

DEPUTY MEMBERS OF THE BOARD OF DIRECTORS

Juha Laaksonen, Chief Financial Officer, Fortum Oyj

Timo Ritonummi, Senior Engineer, Ministry of Trade and Industry

Timo Väisänen, Executive Vice President; Treasury, Power Procurement, Fuels, Administration
Pohjolan Voima Oy

Ari Koponen, Vice President, Asset Management and Design
Fortum Power and Heat Oy

Timo Koivuniemi, Vice President, Energy, Stora Enso Oyj

Pekka Kettunen, Senior Specialist, Ministry of Trade and Industry

Jorma Tammenaho, Portfolio Manager, nominated by investor shareholders

Jukka Ruusunen, Reima Päivinen, Kari Kuusela, Tom Pippingsköld, Matti Tähtinen, Pertti Kuronen, Jussi Jyrinsalo and Juha Kekkonen.

EXECUTIVE MANAGEMENT GROUP

Jukka Ruusunen
President & CEO, Doctor of Technology, born in 1958

Served in various duties at the Helsinki University of Technology and Helsinki School of Economics since 1982. Worked as specialist at the Department of Strategic Planning at Imatran Voima Oy in 1996–1998, and as Vice President for Development at Fortum Power and Heat Oy in 1998–2006.

Positions of trust:
Involved in the work of several energy organisations in Europe, the Nordic countries and Finland (Eurelectric, Nordenergi, Baltrel, Association of Finnish Energy Industries). Chairman of the Board of Nordel. Member of the Board of Association of Finnish Energy Industries. Adjunct Professor at the Helsinki University of Technology and Helsinki School of Economics.

Reima Päivinen
Senior Vice President, responsible for power system operation, M.Sc. (Tech.), born in 1958

Served in the present position since 2005. Before that, worked at Fingrid, IVO Voimansiirto Oy and Imatran Voima Oy in various grid operation and maintenance duties since 1983.

Kari Kuusela
Executive Vice President, responsible for asset management, M.Sc. (Tech.), born in 1955

Been responsible for Fingrid's asset management since 1999. Before that, worked at Fingrid as Technical Director and Construction Manager, as Engineering Manager at IVO Voimansiirto Oy 1993–1997 and IVO International Oy 1991–1993, at IVO Transmission Engineering Oy 1988–1991 as Chief Engineer, at Imatran Voima Oy as Relay Protection and Cable Specialist 1983–1987, and at Nokia Metalliteollisuus (Kaapeli) as Development Engineer 1981–1983.

Positions of trust:
Finland's representative in Cigre (Conseil International des Grands Réseaux Electriques) Study Committee B3, "Substations" 2000–2006, member of Cigre working group B3 WG 01 1999–2005, member of Finergy's Network Committee 2003–, member of the Board of Electric Power Department (SIL-S) of the Association of Electrical Engineers in Finland 1990–1992.

Tom Pippingsköld
Chief Financial Officer, B.Sc., MBA, born in 1960

Served in the present position since 2001. Before that, worked at Fingrid as Financial Manager and Financial Director 1999–2001, at Postipankki Bank's investment bank as Investment Analyst and in project financing as Financial Manager 1990–1994, and at the European Bank for Reconstruction and Development (EBRD) in London as Principal Evaluation Officer 1994–1998.

Positions of trust:
Deputy member of the Board of Nord Pool Spot AS.

Matti Tähtinen
Senior Vice President, responsible for stakeholder relations and cross-border transmission service, B.Sc. (Tech.), born in 1957

Served in the present position since 2003. Before that, worked at Fingrid in the development and management of customer and stakeholder processes, and at Imatran Voima Oy as Specialist and Project Manager in international operation control projects of power companies in 1981–1997.

Position of trust: Member of ETSO Steering Committee 2001–2003, Member of UNIPEDE/Eurelectric Network Regulation/Issues 1995–1999, Secretary of Fingrid Advisory Committee 1997–.

Pertti Kuronen
Senior Vice President, responsible for grid service, M.Sc. (Tech.), born in 1953

Served in the present position since 2003. Before that, worked at IVO Voimansiirto Oy and at Imatran Voima Oy as well as in grid operation and planning duties at Fingrid.

Positions of trust: Member of Nordel's Planning Committee 2000–, member of the Board of Porvoon Alueverkko Oy.

Jussi Jyrinsalo
Senior Vice President, responsible for technology and the environment, Licentiate in Technology, born in 1964

Served in the present position since 2005. Before that, worked at Fingrid as Technology Manager, Engineering Manager and Sales Manager, at IVO Voimansiirto Oy as Sales Manager, Project Manager and Design Engineer, at the Lappeenranta University of Technology as Assistant Professor, and at the Tampere University of Technology as deputy Senior Assistant and Researcher.

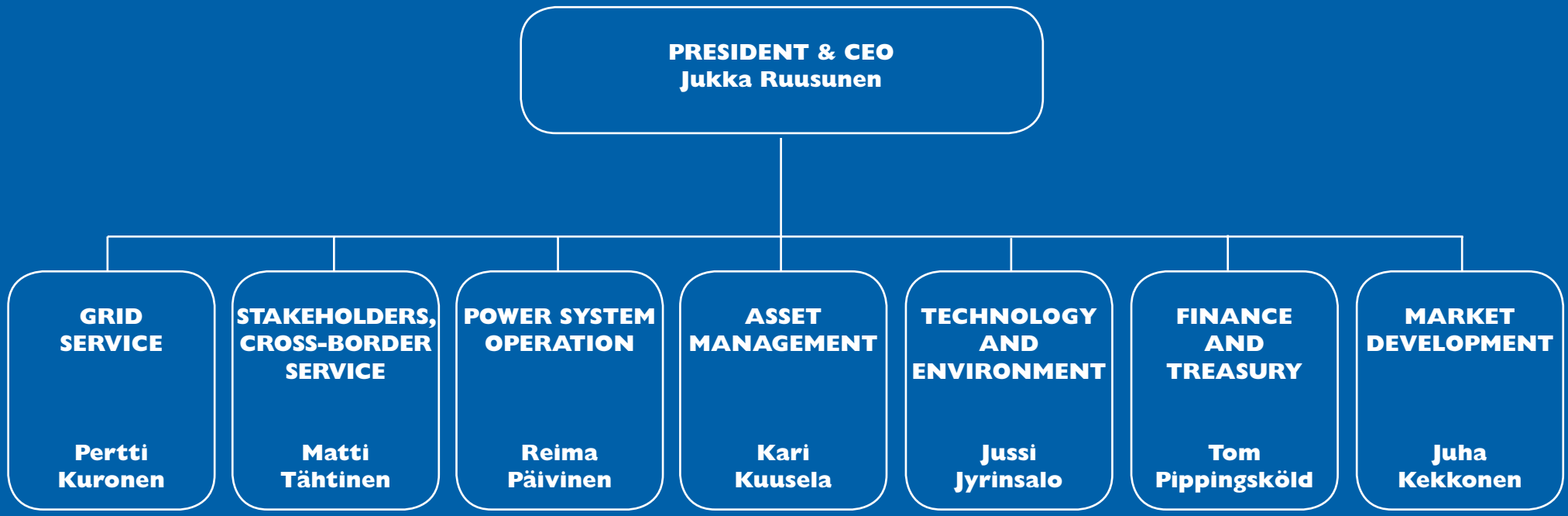
Positions of trust: Member of Cigre (Conseil International des Grands Réseaux Electriques) Study Committee B4.

Juha Kekkonen
Executive Vice President, M.Sc. (Tech.), born in 1950

Served in the present position since 1997. Before that, worked at the Energy Department of the Finnish Ministry of Trade and Industry in specialist duties and as Head of Office 1975–1988, at Finland's permanent representative office at the OECD as Industrial Counsellor 1988–1990, and at the Energy Department of the Ministry of Trade and Industry as Head of Group 1990–1996.

Positions of trust: Member of the Board of Kemijoki Oy 1992–1997, member of the Board of Nord Pool Spot AS 2002–2006, Chairman of the Board of Nord Pool Spot AS 2006–, member of Nordel's Market Committee 2001–, Chairman of Nordel's Market Committee 2004–2006, Chairman of Nordel's Board 2006–2007, member of ETSO Steering Committee 1999–, Chairman of ETSO Steering Committee 2001–2003, Chairman of Power and District Heat Pool 2001–.

FINGRID OYJ (FINGRID PLC) 1 FEBRUARY 2007



ADVISORY COMMITTEE

Front row from the left:

Risto Vesala, Senior Vice President, Pohjolan Voima Oy

Hannu Linna, Managing Director, Vaasan Sähkö Oy (Chairman)

Hannu Haase, Chairman of the Board, Energiapolar Oy

Mikko Rintamäki, Vice President, Energy, Outokumpu Oyj

Risto Harjanne, Managing Director, Helen Sähköverkko Oy

At the back from the left:

Ilkka Latvala, Vice President, Energy, M-real Oyj

Matti Tähtinen, Director, Fingrid Oyj (Secretary)

Esa Hagman, Planning Engineer, Fortum Power and Heat Oy

Aimo Takala, Managing Director, Kemijoki Oy

Matti Pihko, Power Plant Manager, Stora Enso Oyj

Hannu Virta, Managing Director, Satapirkan Sähkö Oy

Timo Toivonen, President & CEO, Fingrid Oyj (until 31 December 2006)

Jukka Ruusunen, President & CEO, Fingrid Oyj (as of 1 January 2007)

Eero Sinkko, Deputy Managing Director, Savon Voima Oyj

Erik Mälkki, Vice President, Power Generation, Vattenfall Oy

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.

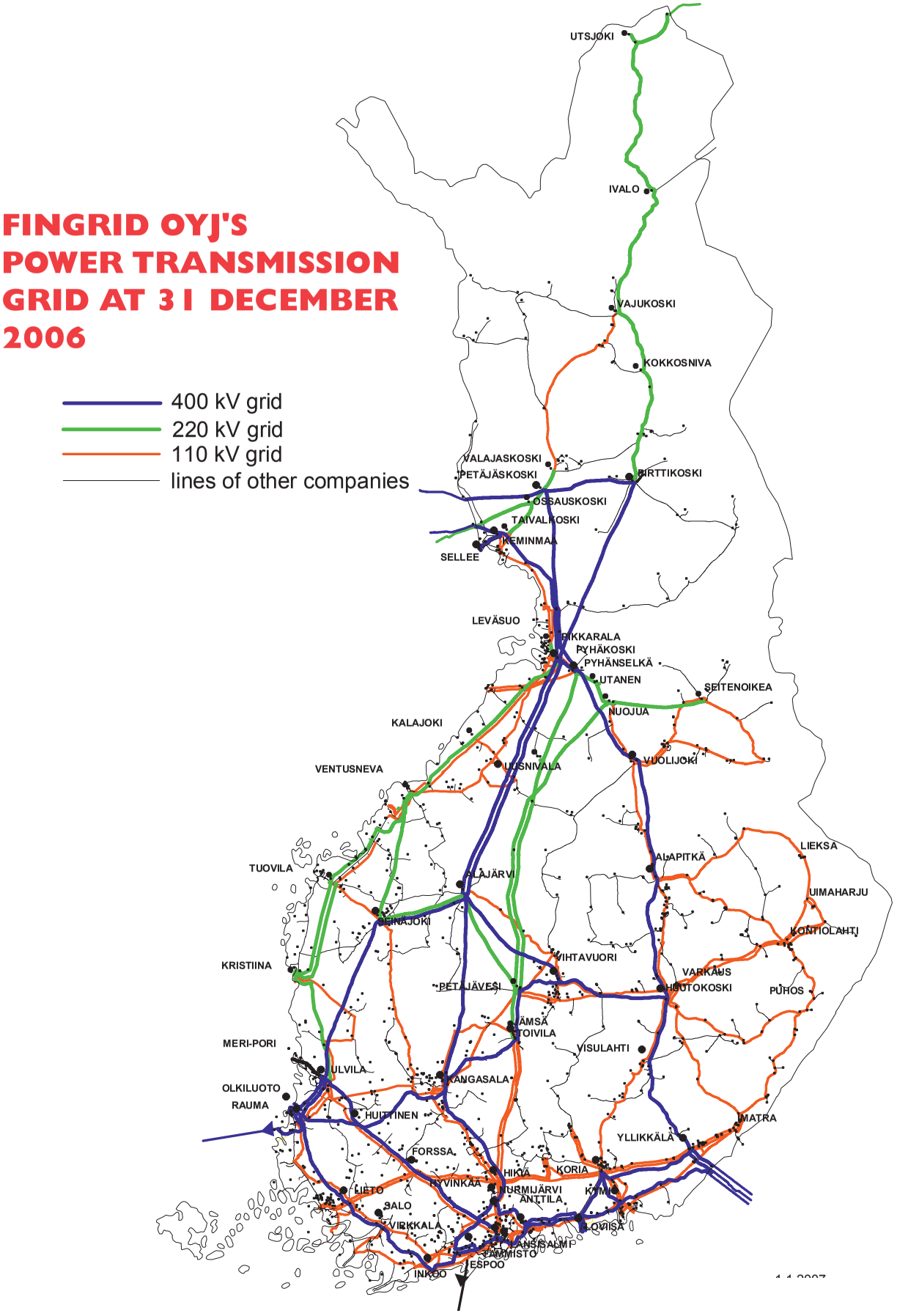
PROPER EXTERNAL AND INTERNAL INTERACTION

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, reward 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 2006



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