Business Identity Code 1072894-3

# FINGRID OYJ

## FINANCIAL STATEMENTS

## 1 January 2003 - 31 December 2003

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# REPORT OF THE BOARD OF DIRECTORS FOR 2003

In 2003, the Nordic electricity market continued to be characterised by a small proportion of electricity produced through hydropower, which was the consequence of low precipitation levels. This led to extensive transmission needs in the grid and to the segregation of the electricity market into different price areas. Fingrid's capital expenditure in increasing transmission capacity on cross-border connections has considerably reduced the related inconveniences.

The European electricity market progressed as cross-border tariffs within the Internal Market area were abolished at the beginning of 2004. The costs caused by transit transmissions are now levied through national tariffs. The solutions applied to electricity imported from outside the market area incurred additional costs for Fingrid. Therefore the transmission tariff levied on electricity imported from Russia was raised at the beginning of 2004.

Relating to the new nuclear power plant, Fingrid drew up environmental impact assessments of the grid projects required by both potential locations of the new plant, Loviisa and Olkiluoto. The grid reinforcements which are required by the 1,600 megawatt plant to be built in Olkiluoto as a result of a decision made by Teollisuuden Voima Oy in December 2003 do not leed to real changes of  Fingrid's annual level of capital expenditure.

## Fingrid in the electricity market

Total electricity consumption in Finland in 2003 amounted to 84.7 terawatt hours, of which Fingrid transmitted approximately 66 terawatt hours in its grid. Electricity consumption increased by 1.4 per cent on the previous year.

The year 2003 gave but little rain, as did the previous year. Nordic hydropower provided approximately 35 terawatt hours less electricity than on average. The production deficiency led to transmission needs where the transmission capacity of the Nordic grid was not sufficient in all situations. There was shortage of transmission capacity especially in the grid in Southern Scandinavia, which led to the formation of price areas. Finland also constituted a price area of its own often. Increased electricity imports from Russia and exports to Sweden led to a high volume of transit transmissions of electricity in the Finnish main grid.

The exceptionally poor hydropower situation during the early part of 2003 led to a dramatic rise in the exchange price of electricity, and thermal power plants which had been kept in reserve were brought into use to cater for the increased demand.

Fingrid and Svenska Kraftnät started a survey related to a new sea cable between Finland and Sweden.

Nord Pool Spot AS owned by the Nordic TSOs and Nord Pool ASA had a market share of approximately 31 per cent in physical electricity trade in 2003.

At the beginning of 2004, ETSO (Association of European Transmission System Operators) removed cross-border tariffs which had impeded the functioning of the internal electricity market. In ETSO's new transit arrangement, grid operators mutually compensate the costs caused by transit transmissions of electricity.

## Capital expenditure in the grid

In 2003, Fingrid's capital expenditure in the grid amounted to 41 million euros (40 million euros in 2002).

The Kymi 400/110 kilovolt substation was completed in 2003. This was required by increased electricity consumption in the Kymenlaakso region in Southern Finland, and the substation also decreases transmission losses in the grid. The modernised 400 kilovolt busbar system at the Alajärvi substation in South Ostrobothnia increased electricity transmission capacity between Finland and Sweden in both directions.

Electricity supply in the Jämsänjokilaakso region in Central Finland is secured by building a 400 kilovolt transmission line of 86 kilometres between Vihtavuori and Toivila. In all, there are about 50 smaller capital expenditure and refurbishment projects in progress.

About 10 million euros were used for the maintenance of the Finnish grid in 2003.

## Financial result

Turnover of the Fingrid Group in 2003 was 298 (273) million euros. Turnover grew on account of higher electricity consumption, increased electricity imports from Russia, and increased volume of balance power. Profit before extraordinary items and taxes stood at 37 (39) million euros. Profit for the financial year was 27 (28) million euros. Even though the financial result decreased slightly on the previous year, it was satisfactory.

The balance sheet total was 1,368 (1,379) million euros. The return on investment was 7.0 (7.2) per cent and the return on equity 14.0 (16.0) per cent. The equity ratio was 18.7 (17.1) per cent.

The Group's gross capital expenditure in 2003 totalled 44 (50) million euros. Research and development were allocated 1.3 million euros, i.e. 0.4 (0.4) per cent of turnover.

Turnover of the Group's parent company, Fingrid Oyj, was 298 (233) million euros and profit before extraordinary items and taxes 38 (37) million euros.

## Financing

The financial position of the company was good throughout the period examined. Net financial expenses were 53 (52) million euros. The average interest rate of net liabilities, including capital loans, was 5.77 (5.53) per cent. The operative cash flow of the Group deducted by capital expenditure and dividends was 38 (22) million euros, which enabled an increase in financial assets and a reduction of 34 million euros in net interest-bearing liabilities. At the end of the year, the interest-bearing liabilities totalled 840 (874) million euros, of which 653 million euros were long-term and 187 million euros were short-term. The Group also had 168 (168) million euros of capital loans.

The company operates in the international and domestic money and capital markets. The company covers the need for short-term financing with the Euro Commercial Paper Programme, and long-term funding has been arranged through the international Debt Issuance Programme. Available committed long-term credit facilities amounted to 400 million euros at the end of the review period. Financial securities, cash in hand and bank receivables at 31 December 2003 amounted to 105 (101) million euros. Interest rate and currency swaps, interest rate options and forward contracts totalled 1,173 (1,154) million euros. These involved a counterparty risk of 0.1 (3) million euros.

Fingrid has been assigned the following long-term and short-term ratings by Moody's Investors Service and Standard & Poor's Ratings Services: Aa3/P-1 (Moody's) and AA-/A-1+ (Standard & Poor's). Both Moody's and Standard & Poor's have considered Fingrid's future outlook to be stable.

## Personnel and rewarding systems

The Fingrid Group employed 218 persons at the end of 2003 while the corresponding figure for the previous year was 210.

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

## Board of Directors

Fingrid Oyj's Annual General Meeting was held on 21 March 2003. 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 Marjukka Aarnio, Industrial Counsellor, Timo Karttinen, Vice President, Pertti Simola, Vice President, and Pertti Voutilainen, M.Sc. in Economics and Business Administration, M.Sc. in Engineering.

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

An extensive annual risk analysis is carried out in order to identify risks pertaining to Fingrid's operations. The risk management programme in 2003 covered 12 separate risk management projects, three of which were completed during the year: protection of data systems, securing the forwarding service for balance settlement and energy measurement information, and analysing the risks involved in double circuit towers. The topics of projects in progress at the end of 2003 cover the entire scope of Fingrid's operations.

Fingrid hedges the currency risk relating to financial and business exposures. Interest rate risk is managed by stabilising the financial costs during the tariff period, and the same principle is applied in managing the 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

Fingrid applies an environmental management system conforming to the SFS-EN ISO 14001 standard. The environmental principles of the company have been described in its environmental policy which is implemented in accordance with an annual environmental programme.

The primary environmental impacts of Fingrid's operations are caused by transmission line areas (of which 32,500 hectares are to be cleared) with their transmission lines and related substations.

A report completed together with the Finnish Environment Institute on the significance of transmission line areas on meadow plants and butterflies was completed, as was a study concerning the impact of mechanical clearing of transmission line areas on nesting birds and success of nesting. A study of the importance of transmission line areas in preserving the biodiversity of marshes was launched.

Fingrid has approximately 72,000 cubic metres of wooden transmission line towers impregnated with creosote or salt, categorised as hazardous waste. Equipment used in Fingrid's substations contains approximately 20,130 kilos of sulphur hexafluoride (SF6 gas), which is categorised as a greenhouse gas. However, the annual disposal costs of these are small, because the service life of transmission lines with wooden towers is approximately 50 years, and because the SF6 gas can be re-used after cleaning. The disposal costs are entered as expenses as they materialise.

The environmental impact assessment (EIA) for the 400 kilovolt line Vihtavuori – Toivila was completed in 2003. Environmental impact assessment reports relating to the new nuclear power plant to be built in Finland were drawn up of 400 kilovolt line routes Loviisa – Hikiä and Olkiluoto – Huittinen.

As of 1 January 2004, Fingrid Oyj serves as the issuing body for guarantees of origin of electricity in Finland. The guarantee is included in the system required by the RES-E directive of the European Union.

Fingrid's corporate social responsibility, one component of which is responsibility for the environment, stems from the management of the company's basic duty on the basis of the Electricity Market Act in a reliable and responsible manner with respect to the environment and stakeholders.

**Future outlook**

Turnover during 2004 is expected to develop in a stable manner. Anticipating the turnover is complicated by variations in the Nordic power situation and in the sales volume of balance power.

The outlook for the trend in the Nordic water reservoirs will mean abundant electricity transmissions from Finland to Sweden especially during the early part of 2004.

The contractual terms of the new grid tariff agreements will be specified in discussions conducted during 2004. The new agreements for the three-year period of 2005 to 2007 will be finalised by the end of 2004.

On 20 January 2004, the Energy Market Authority published draft guidelines for assessing the reasonableness of grid tariffs in 2005 to 2007. Through its active efforts, Fingrid aims to contribute to a situation where new and drafted directives and regulations as well as any national decisions made on the basis of these support the Nordic electricity market development.

Fingrid will have significant capital expenditure projects in 2004. The construction of grid expansions required by the new nuclear power plant will be started. The possible implementation of a direct current connection between Finland and Sweden and between Finland and Estonia will be analysed. Modernisation of automation at Fingrid's current gas turbine plants will continue, and together with industrial clients, Fingrid will examine the possibility to utilise other gas turbines as emergency power reserve.

| CONSOLIDATED PROFIT AND LOSS ACCOUNT | Notes | 1 Jan - 31 Dec 2003 1,000 € | 1 Jan - 31 Dec 2002 1,000 € |
|---|---|---|---|
| **TURNOVER** | 2 | 297,561 | 272,644 |
| Other operating income | | 1,558 | 1,308 |
| Materials and services | 3 | -105,333 | -84,220 |
| Staff expenditure | 4 | -14,701 | -13,796 |
| Depreciation and value adjustment | 5 | -53,041 | -53,200 |
| Other operating expenses | 6 | -35,592 | -31,714 |
| **OPERATING PROFIT** | | **90,453** | **91,022** |
| Financial income and expenses | 7 | -52,978 | -52,453 |
| **PROFIT BEFORE EXTRAORDINARY ITEMS** | | **37,474** | **38,569** |
| Extraordinary items | | 0 | 0 |
| **PROFIT BEFORE TAXES** | | **37,474** | **38,569** |
| Income taxes | 10 | -2,962 | -2,530 |
| Change in deferred tax liability | 10 | -8,006 | -8,524 |
| **PROFIT FOR THE FINANCIAL YEAR** | | **26,507** | **27,516** |

# CONSOLIDATED BALANCE SHEET

| ASSETS | Notes | 31 Dec 2003<br>1,000 € | 31 Dec 2002<br>1,000 € |
|---|---|---|---|
| **NONCURRENT ASSETS** | | | |
| **Intangible assets** | 11 | | |
| Goodwill | | 87,920 | 94,353 |
| Other long-term expenses | | 86,697 | 95,068 |
| | | **174,617** | **189,422** |
| **Tangible assets** | 12 | | |
| Land and water areas | | 9,950 | 9,874 |
| Buildings and structures | | 41,168 | 41,759 |
| Machinery and equipment | | 385,868 | 380,557 |
| Transmission lines | | 572,910 | 577,354 |
| Other tangible assets | | 84 | 77 |
| Advance payments and purchases in progress | | 26,011 | 21,985 |
| | | **1,035,992** | **1,031,606** |
| **Investments** | 13 | | |
| Equity investments in associated companies | | 5,623 | 6,236 |
| Other investments | | 591 | 579 |
| | | **6,214** | **6,815** |
| | | **1,216,823** | **1,227,842** |
| **CURRENT ASSETS** | | | |
| **Inventories** | | | |
| Materials inventories | | 2,938 | 2,934 |
| Advance payments and work in progress | | 0 | 1 |
| | | **2,938** | **2,935** |
| **Receivables, long-term** | | | |
| Receivables from associated companies | 15 | **447** | **531** |
| **Receivables, short-term** | | | |
| Accounts receivable | | 35,252 | 38,254 |
| Receivables from associated companies | 15 | 513 | 292 |
| Other receivables | | 39 | 45 |
| Prepayments and accrued income | 16, 17 | 7,171 | 8,503 |
| | | **42,975** | **47,093** |
| **Financial securities** | | **102,051** | **88,066** |
| **Cash in hand and bank receivables** | | **2,947** | **12,957** |
| | | **151,357** | **151,582** |
| | | **1,368,180** | **1,379,425** |

## CONSOLIDATED BALANCE SHEET

| SHAREHOLDERS' EQUITY AND LIABILITIES | Notes | 31 Dec 2003<br>1,000 € | 31 Dec 2002<br>1,000 € |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY** | 18 | | |
| Share capital | | 55,922 | 55,922 |
| Premium fund | | 55,922 | 55,922 |
| Retained earnings | | 117,292 | 96,681 |
| Profit for the financial year | | 26,507 | 27,516 |
| Capital loans | | 167,914 | 167,914 |
| | | **423,559** | **403,956** |
| **LIABILITIES** | | | |
| **Deferred tax liability** | 20 | **54,243** | **46,237** |
| **Long-term liabilities** | 21, 22 | | |
| Bonds | | 546,125 | 601,559 |
| Loans from financial institutions | | 106,408 | 121,964 |
| Accruals | 26 | 800 | 1,150 |
| | | **653,332** | **724,673** |
| **Short-term liabilities** | | | |
| Bonds | | 144,519 | 94,000 |
| Loans from financial institutions | | 15,556 | 15,556 |
| Accounts payable | | 16,055 | 10,198 |
| Liabilities to associated companies | 24 | 1 | 2 |
| Other liabilities | 25 | 34,428 | 47,393 |
| Accruals | 26 | 26,487 | 37,409 |
| | | **237,047** | **204,559** |
| | | **944,622** | **975,469** |
| | | **1,368,180** | **1,379,425** |

## CONSOLIDATED CASH FLOW STATEMENT

| | 2003<br>1,000 € | 2002<br>1,000 € |
|---|---|---|
| **Cash flow from operations:** | | |
| Cash from sales | 303,458 | 267,339 |
| Cash from other operating income | 850 | 301 |
| Charges paid for operating expenses | -155,983 | -131,243 |
| Cash flow from operations before financial items and taxes | 148,325 | 136,397 |
| Interests and charges paid for other financial costs for operations | -63,161 | -57,258 |
| Interests received from operations | 2,476 | 2,742 |
| Direct taxes paid | -2,177 | -2,979 |
| Cash flow before extraordinary items | 85,462 | 78,902 |
| Cash flow from extraordinary items (net) | 0 | 0 |
| **Cash flow from operations (A)** | **85,462** | **78,902** |
| **Cash flow from investments:** | | |
| Investments in tangible and intangible assets | -42,322 | -47,567 |
| Capital gain from tangible and intangible assets | 987 | 2,956 |
| Investments in other assets | -12 | -5,339 |
| Repayment of loans receivable | 84 | 84 |
| Dividends received from investments | 2 | 1 |
| **Cash flow from investments (B)** | **-41,261** | **-49,865** |
| **Cash flow from financial operations:** | | |
| Withdrawal of short-term loans | 0 | 0 |
| Repayment of short-term loans | -13,122 | -168,408 |
| Withdrawal of long-term loans | 119,949 | 229,320 |
| Repayment of long-term loans | -140,421 | -46,007 |
| Dividends paid and other profit distribution | -6,632 | -7,259 |
| **Cash flow from financial operations (C)** | **-40,227** | **7,646** |
| **Net change in cash and cash equivalents (A+B+C), increase (+)/decrease (-)** | **3,975** | **36,684** |
| **Cash and cash equivalents 1 Jan** | **101,023** | **64,339** |
| **Cash and cash equivalents 31 Dec** | **104,998** | **101,023** |

**ADDITIONAL INFORMATION:**

| **Cash and cash equivalents stated in the cash flow statement are composed of the following balance sheet items:** | **31 Dec 2003** | **31 Dec 2002** |
|---|---|---|
| Cash in hand and bank receivables | 2,947 | 12,957 |
| Certificates of deposit | 24,752 | 29,594 |
| Commercial papers | 52,346 | 43,471 |
| Treasury bills | 4,949 | 0 |
| Investments in money market funds | 20,003 | 15,000 |
| | 104,998 | 101,023 |

## CONSOLIDATED KEY INDICATORS

| | | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|
| **Extent of operations** | | | | | | |
| Turnover | million € | 234.6 | 235.5 | 241.6 | 272.6 | 297.6 |
| Capital expenditure, gross | million € | 105.1 | 39.3 | 43.5 | 50.2 | 43.7 |
| - % of turnover | % | 44.8 | 16.7 | 18.0 | 18.4 | 14.7 |
| Research and development expenses | million € | 0.5 | 0.9 | 1.0 | 1.1 | 1.3 |
| - % of turnover | % | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 |
| Personnel, average | | 275 | 272 | 221 | 211 | 221 |
| Personnel, end of year | | 273 | 261 | 204 | 210 | 218 |
| **Profitability** | | | | | | |
| Operating profit | million € | 96.6 | 88.0 | 84.8 | 91.0 | 90.5 |
| - % of turnover | % | 41.2 | 37.4 | 35.1 | 33.4 | 30.4 |
| Profit before extraordinary items and taxes | million € | 41.4 | 35.5 | 32.8 | 38.6 | 37.5 |
| - % of turnover | % | 17.6 | 15.1 | 13.6 | 14.1 | 12.6 |
| Return on investment (ROI) | % | 7.7 | 7.1 | 6.9 | 7.2 | 7.0 |
| Return on equity (ROE) | % | 22.4 | 16.9 | 14.4 | 16.0 | 14.0 |
| **Financing and financial position** | | | | | | |
| Equity ratio (excluding capital loans) | % | 13.4 | 14.9 | 16.1 | 17.1 | 18.7 |
| Equity ratio (including capital loans) | % | 25.8 | 27.5 | 28.7 | 29.3 | 31.0 |
| **Share-specific indicators** | | | | | | |
| Earnings per share | € | 11,516 | 9,676 | 8,975 | 10,839 | 10,380 |
| Equity per share | € | 54,703 | 60,118 | 64,898 | 70,990 | 76,886 |
| Number of shares at 31 Dec | | | | | | |
| - 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

$$\text{Return on investment, \%} = \frac{\text{Profit before extraordinary items and taxes + interest and other financial expenses}}{\text{Balance sheet total - non-interest-bearing liabilities (average for the year)}} \times 100$$

$$\text{Return on equity, \%} = \frac{\text{Profit before extraordinary items and taxes - taxes for the financial year}}{\text{Shareholders' equity (excl. capital loans, average for the financial year)}} \times 100$$

$$\text{Equity ratio, \%} = \frac{\text{Shareholders' equity (excluding/including capital loans)}}{\text{Balance sheet total - advances received}} \times 100$$

$$\text{Earnings per share, €} = \frac{\text{Profit before extraordinary items and taxes - taxes for the financial year}}{\text{Average number of shares}}$$

$$\text{Equity per share, €} = \frac{\text{Shareholders' equity (excluding capital loans)}}{\text{Number of shares at closing date}}$$

| PROFIT AND LOSS ACCOUNT PARENT COMPANY | Notes | 1 Jan - 31 Dec 2003 € | 1 Jan - 31 Dec 2002 € |
|---|---|---|---|
| **TURNOVER** | 2 | 297,970,305.09 | 233,144,748.82 |
| Other operating income | | 1,499,499.73 | 1,294,361.53 |
| Materials and services | 3 | -114,938,748.14 | -36,026,160.43 |
| Staff expenditure | 4 | -14,550,593.72 | -10,084,792.38 |
| Depreciation and value adjustment | 5 | -49,239,810.64 | -47,379,190.52 |
| Other operating expenses | 6 | -33,462,544.54 | -55,337,566.55 |
| **OPERATING PROFIT** | | **87,278,107.78** | **85,611,400.47** |
| Financial income and expenses | 7 | -49,555,794.55 | -48,510,153.91 |
| **PROFIT BEFORE EXTRAORDINARY ITEMS** | | **37,722,313.23** | **37,101,246.56** |
| Extraordinary items | 8 | 110,316.60 | 1,502,075.77 |
| **PROFIT BEFORE PROVISIONS AND TAXES** | | **37,832,629.83** | **38,603,322.33** |
| Provisions | 9 | -27,597,156.52 | -29,379,093.71 |
| Income taxes | 10 | -2,969,249.24 | -2,678,521.58 |
| **PROFIT FOR THE FINANCIAL YEAR** | | **7,266,224.07** | **6,545,707.04** |

FINGRID

# BALANCE SHEET
# PARENT COMPANY

| ASSETS | Notes | 31 Dec 2003 € | 31 Dec 2002 € |
|---|---|---|---|
| **NONCURRENT ASSETS** | | | |
| **Intangible assets** | 11 | | |
| Goodwill | | 87,920,238.29 | 94,353,426.53 |
| Other long-term expenses | | 86,493,811.82 | 94,855,248.29 |
| | | **174,414,050.11** | **189,208,674.82** |
| **Tangible assets** | 12 | | |
| Land and water areas | | 9,878,606.28 | 9,802,212.43 |
| Buildings and structures | | 36,211,433.15 | 36,473,602.03 |
| Machinery and equipment | | 333,132,514.45 | 325,214,920.68 |
| Transmission lines | | 572,910,089.59 | 577,353,916.65 |
| Other tangible assets | | 84,268.61 | 77,348.61 |
| Advance payments and purchases in progress | | 25,716,795.72 | 21,959,082.55 |
| | | **977,933,707.80** | **970,881,082.95** |
| **Investments** | 13 | | |
| Equity investments in group companies | | 5,550,201.57 | 5,550,201.57 |
| Equity investments in associated companies | | 6,641,360.21 | 6,641,360.21 |
| Other shares and equity investments | | 590,953.79 | 578,791.47 |
| | | **12,782,515.57** | **12,770,353.25** |
| | | **1,165,130,273.48** | **1,172,860,111.02** |
| **CURRENT ASSETS** | | | |
| **Inventories** | | | |
| Materials inventories | | 1,459,854.19 | 1,439,792.60 |
| Advance payments and work in progress | | 0.00 | 1,268.00 |
| | | **1,459,854.19** | **1,441,060.60** |
| **Receivables, long-term** | | | |
| Receivables from group companies | 14 | 53,250,000.00 | 56,800,000.00 |
| Receivables from associated companies | 15 | 447,379.90 | 531,473.86 |
| | | **53,697,379.90** | **57,331,473.86** |
| **Receivables, short-term** | | | |
| Accounts receivable | | 35,250,294.81 | 38,253,708.56 |
| Receivables from group companies | 14 | 236,818.46 | 380,321.80 |
| Receivables from associated companies | 15 | 511,033.20 | 291,670.44 |
| Other receivables | | 38,538.32 | 44,782.48 |
| Prepayments and accrued income | 16, 17 | 7,167,722.43 | 8,474,417.36 |
| | | **43,204,407.22** | **47,444,900.64** |
| **Financial securities** | | **102,050,599.53** | **88,065,595.01** |
| **Cash in hand and bank receivables** | | **2,947,003.22** | **12,957,176.09** |
| | | **203,359,244.06** | **207,240,206.20** |
| | | **1,368,489,517.54** | **1,380,100,317.22** |

## BALANCE SHEET
## PARENT COMPANY

| SHAREHOLDERS' EQUITY AND LIABILITIES | Notes | 31 Dec 2003 € | 31 Dec 2002 € |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY** | 18 | | |
| Share capital | | 55,922,485.55 | 55,922,485.55 |
| Premium fund | | 55,922,485.55 | 55,922,485.55 |
| Retained earnings | | 4,741,564.89 | 4,828,268.60 |
| Profit for the financial year | | 7,266,224.07 | 6,545,707.04 |
| Capital loans | | 167,914,099.68 | 167,914,099.68 |
| | | **291,766,859.74** | **291,133,046.42** |
| **ACCUMULATED PROVISIONS** | 19 | **186,192,132.09** | **158,594,975.57** |
| **LIABILITIES** | | | |
| **Long-term liabilities** | 21, 22 | | |
| Bonds | | 546,124,706.89 | 601,559,116.77 |
| Loans from financial institutions | | 106,407,507.70 | 121,963,938.04 |
| Accruals | 26 | 800,000.00 | 1,150,000.00 |
| | | **653,332,214.59** | **724,673,054.81** |
| **Short-term liabilities** | | | |
| Bonds | 21 | 144,518,999.53 | 94,000,000.00 |
| Loans from financial institutions | | 15,556,430.34 | 15,556,430.34 |
| Accounts payable | | 15,534,121.78 | 9,709,431.90 |
| Liabilities to group companies | 23 | 892,920.06 | 1,844,874.90 |
| Other liabilities | 25 | 34,246,150.67 | 47,228,767.67 |
| Accruals | 26 | 26,449,688.74 | 37,359,735.61 |
| | | **237,198,311.12** | **205,699,240.42** |
| | | **890,530,525.71** | **930,372,295.23** |
| | | **1,368,489,517.54** | **1,380,100,317.22** |

## CASH FLOW STATEMENT
## PARENT COMPANY

| | 2003<br>€ | 2002<br>€ |
|---|---|---|
| **Cash flow from operations:** | | |
| Cash from sales | 303,766,115.12 | 225,823,948.15 |
| Cash from other operating income | 797,208.29 | 825,601.07 |
| Charges paid for operating expenses | -164,502,962.43 | -102,528,348.93 |
| Cash flow from operations before financial items and taxes | 140,060,360.98 | 124,121,200.29 |
| Interests and charges paid for other financial costs for operations | -63,232,140.56 | -57,403,338.57 |
| Interests received from operations | 5,593,470.01 | 6,274,167.96 |
| Direct taxes paid | -2,177,421.56 | -3,133,108.81 |
| Cash flow before extraordinary items | 80,244,268.87 | 69,858,920.87 |
| **Cash flow from operations (A)** | **80,244,268.87** | **69,858,920.87** |
| **Cash flow from investments:** | | |
| Investments in tangible and intangible assets | -41,340,546.70 | -46,767,698.86 |
| Capital gain from tangible and intangible assets | 986,867.08 | 2,956,045.57 |
| Investments in other assets | -12,162.32 | -5,339,044.91 |
| Repayment of loans receivable | 3,634,093.96 | 4,948,093.96 |
| Dividends received from investments | 29,128.82 | 391,448.22 |
| **Cash flow from investments (B)** | **-36,702,619.16** | **-43,811,156.02** |
| **Cash flow from financial operations:** | | |
| Withdrawal of short-term loans | 279,363.34 | 0.00 |
| Repayment of short-term loans | -13,122,251.76 | -168,951,550.26 |
| Withdrawal of long-term loans | 119,949,020.08 | 229,319,740.49 |
| Repayment of long-term loans | -140,420,860.77 | -46,007,244.27 |
| Group contributions received | 380,321.80 | 3,531,546.61 |
| Dividends paid | -6,632,410.75 | -7,258,741.00 |
| Cash and cash equivalents transferred due to merger | 0.00 | 9,157.39 |
| **Cash flow from financial operations (C)** | **-39,566,818.06** | **10,642,908.96** |
| **Net change in cash and cash equivalents (A+B+C), increase (+)/decrease (-)** | **3,974,831.65** | **36,690,673.81** |
| **Cash and cash equivalents 1 Jan** | **101,022,771.10** | **64,332,097.29** |
| **Cash and cash equivalents 31 Dec** | **104,997,602.75** | **101,022,771.10** |

**ADDITIONAL INFORMATION:**

| **Cash and cash equivalents stated in the cash flow statement are composed of the following balance sheet items:** | **31 Dec 2003** | **31 Dec 2002** |
|---|---|---|
| Cash in hand and bank receivables | 2,947,003.22 | 12,957,176.09 |
| Certificates of deposit | 24,752,440.33 | 29,594,168.06 |
| Commercial papers | 52,346,213.72 | 43,471,426.95 |
| Treasury bills | 4,949,207.38 | 0.00 |
| Investments in money market funds | 20,002,738.10 | 15,000,000.00 |
| | **104,997,602.75** | **101,022,771.10** |

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2003

## 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. Fingrid Verkko Oy was not operative during the financial year. The consolidated associated companies were Porvoon Alueverkko Oy (ownership 33.3%) and Nord Pool Spot AS (ownership 20%).

### 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 included 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 notes 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 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, interest flows and commercial flows. The accounting principles for derivatives are the same as for the underlying items. The interest flow of interest rate and cross-currency swaps and interest rate options is accrued and booked under financial income and expenses. The interest portion of forward foreign exchange contracts hedging the interest-bearing liabilities and assets 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 differentials arising from these contracts are booked at maturity adjusting 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 financial 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. Interest-bearing liabilities and assets and the derivatives hedging these items are valued at the mid-rate quoted by ECB at the closing day. Realised foreign exchange gains and losses of interest-bearing liabilities and assets and of the related 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.
The profit and loss account of a foreign associated company is converted to euros at the average rate of the financial year and the balance sheet at the rate current on the closing day of the year. The translation difference is booked under unrestricted equity.

### 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 accounting principles for scrapped tangible assets has been changed. They are booked under other extraordinary expenses, not under depreciations as during previous financial years.

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 |
| Optical ground wires | 10-20 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, treasury bills 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

When comparing the figures to the previous financial year, the profit and loss account of the parent company includes the business of Fingrid System Oy, merged into the parent company on 31 December 2002.

## 2. TURNOVER BY BUSINESS AREAS

The business of the Fingrid Group is entirely derived from the main grid business. Because of this there is no division of the turnover into separate business areas.

| 3. MATERIALS AND SERVICES, 1,000 € | Group 2003 | Group 2002 | Parent company 2003 | Parent company 2002 |
|---|---|---|---|---|
| Purchases during financial year | 105,238 | 82,038 | 114,860 | 33,631 |
| Change in inventories, increase (-) or decrease (+) | 37 | 1,323 | 21 | 1,542 |
| Materials and supplies | 105,276 | 83,361 | 114,882 | 35,174 |
| External services | 57 | 859 | 57 | 853 |
| **Total** | **105,333** | **84,220** | **114,939** | **36,026** |

| 4. PERSONNEL COSTS, 1,000 € | Group 2003 | Group 2002 | Parent company 2003 | Parent company 2002 |
|---|---|---|---|---|
| Wages, salaries and bonuses | 11,589 | 10,746 | 11,467 | 7,771 |
| Pension costs | 2,101 | 2,122 | 2,080 | 1,614 |
| Other additional staff costs | 1,011 | 927 | 1,003 | 700 |
| Staff expenditure in profit and loss account | **14,701** | **13,796** | **14,551** | **10,085** |
| Executive salaries and bonuses: | | | | |
| Board members | 91 | 91 | 91 | 91 |
| Average number of personnel in the company during financial year | | | | |
| Salaried employees | 221 | 211 | 219 | 154 |
| Personnel at year end | 218 | 210 | 216 | 157 |

| 5. DEPRECIATION ACCORDING TO PLAN, 1,000 € | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| Goodwill | 6,433 | 6,433 | 6,433 | 6,433 |
| Other long-term expenses | 5,633 | 6,558 | 5,622 | 5,409 |
| Buildings and structures | 1,581 | 1,587 | 1,252 | 1,258 |
| Machinery and equipment | 18,798 | 18,428 | 15,336 | 14,085 |
| Transmission lines | 20,596 | 20,193 | 20,596 | 20,193 |
| **Total** | **53,041** | **53,200** | **49,240** | **47,379** |

| 6. OTHER OPERATING EXPENSES, 1,000 € | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| Rents | 2,283 | 2,264 | 2,273 | 2,221 |
| Contracts, assignments etc. undertaken by outsiders | 24,955 | 24,892 | 22,978 | 48,955 |
| Others | 8,354 | 4,558 | 8,212 | 4,162 |
| **Total** | **35,592** | **31,714** | **33,463** | **55,338** |

| 7. FINANCIAL INCOME AND EXPENSES, 1,000 € | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| Portion of net income (loss) of associated companies | -340 | -226 | | |
| Dividend income from Group companies | | | 27 | 391 |
| Dividend income from associated companies | | | | |
| Dividend income from others | 2 | 1 | 2 | 1 |
| Interest and other financial income from Group companies | | | 3,119 | 3,545 |
| Interest and other financial income from others | 2,639 | 3,023 | 2,638 | 2,943 |
| Interest and other financial expenses to Group companies | | | -63 | -177 |
| Interest and other financial expenses to others | -55,279 | -55,250 | -55,279 | -55,213 |
| **Total** | **-52,978** | **-52,453** | **-49,556** | **-48,510** |

| 8. EXTRAORDINARY ITEMS, 1,000 € | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| Extraordinary income/Group contribution to subsidiaries | | | **110** | **1,502** |

| 9. PROVISIONS, 1,000 € | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| Difference between depreciation according to plan and depreciation carried out in taxation | | | **-27,597** | **-29,379** |

| 10. TAXES, 1,000 € | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| Income taxes for financial year | -2,962 | -2,530 | -2,969 | -2,679 |
| Change in deferred tax liability | -8,006 | -8,524 | | |
| **Total** | **-10,967** | **-11,053** | **-2,969** | **-2,679** |
| **Tax effect of extraordinary items** | **-** | **-** | **-32** | **-436** |

| 11. INTANGIBLE ASSETS, 1,000 € | Group | | Parent company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| **Goodwill** | | | | |
| 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 | -34.310 | -27.877 | -34.310 | -27.877 |
| Depreciation according to plan 1 Jan - 31 Dec | -6,433 | -6,433 | -6,433 | -6,433 |
| **Book value 31 Dec** | **87,920** | **94,353** | **87,920** | **94,353** |
| Accumulated depreciation difference 1 Jan | | | -42,888 | -36,455 |
| Increase in depreciation difference reserve 1 Jan - 31 Dec | | | -6,433 | -6,433 |
| **Accumulated depreciation in excess of plan 31 Dec** | | | **-49,321** | **-42,888** |
| **Other long-term expenditure** | | | | |
| Cost at 1 Jan | 121,262 | 117,733 | 116,950 | 108,913 |
| Transfers between items | 0 | -394 | 0 | -394 |
| Increases 1 Jan - 31 Dec | 2,410 | 3,979 | 2,410 | 8,487 |
| Decreases 1 Jan - 31 Dec | -5,149 | -56 | -5,149 | -56 |
| **Cost at 31 Dec** | **118,523** | **121,262** | **114,211** | **116,950** |
| Accumulated depreciation according to plan 1 Jan | -26,194 | -19,644 | -22,095 | -16,694 |
| Decreases, depreciation according to plan 1 Jan - 31 Dec | 0 | 8 | 0 | 8 |
| Depreciation according to plan 1 Jan - 31 Dec | -5,633 | -6,558 | -5,622 | -5,409 |
| **Book value 31 Dec** | **86,697** | **95,068** | **86,494** | **94,855** |
| Accumulated depreciation difference 1 Jan | | | -42,770 | -33,373 |
| Decrease in depreciation difference reserve 1 Jan - 31 Dec | | | 0 | 15 |
| Increase in depreciation difference reserve 1 Jan - 31 Dec | | | -7,242 | -9,413 |
| **Accumulated depreciation in excess of plan 31 Dec** | | | **-50,013** | **-42,770** |

| 12. TANGIBLE ASSETS, 1,000 € | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| **Land and water areas** | | | | |
| Cost at 1 Jan | 9,874 | 9,452 | 9,802 | 9,380 |
| Increases 1 Jan - 31 Dec | 155 | 422 | 155 | 422 |
| Decreases 1 Jan - 31 Dec | -79 | 0 | -79 | 0 |
| **Cost at 31 Dec** | **9,950** | **9,874** | **9,879** | **9,802** |
| **Buildings and structures** | **2003** | **2002** | **2003** | **2002** |
| Cost at 1 Jan | 48,660 | 47,575 | 42,086 | 41,001 |
| Increases 1 Jan - 31 Dec | 2,763 | 1,158 | 2,763 | 1,158 |
| Decreases 1 Jan - 31 Dec | -2,076 | -73 | -2,076 | -73 |
| **Cost at 31 Dec** | **49,347** | **48,660** | **42,773** | **42,086** |
| Accumulated depreciation according to plan 1 Jan | -6,901 | -5,387 | -5,613 | -4,427 |
| Decreases, depreciation according to plan 1 Jan - 31 Dec | 303 | 16 | 303 | 16 |
| Depreciation according to plan 1 Jan - 31 Dec | -1,581 | -1,530 | -1,252 | -1,201 |
| **Book value 31 Dec** | **41,168** | **41,759** | **36,211** | **36,474** |
| Accumulated depreciation difference 1 Jan | | | -4,785 | -4,313 |
| Increase in depreciation difference reserve 1 Jan - 31 Dec | | | -495 | -485 |
| Decrease in depreciation difference reserve 1 Jan - 31 Dec | | | 219 | 12 |
| **Accumulated depreciation in excess of plan 31 Dec** | | | **-5,062** | **-4,785** |
| **Machinery and equipment** | **2003** | **2002** | **2003** | **2002** |
| Cost at 1 Jan | 463.610 | 452.309 | 391.129 | 379.263 |
| Increases 1 Jan - 31 Dec | 24,158 | 12,079 | 23,302 | 12,645 |
| Decreases 1 Jan - 31 Dec | -60 | -778 | -60 | -778 |
| **Cost at 31 Dec** | **487,708** | **463,610** | **414,371** | **391,129** |
| Accumulated depreciation according to plan 1 Jan | -83,053 | -65,397 | -65,914 | -52,602 |
| Decreases, depreciation according to plan 1 Jan - 31 Dec | 12 | 773 | 12 | 773 |
| Depreciation according to plan 1 Jan - 31 Dec | -18,798 | -18,428 | -15,336 | -14,085 |
| **Book value 31 Dec** | **385,868** | **380,557** | **333,133** | **325,215** |
| Accumulated depreciation difference 1 Jan | | | -21,706 | -9,537 |
| Increase in depreciation difference reserve 1 Jan - 31 Dec | | | -15,383 | -12,168 |
| Decrease in depreciation difference reserve 1 Jan - 31 Dec | | | 48 | -1 |
| **Accumulated depreciation in excess of plan 31 Dec** | | | **-37,040** | **-21,706** |

FINGRID



| **Transmission lines** | Group | | Parent company | |
|---|---|---|---|---|
| | **2003** | **2002** | **2003** | **2002** |
| Cost at 1 Jan | 675,450 | 653,053 | 675,450 | 653,053 |
| Increases 1 Jan - 31 Dec | 17,119 | 24,092 | 17,119 | 24,092 |
| Decreases 1 Jan - 31 Dec | -1,177 | -1,695 | -1,177 | -1,695 |
| **Cost at 31 Dec** | **691,391** | **675,450** | **691,391** | **675,450** |
| Accumulated depreciation according to plan 1 Jan | -98,096 | -78,991 | -98,096 | -78,991 |
| Decreases, depreciation according to plan 1 Jan - 31 Dec | 211 | 322 | 211 | 322 |
| Depreciation according to plan 1 Jan - 31 Dec | -20,596 | -19,427 | -20,596 | -19,427 |
| **Book value 31 Dec** | **572,910** | **577,354** | **572,910** | **577,354** |
| Accumulated depreciation difference 1 Jan | | | -46,446 | -44,447 |
| Increase in depreciation difference reserve 1 Jan - 31 Dec | | | 378 | -2,718 |
| Decrease in depreciation difference reserve 1 Jan - 31 Dec | | | 1,311 | 720 |
| **Accumulated depreciation in excess of plan 31 Dec** | | | **-44,757** | **-46,446** |

| **Other tangible assets** | **2003** | **2002** | **2003** | **2002** |
|---|---|---|---|---|
| Cost at 1 Jan | 77 | 52 | 77 | 52 |
| Increases 1 Jan - 31 Dec | 7 | 25 | 7 | 25 |
| **Cost at 31 Dec** | **84** | **77** | **84** | **77** |

| **13. INVESTMENTS, 1,000 €** | **2003** | **2002** | **2003** | **2002** |
|---|---|---|---|---|
| **Equity investments in Group companies** | | | | |
| Cost at 1 Jan | | | 5,550 | 7,232 |
| Decreases (merger) 1 Jan - 31 Dec | | | 0 | -1,682 |
| **Cost at 31 Dec** | | | **5,550** | **5,550** |
| **Equity investments in associated companies** | | | | |
| Cost at 1 Jan | 6,236 | 821 | 6,641 | 1,692 |
| Increases 1 Jan - 31 Dec | 0 | 6,284 | 0 | 7,069 |
| Decreases 1 Jan - 31 Dec | | | 0 | -2,120 |
| portion of net income | -340 | -869 | | |
| change in translation difference | -272 | 0 | | |
| **Cost at 31 Dec** | **5,623** | **6,236** | **6,641** | **6,641** |
| Undepreciated goodwill of associated companies 31 Dec | 3,245 | 4,172 | | |
| **Other shares and equity investments** | | | | |
| Cost at 1 Jan | 579 | 189 | 579 | 189 |
| Transfers between items | 0 | 391 | 0 | 391 |
| Increases 1 Jan - 31 Dec | 15 | 0 | 15 | 0 |
| Decreases 1 Jan - 31 Dec | -3 | -1 | -3 | -1 |
| **Cost at 31 Dec** | **591** | **579** | **591** | **579** |
| **Total** | **6,214** | **6,815** | **12,783** | **12,770** |

| **Shares and equity investments 31 Dec 2003** | Ownership % | |
|---|---|---|
| | **Group** | **Parent** |
| Subsidiary shares: | | |
| Fingrid Varavoima Oy, Helsinki | 100.0 | 100.0 |
| Fingrid Verkko Oy, Helsinki | 100.0 | 100.0 |
| Associated companies: | | |
| Nord Pool Spot AS, Lysaker, Norway | 20.0 | 20.0 |
| Porvoon Alueverkko Oy, Porvoo | 33.3 | 33.3 |

| 14. RECEIVABLES FROM GROUP COMPANIES, 1,000 € | Group | | Parent company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| **Long-term:** | | | | |
| Loans receivable | | | **53,250** | **56,800** |
| **Short-term:** | | | | |
| Accounts receivable | | | 127 | 0 |
| Prepayments and accrued income | | | 110 | 380 |
| | | | **237** | **380** |
| **Total** | | | **53,487** | **57,180** |

| 15. RECEIVABLES FROM ASSOCIATED COMPANIES, 1,000 € | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| **Long-term:** | | | | |
| Loans receivable | **477** | **531** | **477** | **531** |
| **Short-term** | | | | |
| Accounts receivable | 511 | 289 | 509 | 289 |
| Prepayments and accrued income | 2 | 3 | 2 | 3 |
| | **513** | **292** | **511** | **292** |
| **Total** | **990** | **823** | **988** | **823** |

| 16. PREPAYMENTS AND ACCRUED INCOME, 1,000 € | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| Interests and other financial items | 2,982 | 1,581 | 2,982 | 1,581 |
| Taxes | 0 | 731 | 0 | 731 |
| Accruals of sales and purchases | 1,340 | 5,123 | 1,336 | 5,096 |
| Insurance claim | 2,348 | 0 | 2,348 | 0 |
| Other | 502 | 1,069 | 502 | 1,067 |
| **Total** | **7,171** | **8,504** | **7,168** | **8,474** |

| 17. UNRECORDED EXPENSES AND PAR VALUE DIFFERENTIALS ON THE ISSUE OF LOANS INCLUDED IN PREPAYMENTS AND ACCRUED INCOME, 1,000 € | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| Par value differentials | 93 | 151 | 93 | 151 |

| 18. SHAREHOLDERS' EQUITY, 1,000 € | Group 2003 | Group 2002 | Parent company 2003 | Parent company 2002 |
|---|---|---|---|---|
| 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 | 124,197 | 103,940 | 11,374 | 12,087 |
| Change in translation difference | -272 | 0 | - | - |
| Dividend distribution | -6,632 | -7,259 | -6,632 | -7,259 |
| **Profit from previous financial years 31 Dec** | **117,292** | **96,681** | **4,742** | **4,828** |
| **Profit for the financial year** | **26,507** | **27,516** | **7,266** | **6,546** |
| Capital loans 1 Jan | 167,914 | 167,914 | 167,914 | 167,914 |
| **Capital loans 31 Dec** | **167,914** | **167,914** | **167,914** | **167,914** |
| **Shareholders' equity 31 Dec** | **423,559** | **403,956** | **291,767** | **291,133** |
| **Distributable shareholders' equity** | **10,998** | **10,995** | **12,008** | **11,374** |

| 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 |
| Total | **3,325** | **100.00** | **100.00** |

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 |
| **Total** | **3,325** | **100.00** | **100.00** |

| Shareholders 31 Dec. 2003: | 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 Mutual Life Assurance Company | 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 |
| **Total** | **3,325** | **100.00** | **100.00** |

| Capital loans, 1,000 € | Group | | Parent company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| 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 |
| | **167,914** | **167,914** | **167,914** | **167,914** |

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 or 15 May 2017 at 100 % rate. The coupon rate is 6.80 % p.a. until 15 May 2007, after which the interest rate is the 6 month Euribor + 1.90 % p.a. until 15 May 2017. After this, the coupon rate is the 6 month Euribor + 2.90 % 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 or 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 system of Finnish Central Securities Depository Ltd.

| 19. ACCUMULATED PROVISIONS, 1,000 € | Group | | Parent company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Accumulated depreciation in excess of plan, the difference between depreciation according to plan and depreciation carried out in taxation | | | **186,192** | **158,595** |

| 20. DEFERRED TAX LIABILITIES AND CLAIMS, 1,000 € | 2003 | 2002 | 2003 | 2,002 |
|---|---|---|---|---|
| **Deferred tax liabilities** | | | | |
| Resulting from provisions | 54,243 | 46,237 | | |
| **Total** | **54,243** | **46,237** | | |

## 21. BONDS, 1,000 €

| | | | | Group | | Parent company | |
|---|---|---|---|---|---|---|---|
| | | | | 2003 | 2002 | 2003 | 2002 |
| Domestic: | | Maturity date | Interest | | | | |
| Bond II/1997 | | 18.04.2006 | 6.00% | 58,643 | 66,098 | 58,643 | 66,098 |
| International: | | | | | | | |
| EUR | 100,000 | 24.02.2003 | 3.50% | 0 | 94,000 | 0 | 94,000 |
| 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 | 27,144 | 27,144 | 27,144 |
| 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 |
| USD | 25,000 | 10.03.2005 | variable interest | 23,147 | 0 | 23,147 | 0 |
| CHF | 50,000 | 19.04.2005 | variable interest | 34,150 | 34,150 | 34,150 | 34,150 |
| USD | 15,000 | 03.05.2005 | variable interest | 16,725 | 16,725 | 16,725 | 16,725 |
| USD | 35,000 | 23.05.2005 | variable interest | 38,461 | 38,461 | 38,461 | 38,461 |
| GBP | 10,000 | 28.06.2005 | 5.44% | 15,600 | 15,600 | 15,600 | 15,600 |
| USD | 35,000 | 25.08.2005 | 7.21% | 38,300 | 38,300 | 38,300 | 38,300 |
| USD | 25,000 | 10.03.2006 | variable interest | 23,150 | 0 | 23,150 | 0 |
| USD | 25,000 | 13.03.2006 | variable interest | 23,148 | 0 | 23,148 | 0 |
| EUR | 15,000 | 13.09.2006 | variable interest | 15,000 | 0 | 15,000 | 0 |
| 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 | 22,000 | 22,000 | 22,000 |
| USD | 35,000 | 09.07.2007 | variable interest | 35,497 | 35,497 | 35,497 | 35,497 |
| GBP | 10,000 | 07.08.2007 | 5.5225% | 15,576 | 15,576 | 15,576 | 15,576 |
| 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% | 0 | 15,000 | 0 | 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 | 2,000,000 | 16.10.2010 | 1.022% | 15,504 | 0 | 15,504 | 0 |
| 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 | 25,400 | 25,400 | 25,400 |
| EUR | 20,000 | 15.10.2013 | 4.30% | 20,000 | 0 | 20,000 | 0 |
| FIM | 210,000 | 19.08.2013 | 5.20% | 26,910 | 35,319 | 26,910 | 35,319 |
| Bonds, long-term total | | | | 546,125 | 601,559 | 546,125 | 601,559 |
| Bonds, short-term total | | | | 144,519 | 94,000 | 144,519 | 94,000 |
| **Total** | | | | **690,644** | **695,559** | **690,644** | **695,559** |

* callable 5 July 2004
** callable 25 July 2006

## 22. LOANS FALLING DUE FOR PAYMENT IN FIVE YEARS OR MORE, 1,000 €

| | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| Bonds | 106,628 | 192,653 | 106,628 | 192,653 |
| Loans from financial institutions | 44,182 | 59,748 | 44,182 | 59,748 |
| **Total** | **150,810** | **252,401** | **150,810** | **252,401** |

## 23. LIABILITIES TO GROUP COMPANIES, 1,000 €

| | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| **Short-term:** | | | | |
| Accounts payable | | | 0 | 1,220 |
| Other debts | | | 887 | 608 |
| Accruals | | | 6 | 18 |
| **Total** | | | **893** | **1,845** |

## 24. LIABILITIES TO ASSOCIATED COMPANIES, 1,000 €

| | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| **Short-term:** | | | | |
| Accounts payable | 1 | 2 | 0 | 0 |
| **Total** | **1** | **2** | **0** | **0** |

## 25. OTHER DEBTS, 1,000 €

| | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| **Short-term:** | | | | |
| Other loans/Commercial papers (international and domestic) | 27,427 | 40,549 | 27,427 | 40,549 |
| Value added tax | 4,848 | 5,023 | 4,669 | 4,862 |
| Electricity tax | 1,733 | 1,438 | 1,733 | 1,438 |
| Other short-term debt | 421 | 383 | 417 | 380 |
| **Total** | **34,428** | **47,393** | **34,246** | **47,229** |

FINGRID

| 26. ACCRUALS, 1,000 € | Group 2003 | Group 2002 | Parent company 2003 | Parent company 2002 |
|---|---|---|---|---|
| **Long-term:** | | | | |
| Accruals of sales | 800 | 1,150 | 800 | 1,150 |
| **Short-term:** | | | | |
| Interests and other financial items | 21,017 | 27,637 | 21,017 | 27,637 |
| Wages, salaries and additional staff costs | 2,832 | 2,649 | 2,814 | 2,625 |
| Accruals of sales and purchases | 2,426 | 7,112 | 2,410 | 7,097 |
| Other | 212 | 11 | 208 | 0 |
| | 26,487 | 37,409 | 26,450 | 37,360 |
| **Total** | **27,287** | **38,559** | **27,250** | **38,510** |

| 27. PLEDGES, MORTGAGES AND CONTINGENT LIABILITIES, 1,000 € | 2003 | 2002 | 2003 | 2002 |
|---|---|---|---|---|
| **Leasing liabilities (motor vehicles)** | | | | |
| Leasing liabilities for the next year | 102 | 92 | 99 | 92 |
| Leasing liabilities for subsequent years | 101 | 60 | 101 | 60 |
| | 203 | 152 | 199 | 152 |
| **Commitment fee of revolving credit facility** | | | | |
| Commitment fee for the next year | 407 | 400 | 407 | 400 |
| Commitment fee for subsequent years | 1,192 | 1,576 | 1,192 | 1,576 |
| | 1,599 | 1,976 | 1,599 | 1,976 |
| **Pledges/bank balances** | | | | |
| Pledge for the Customs Office | 26 | 26 | 26 | 26 |
| Guarantee for work in progress | 0 | 5 | 0 | 5 |
| Pledge for electricity exchange purchases | 1,983 | 6,501 | 1,983 | 6,501 |
| | 2,009 | 6,532 | 2,009 | 6,532 |
| **Total** | **3,811** | **8,660** | **3,807** | **8,660** |

| Other financial liabilities | Group 2003 | Group 2002 | Parent company 2003 | Parent company 2002 |
|---|---|---|---|---|
| Purchase commitments concerning electricity, TWh<br>The longest commitments extend until 2005 | 0.1 | 0.4 | 0.1 | 0.4 |

## 28. 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.

| 29. DERIVATIVE AGREEMENTS, 1,000 € | Group and Parent 2003 Market value 31 Dec 2003 | Group and Parent 2003 Nominal value 31 Dec 2003 | Group and Parent 2002 Market value 31 Dec 2002 | Group and Parent 2002 Nominal value 31 Dec 2002 |
|---|---|---|---|---|
| **Interest and currency derivatives** | | | | |
| Cross-currency swaps | -85,315 | 430,998 | -25,653 | 401,217 |
| Forward contracts | -1,805 | 84,917 | 2,503 | 107,698 |
| Interest rate swaps | -12,059 | 441,732 | -23,816 | 550,463 |
| Interest rate options, bought | 1,803 | 215,000 | 330 | 95,000 |
| **Total** | **-97,376** | **1,172,647** | **-46,636** | **1,154,378** |
| **Electricity derivatives** | | | | |
| Futures contracts, Nord Pool | | | -511 | 933 |
| Forward contracts of electricity, Nord Pool Clearing | 7,800 | 76,820 | 20,543 | 79,285 |
| Forward contracts of electricity, others | 2,170 | 11,790 | 18,427 | 13,022 |
| Call options, bought (175 GWh, 219 GWh in 2002) | 630 | | 644 | |
| **Total** | **10,600** | **88,610** | **39,103** | **93,240** |

Interest rate, cross-currency swaps and interest options are mark-to-market on the closing date so that the derived net cash flow was calculated on a net present value basis. Currency forwards are mark-to-market by using prevailing forward rates of the closing day.

Forward contracts of electricity, others, includes fixed price physical purchase commitments concerning electricity purchases. Options are hedging the years 2005 and 2006. The derivatives hedge future electricity losses. Mark-to-market value of derivatives indicates the realised profit/loss if they had been reversed on the last business day in 2003.

## 30. RISK MANAGEMENT

The risk management complies with the Group's risk management policy approved 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 Fingrid Group's business risk management policies support integrated 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. When assessing the magnitude of a risk the probability, economical effects and other damages are taken into consideration. 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 the financial policy for each year, stating the operational principles for external funding, financial 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 financial investments are mainly book-entry securities having a good liquidity.

Foreign exchange risk
The basic rule of the company is to protect all foreign exchange risks, and the company does not have open exposures. During the financial year the company hedged the foreign currency denominated debt portfolio and business-related currency risks by using currency forward contracts and cross-currency swaps.

Interest rate risk
The principle of the company is to adjust the interest expenses to the prevailing tariff period. During the tariff period the interest rate risk is measured by duration and on the other hand 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 limits are set for each individual counterparty. The company has signed with each counterparty the 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 the tariff period. More than 95 % of the remaining tariff period 2002-2004 was hedged at the end of year 2003. The company hedges its loss energy purchases through electricity exchange products and bilateral contracts. Bilateral purchasing contracts are subject to competitive bidding and limits are set for each individual counterparty.
The loss energy contracts are valued at market value on the closing date by using then prevailing market prices. The market price of bilateral price hedging contracts is assumed to equal the closing rate of a similar product on the Nord Pool power exchange at the closing of 31 December 2003. The foreign exchange risks relating to the contracts have been fully hedged.

## 31. SEPARATION OF BUSINESS IN ACCORDANCE WITH THE ELECTRICITY MARKET ACT

**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 the balance operation is carried out by means of cost accounting as follows:

| | |
|---|---|
| Income | direct |
| Separate costs | direct |
| Production costs | matching principle |
| Administrative costs | matching principle |
| Depreciations | matching principle |
| Financial income and expenses | based on invested capital |
| Income taxes | based on result |

Average number of personnel during the year was 10, which was the same as a year before. Operating profit of turnover was 4.6 per cent (0.1 per cent). Return on investment was 90.3 (4.1) per cent.

| SEPARATED | MANAGEMENT OF BALANCE OPERATION | |
|---|---|---|
| PROFIT AND LOSS ACCOUNT, 1,000 € | 1 Jan - 31 Dec 2003 | 3 Jan - 31 Dec 2002 |
| **TURNOVER** | 69,240 | 48,603 |
| Other operating income | 0 | 0 |
| Materials and services | -63,642 | -46,130 |
| Staff expenditure | -1,141 | -856 |
| Depreciation and value adjustment | -494 | -505 |
| Other operating expenses | -761 | -1,062 |
| **OPERATING PROFIT** | **3,202** | **50** |
| Financial income and expenses | -38 | -46 |
| **PROFIT BEFORE PROVISIONS AND TAXES** | **3,164** | **4** |
| Provisions | -32 | 145 |
| Income taxes | -908 | -43 |
| **PROFIT FOR THE FINANCIAL YEAR** | **2,224** | **105** |

**Main grid operation**

The operations carried out by Fingrid Group, in whole, are related to main grid operation, including system responsibility, which in turn includes balance management; and including international business operation, because its overall contribution is minimal. Therefore, Fingrid Group's financial statements represent the financial statements of main grid operation.

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

In accordance with the consolidated balance sheet at 31 December 2003, the shareholders' equity of the Fingrid Group contains € 10,998,089 of distributable profits.
In accordance with the balance sheet at 31 December 2003, the shareholders' equity of Fingrid Oyj contains € 12,007,788.96 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.

- € 5,375,378.21 be carried over as retained earnings.

Helsinki, 12 February 2004

| | | |
|---|---|---|
| Taisto Turunen<br>Chairman | Timo Rajala<br>1st Deputy Chairman | Tapio Kuula<br>2nd Deputy Chairman |
| Marjukka Aarnio | Timo Karttinen | Pertti Simola |
| Pertti Voutilainen | Timo Toivonen<br>President and CEO | |

## AUDITOR'S NOTATION

The financial statements for the financial year 2003 have been prepared in accordance with Generally Accepted Accounting Principles.
A report on the audit carried out has been submitted today.

Helsinki, 13 February 2004

PricewaterhouseCoopers Oy
Authorised Public Accountants

Henrik Sormunen
Authorised Public Accountant