



ANNUAL REPORT *2005*





POHJOLAN VOIMA
IS A PRIVATELY-OWNED
GROUP OF COMPANIES IN THE ENERGY SECTOR
PRODUCING ELECTRICITY AND HEAT AT COST FOR
ITS SHAREHOLDERS IN FINLAND.
THE GROUP ALSO DEVELOPS AND MAINTAINS
TECHNOLOGY AND SERVICES
IN ITS SECTOR.

RESPONSIBILITY. RELIABILITY. COMPETENCE.

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The Annual General Meeting of Pohjolan Voima
was held on Tuesday, 21 March 2006 at 11.00
at Töölönkatu 4, 00100 Helsinki.

POHJOLAN VOIMA

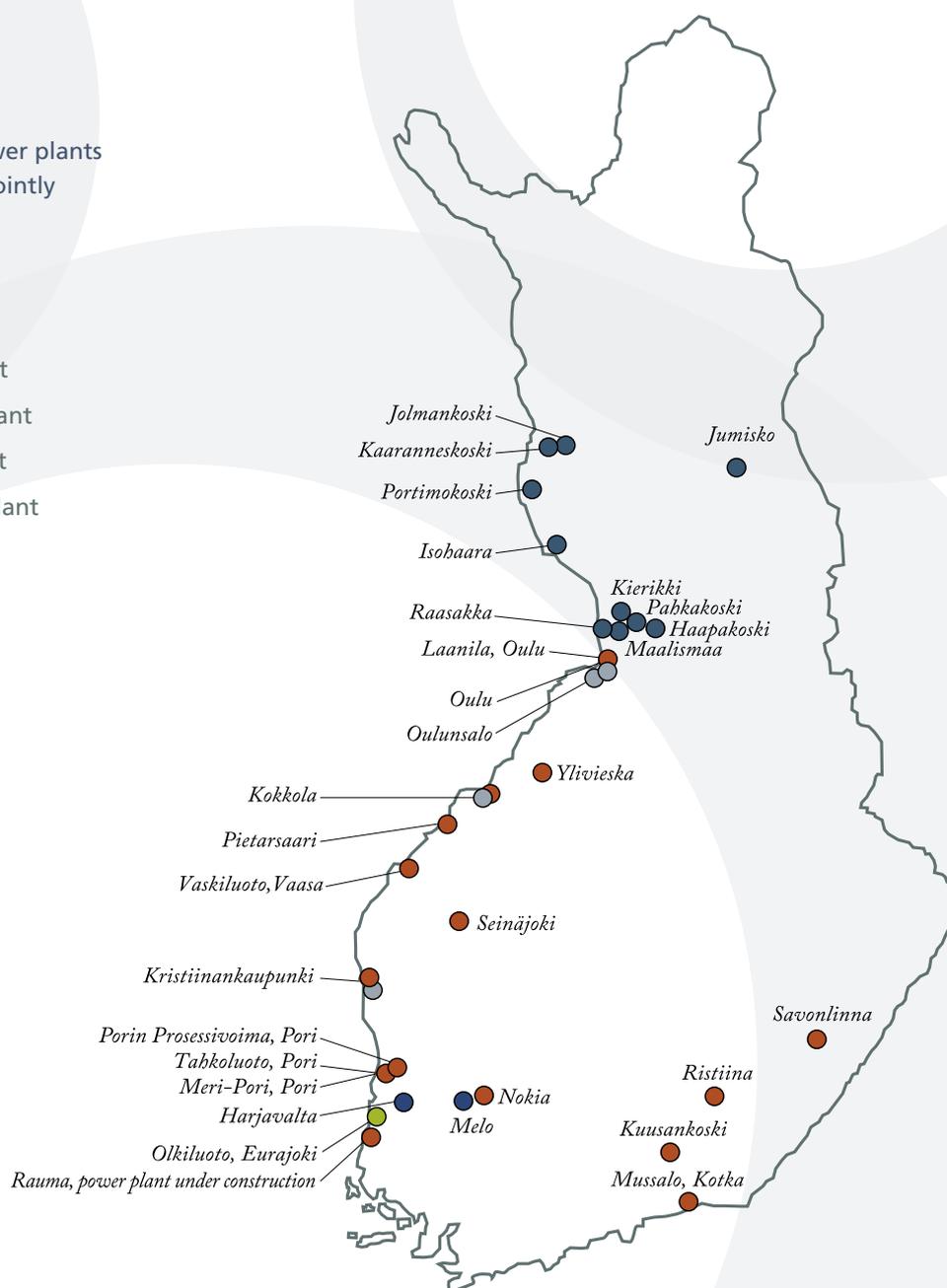


Pohjolan Voima Oy shareholders on 31 December 2005

	holding, %
Etelä-Pohjanmaan Voima Oy	7.52
City of Helsinki	0.83
Ilmarinen Mutual Pension Insurance Company	4.36
Kemira Oyj and Pension Foundation Neliapila	3.08
Kemira GrowHow Oyj and Kemira GrowHow Oyj's Pension Foundation	1.76
City of Kokkola	2.44
Kymppivoima Tuotanto Oy	8.72
Kyro Corporation	0.18
Oy Metsä-Botnia Ab	1.56
M-real Corporation	2.87
Myllykoski Corporation	0.86
Nordic Energy Oy	0.00
City of Oulu	1.81
Outokumpu Oyj	0.11
Oy Perhönjoki Ab	2.69
City of Pori	1.23
Päijät-Hämeen Voima Oy	1.98
Rautaruukki Oyj	0.04
Stora Enso Oyj	15.60
UPM-Kymmene Corporation	42.04
Vantaan Energia Oy	0.32
Total	100.00%

Pohjolan Voima's power plants and participation in jointly owned power plants

- Hydropower plant
- Nuclear power plant
- Wind power plant
- Thermal power plant



Pohjolan Voima's key figures

		2005	2004	2003	2002	2001
Turnover	EUR million	601	667	659	670	570
Operating profit or loss	EUR million	-8	0	-21	38	33
Net interest-bearing liabilities	EUR million	1 633	1 063	801	774	780
As percentage of turnover	%	272	159	122	115	137
Equity-to-assets ratio	%	36	43	47	48	49
Total assets	EUR million	3 311	2 664	2 386	2 357	2 310
Investments	EUR million	704	427	90	197	182
Average number of personnel		938	873	864	803	784

HIGHLIGHTS IN 2005

CONSTRUCTION OF OLKILUOTO 3 STARTED

Teollisuuden Voima Oy, Pohjolan Voima's subsidiary, was granted permission under the Nuclear Energy Act for the Olkiluoto 3 plant unit. Construction started in August and the cornerstone of the plant was laid in September with Paavo Lipponen, Speaker of Parliament, officiating at the ceremonies.

BUILDING A BIOENERGY PLANT IN RAUMA STARTED

Rauman Voima Oy will build a bioenergy plant which will supply co-generation heat and electricity to the UPM Rauma mill, as well as district heat and electricity to Rauman Energia Oy. The project budget is EUR 75 million. The electricity generation capacity of the new power plant is 65 MW, while its co-generation heat and



TAHKOLUOTO POWER PLANT RENOVATED



RENOVATION WORK IN KIERIKKI



CONSTRUCTION SITE AT OLKILUOTO 3 IN THE AUTUMN



THE OULU 3 MW WIND POWER PLANT

district heat capacity is 190 MW. The plant will be completed by the end of 2006. Pohjolan Voima owns 72% of Rauman Voima and the share of Rauman Energia is 28%.

ESTLINK BETWEEN ESTONIA AND FINLAND

AS Nordic Energy will build the first electricity transmission link between the Baltic and Nordic countries. The project budget is EUR 110 million. The cable connection will be completed by the end of 2006. The direct current cable allows the transmission of electricity at 350 MW capacity. The shareholders of AS Nordic Energy Link are Eesti Energia, Latvenergo and Lietuvos Energija, as well as Helsingin Energia (Helsinki Energy) and Pohjolan Voima through the joint venture Finestlink Oy.

FINLAND'S LARGEST

WIND POWER PLANT INAUGURATED IN OULU

The 3 MW wind power plant completed in Vihreäsaari, Oulu was inaugurated in June by Hannes Manninen, Minister of Regional and Municipal Affairs. The largest wind power plant in Finland, the diameter of the Oulu rotor is 91 m and its hub height 90 m.

CAPACITY OF THE TAHKOLUOTO

POWER PLANT UPGRADED

The Tahkoluoto coal-fired power plant went through an extensive annual maintenance in September. On that occasion, two turbine cylinders were replaced and the entire automation system of the plant was modernised. The plant's electricity generation capacity rose by 10 MW to the net capacity of 235 MW. The cost of the Tahkoluoto turbine and automation project was EUR 17 million.

POHJOLAN VOIMA'S NEW ENERGY MANAGEMENT SYSTEM

PVO-Pool Oy, the company responsible for the optimisation of Pohjolan Voima's electricity supply, acquired a new energy management and optimisation system to support the planning, implementation and reporting of

operative electricity supply. The system will be implemented in autumn 2007.

BOOSTED

HYDROPOWER PRODUCTION

The renovation programme focusing on the production machinery of Pohjolan Voima's hydropower plants started with the Kierikki plant in October. According to plans, the renewed Kierikki 2 machinery will resume production of electricity in early May 2006 while the Kierikki 1 will be renovated in spring 2007. The objective is to complete the renovation programme of the hydropower plants on the River Iijoki by 2014.

POHJOLAN VOIMA ACQUIRED

KEMIRA'S OULU AND PORI POWER PLANTS

In December, Pohjolan Voima acquired the power plant at the Kemira Oyj production plant in Oulu and that of Kemira Pigments Oy in Pori. The Laanila power plant in Oulu is fired mainly with peat and wood, while the main fuels in Pori are coal and oil.

SUPREME ADMINISTRATIVE COURT

REPEALED EARLIER RULING IN MARTINLAAKSO CASE

In September, the Supreme Administrative Court repealed the decision made by the Vaasa Administrative Court in the case regarding the Martinlaakso plant for the gasification of refuse-derived fuels. Through the decision of the Supreme Administrative Court, the permits applied for by Powest Oy, Vantaan Energia Oy and Vapo Oy were put into effect. The Martinlaakso power plant need not apply the emission limits set by the Directive on the incineration of waste even if a gasification plant for REF, or refuse-derived fuels were to be built at the power plant.

Initiated by a complaint by nature protection organisations, the court proceedings on the permission process took almost three years. In Martinlaakso, the delay in the authorisation process prevented the realisation of the whole investment.

REVIEW BY THE PRESIDENT

Started in 2005, the emission trading system had a deep impact on our operating environment. The price of electricity quoted in the electricity exchange rose. Not only in Finland but also in other EU countries, such circumstances triggered a debate on the impact of emission trading on national economies. Nor has the opening of the electricity market proceeded according to plan. In fact, safeguarding the competitiveness of basic industry is one of the biggest challenges for the EU and Finland in the next few years. There is wide unanimity that the EU's unilateral commitment to emission reductions after 2012 clashes with the Lisbon competitiveness strategy. However, it is difficult to distinguish any concrete political measures that would have been taken to eliminate such contradiction.

In 2005, the European Commission launched an extensive two-year study on the operation of the electricity and gas markets. In its interim report, the Commission highlights the poor functioning of competition in the

EU as the major market-related problem. Competition is limited by the modest number of actors and the insufficiency of cross-border transmission connections. Although the Nordic energy market is generally deemed to be quite progressive, similar problems and development needs have also been identified here.

The past year's energy debate was crystallised in the Government's energy and climate strategy which continued to emphasise the increase of nuclear power and renewable energy sources as the most important means for Finland to meet its Kyoto commitment. The strategy also underlines the need to maintain a diversified production structure and necessary self-sufficiency in the production of energy. It is easy for us to endorse these outlines.

NATIONAL GRID WORKS EFFICIENTLY

Pohjolan Voima participates actively in the energy debate. We are the biggest power plant investor in the



Nordic countries, and thus the central actor in the implementation of Finnish energy policy. One of the owners of Fingrid, Finland's national grid, we want to ensure efficient and cost-effective power transmission over the national grid. Vested with this role, we also contribute to the public debate on electricity transmission.

The operation of the national grid company Fingrid has occasionally been criticised, with ownership changes also being proposed. The fact, however, remains that Fingrid is transparent, equitable, efficient and the most cost-effective grid company in Europe, with a sharp focus on its clearly defined mission. Thanks to its independence from its owners, Fingrid is one of the very few national grid companies that have earned the EU's full approval. Changes in ownership would not eliminate the problems in the Nordic electricity market.

In considering new electricity import projects, the evaluation must focus not only on the financial feasibility, but also on the impact of additional imports on the functioning of the transmission grid, supply performance and self-sufficiency. Imports from Russia are already too massive, and it is not sensible to increase them. It is in the best interests of Finland that the additional imports from Russia to the Nordic electricity markets would not increase the costs incurred by Finnish electric power consumers.

The 350 MW Estlink cable under construction has a correct capacity dimensioning, and there is no need to enhance the grid. The reciprocity of the cable connection will be reached according to the agreed schedule. Both the Baltic and Finnish parties to this arrangement can use the link for imports and exports of electricity. The cable ownership will be taken over by the grid companies once the Estonian energy market is deregulated according to the timetable agreed upon with the EU. After that, the link will be available to all market parties.

NEW POWER PLANTS ARE NEEDED

2005 also saw a debate on the problematic status of condensing power, especially peat-fired condensing power, in the emission-trading regime. If no special measures

are taken, obsolescence, the structure of the electricity market and emission trading will all contribute to a situation where condensing capacity corresponding to that of one large nuclear power plant unit will disappear from the market earlier than expected. In view of the security of supply, condensing power plants are vital for Finland but it is not economically feasible for the companies alone to maintain them in operating condition. This is a problem we are actively trying to solve in 2006.

Our main project is the Olkiluoto 3 nuclear power plant unit built by the Pohjolan Voima subsidiary Teollisuuden Voima. The cornerstone of the plant was laid in September 2005. Although some parts of the project have not progressed according to the original timetable the objective remains to have the power plant up and running in 2009.

In addition to nuclear power, the construction of bioenergy also continued through the Rauma power plant project. The preparations for the Oulu and Pori power plant projects were underway at the same time. Since 2000, the Pohjolan Voima investments in bio-fuelled power plants total about EUR 700 million. The new power plant built in Rauma is an example of a future power plant concept, with the plant fuelled not only with wood and peat, but also with separately recovered waste and industrial sludge. Carbon dioxide emissions are minimised through the construction of a biomass dryer. Rauma is one of the few Finnish localities where the parallel burning of biomass and waste can continue in 2006.

The successful technology solution and permit process in Rauma, as well as the ruling by the Supreme Administrative Court in the case concerning gasification, are encouraging examples of finding environmentally rational and feasible modes of operation in the utilisation of waste.

This was a successful year for Pohjolan Voima. The several ongoing investment projects kept the Group on a developing growth curve. I would like to express my warmest gratitude to the Pohjolan Voima personnel, shareholders and other co-operation partners.

TIMO RAJALA

OPERATING ENVIRONMENT

Overall generation of electricity in the Nordic electricity market area was at the previous years' level. As a result of heavy rainfalls, the Swedish and Norwegian water conditions improved considerably although the two countries conspicuously generated electricity by hydropower. As a result of the water situation, thermal power generation dropped from the previous year. With the exception of Finland, electricity consumption grew in all the other Nordic countries despite the mild weather conditions. In Sweden and Norway, consumption was back at the level reached in 2001.

Finnish electricity generation was lower than in the preceding years. Electricity generation was 67.9 TWh, 17.4% less than in 2004. The abundant water reserves, the increase in the global market prices of fuels as well as emission trading were factors that had an impact, especially on the generation of condensing power in Finland. Electricity generation by thermal power was 31.8 TWh, with condensing power accounting for 5.7 TWh of the total. This was 15.3 TWh less than in 2003, the year with a poor water situation in which one fourth of all Finnish consumption was covered by electricity generated by condensing power.

Finnish electricity generation by nuclear power increased from 2004 to 22.3 TWh in 2005. With the water reservoirs lower than in 2004, the Finnish water situation was not as good as in other Nordic countries. Electricity generated by hydropower was 13.6 TWh.

Nuclear power accounted for 26.3% of the total Finnish consumption of electricity while the share of hydropower was 16.0%. The share of thermal power was exceptionally low, or only 37.5%.

In 2005, Finnish electricity consumption was 84.9 TWh, a 2.5% drop from 2004. The decrease in consumption was mainly explained by the diminished demand for electricity by the forest industry due to the labour dispute in April through June.

Although the weather was warmer than average throughout the year, the consumption by households and agriculture, the public sector and services rose by 3.9% from the previous year.

ELECTRICITY IMPORTS

As a result of the increase in hydropower generation, Norway and Sweden had enough electricity to export outside the Nordic countries. In fact, Nordic electricity exports to Germany continued almost throughout the year.

Finland imported electricity from Russia, as well as from the Nordic countries. Net imports of electricity to Finland were 17.0 TWh which accounted for one fifth of the overall consumption of electricity. The share of electricity imports was exceptionally high.

In the Nordic electricity market, the 2005 peak consumption hour was in early March, with the combined load of 65,400 MW.

During the Finnish peak consumption hour (on 28 January 2005 at 19.00 to 20.00), electricity was consumed at the rate of 13,400 MW and generated at the capacity of 10,500 MW. To cover consumption, electricity was imported from the Nordic countries and Russia at the capacity of 2,900 MW.

Hydropower will continue to play a focal role in the Nordic energy system in the future. Nordic hydropower generation may vary to the extent that corresponds to Finland's annual electricity consumption. 2003 and 2004 showed that electricity generated by hydropower will not necessarily suffice but the hydropower generating countries Norway and Sweden must cover part of their consumption by importing electricity from other countries.

According to the estimates of Nordel, the co-operation body for Nordic national grid companies, the deficit in output will be 1,700 MW if the consump-

tion peaks coincide in Finland, Sweden, Norway and Denmark. The deficit is covered by importing electricity from outside the Nordic market area or by limiting consumption, if necessary.

Only sufficient and diversified Finnish electricity generation capacity can ensure a reliable and competitive supply of electricity in years with poor water conditions.

ELECTRICITY PRICE

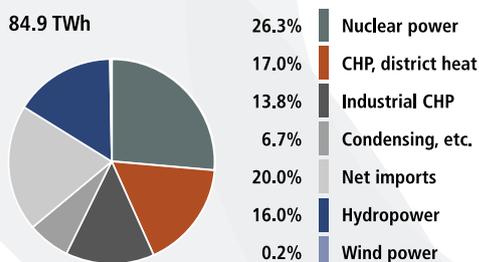
Quoted on the Nordic electricity exchange, the Elspot system price was at its lowest in the very beginning of the year, as well as in the middle of the summer with low consumption. In March, the Elspot price increased both as a result of cold weather and the uptrend in the price of emission allowances. Compared with the beginning of the year, the price level showed a clear upward trend towards the end of the year. The highest system price was quoted in December, with the monthly average at EUR 34 per MWh.

The area price level in Finland was higher than the system price level almost throughout the year, with the average at about EUR 31 per MWh. The record was set on 8 December between 16.00 and 17.00 as the area price reached EUR 1,147 per MWh. The most important reasons for the peak were problems in the transmission of electricity in the Swedish national grid. As a result, Svenska Kraftnät imposed limitations for the use of the transmission connections between Sweden and other Nordic countries. Price peaks were also seen in other areas during the latter part of the year.

Due to the current capacity of the electricity transmission grids, electricity cannot be transmitted limitlessly from one area to another within the Nordic market. In 2004 Nordel proposed the construction of five new transmission connections to eliminate the capacity-related restrictions, or bottlenecks, in the transmission of electricity.

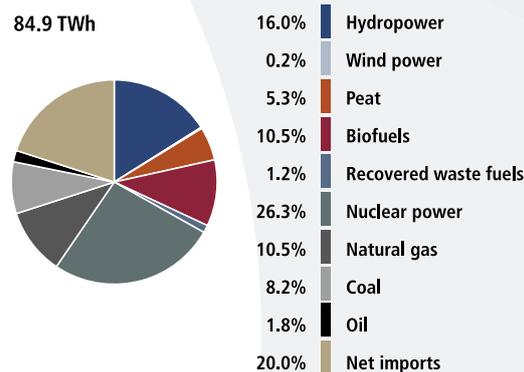
In February 2005, the national grid companies Fin-

Net supply of electricity in Finland in 2005



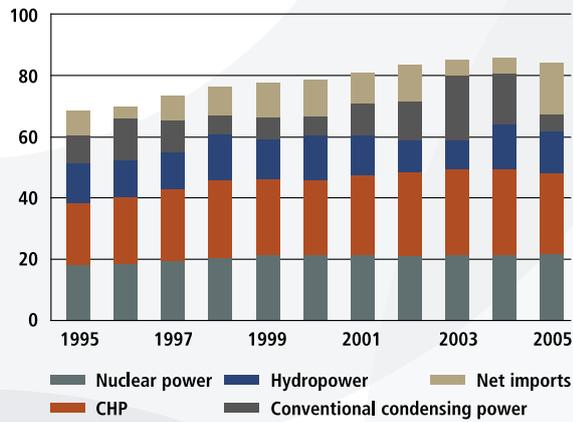
Source: Finnish Energy Industries

Electricity supply by source of energy in Finland in 2005



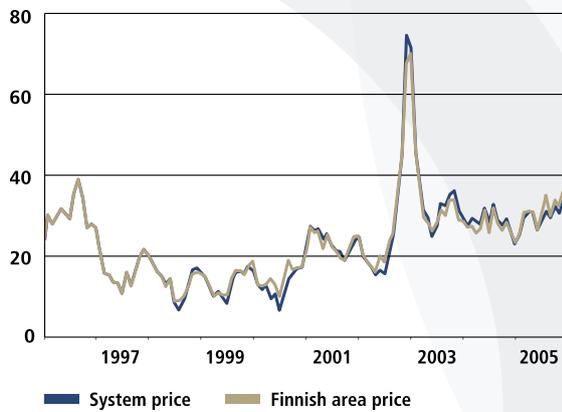
Source: Finnish Energy Industries

Net supply of electricity in Finland in 1995–2005, TWh



Source: Finnish Energy Industries

Price of electricity quoted at the electricity exchange in 1996–2005, Nord Pool Elspot, €/MWh



Source: Nord Pool

grid and Svenska Kraftnät announced that a submarine cable will be constructed between Finland and Sweden. With a capacity of 600–800 MW, the Fenno-Skan 2 connection will be completed by autumn 2010. It is the first investment decision made under the joint development plan regarding the Nordic national grids. No decisions were made on the other transmission connections proposed by Nordel.

The construction of Estlink, the first transmission connection between the Nordic and Baltic electricity networks, was started in 2005.

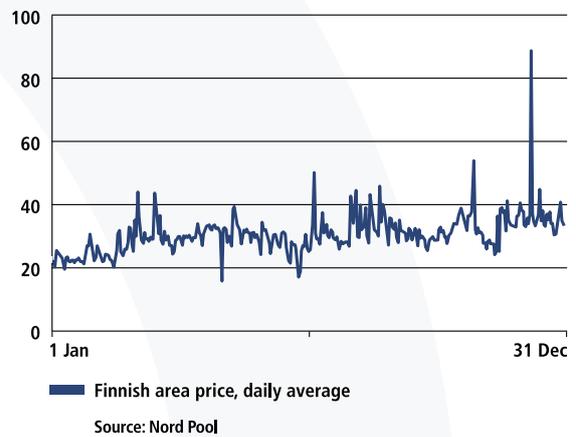
EMISSION TRADING

Emission trading within the EU started in the beginning of 2005. The price of emission allowances was at the lowest at the start of trading but rose to almost EUR 30 by the summer. Towards the end of the year the price of

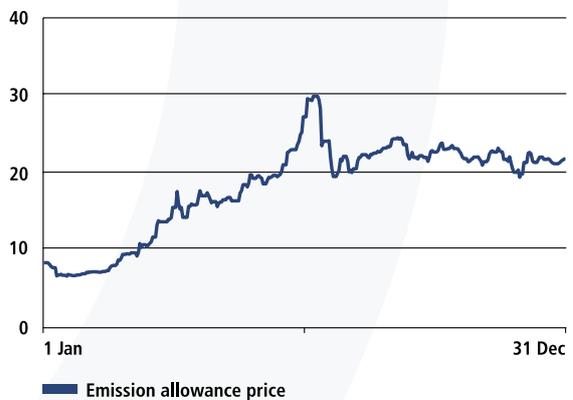
one emission allowance remained at over EUR 20 which is higher than was generally anticipated before trading began.

Finnish actors obtained the emission permits and emissions allowances under the Emission Trading Act during the first months of 2005. Many other EU countries could not complete their emission registers by the end of 2005, and so did not receive their emission allowances. Therefore the volume of trading in emission allowances remained lower than expected in many trading platforms. However, emission trading had a manifest impact on the price of electricity. The 2005 Elspot system price was higher than the price quoted in 2004 despite the considerably more abundant rainfalls in 2005. The main factors pushing the price up were the start of emission trading and the rise in fuel prices.

**Nord Pool Elspot,
Finnish area price in 2005, €/MWh**



**Emission allowance price in 2005,
€/emission allowance**



BUSINESS REVIEW

Pohjolan Voima optimises its electricity procurement based on the demand for electricity of the Pohjolan Voima shareholders. Most of the electricity is generated in the Group's own power plants. In this business review, the volumes of electricity supply are broken down by Pohjolan Voima's shareholdings and therefore differ from the figures given in the Financial Statements.

In 2005, Pohjolan Voima's total energy supply and its own production were lower than in the previous year. Electricity generation by hydropower and by thermal power was lower than in 2004. The production through condensing power decreased considerably, or by about 80% while electricity generation by nuclear and wind power grew from the previous year.

The total supply of electricity was 18.2 TWh, with Pohjolan Voima's own production accounting for 13.3 TWh. The purchases of electricity from the Nordic market reached a record high, or 4.9 TWh.

In early 2006, the total electricity generation capacity available to Pohjolan Voima was 3,332 MW.

HYDROPOWER

Pohjolan Voima's hydropower plants are located in the Iijoki, Kemijoki, Kokemäenjoki and Tengeliönjoki watercourses. Their combined capacity is 409 MW, or 12.3% of Pohjolan Voima's total production capacity.

In 2005, the hydropower plants generated 1.8 TWh of electricity which is slightly more than in a year with average water conditions. Hydropower accounted for 13.4% of Pohjolan Voima's electricity production.

Called "VESPA", the renovation programme of the Iijoki power plants started at the Kierikki power plant in autumn 2005. The project envisages the replacement of the turbines, a revision and partial replacement of the generators, as well as the modernisation of the automation and communications systems. Through the programme, the capacity of the Iijoki power plants will

be boosted by 44 MW and the annual production by about 35 GWh. The project is expected to be finalised by the mid-2010s.

To maintain the fish stocks, 3.2 million fry were stocked in the Kemijoki and Iijoki watercourses and in the sea area. The stocking objectives have satisfactorily been reached. In several successive years, the number of lamprey migrating to the river mouths has been exceptionally small, and therefore Pohjolan Voima has been unable to fulfil the obligation regarding the number of lamprey to be conducted past the power plants.

The Northern Finland Environmental Permit Authority ordered Tornionlaakson Voima Oy to pay about EUR 450,000 to the local fishery collectives in compensation for grayfish damages suffered. An appeal was lodged against this decision. Pohjolan Voima owns 50% of Tornionlaakson Voima.

The lease contract regarding the use of state-owned hydropower in the four power plants on the River Iijoki terminated at year's end. No extension was reached. The environmental permit authority is examining the user right issue. The permit for the use of the power plants remains in force despite the dispute.

In October, a leak was discovered in the sealing wall at the bottom of the Melo power plant dam in the River Kokemäenjoki. However, there was no danger of the dam collapsing or risk to outsiders at any point. The dam repairs started immediately.

NUCLEAR POWER

The nuclear power plants of Teollisuuden Voima, Pohjolan Voima's subsidiary, are located in Olkiluoto, Eurajoki. The combined net electrical output of the plants is 1,700 MW. Pohjolan Voima's share of the output is 966 MW. Nuclear power accounts for 29.0% of Pohjolan Voima's electricity production capacity.

The Olkiluoto nuclear power plant set a new pro-

duction record in 2005. The annual production of the power plant units was 14.2 TWh, with Pohjolan Voima accounting for 8.1 TWh of the total. Nuclear power accounted for 60.4% of Pohjolan Voima's electricity production.

The average load factor of the Olkiluoto nuclear power plant units was 96.1%. The largest annual revision in the history of the Olkiluoto 2 unit comprised work to improve the plant's efficiency, and as a result, the net electrical output of the unit grew by 20 MW. Olkiluoto 1 will undergo corresponding modification work in 2006.

Eurajoki municipality granted the building permit for the Olkiluoto 3 unit in January while the Government's construction license was issued in February. The site was then handed over to the plant supplier consortium Framatome ANP/Siemens according to plan. At year's end, there were 600 personnel at the site. The plant should be operating in 2009 with a net electrical output of 1,600 MW.

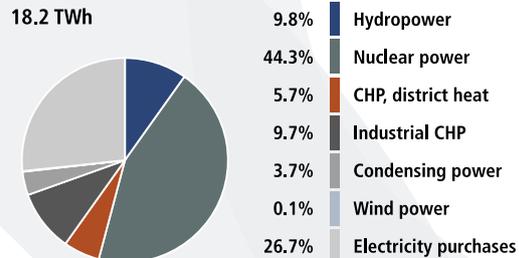
The operations of Teollisuuden Voima were also in compliance with the environmental permits and the environmental management system. No significant environmental deviations were identified in 2005. All operations related to the construction phase of the Olkiluoto 3 power plant unit are covered by a certified environmental management system.

THERMAL POWER

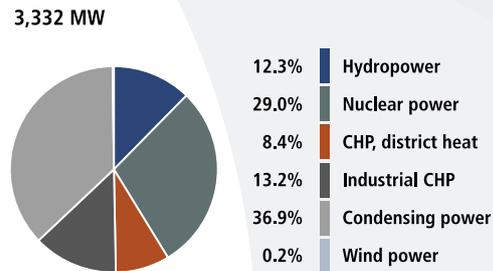
The total electricity generation capacity of the Pohjolan Voima thermal power plants was 1,950 MW. Condensing power plants account for 1,231 MW and the combined heat and power production plants (CHP plants) for 719 MW. The corresponding shares of Pohjolan Voima's electricity generation capacity are 36.9% and 21.6%, respectively.

The total electricity generation of the Pohjolan Voima thermal power plants was 3.5 TWh. Due to the

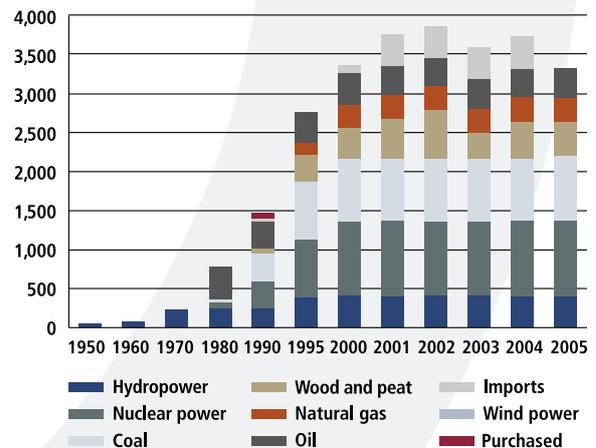
Pohjolan Voima's electricity supply in 2005



Pohjolan Voima's production capacity, 1 January 2006



Pohjolan Voima's electricity supply capacity in 1950–2005, MW



electricity market situation, the volume was considerably smaller than in 2004. Condensing power plants generated 0.7 TWh and CHP plants 2.8 TWh of electricity. The condensing power plants account for 5.1% and CHP plants for 21.0% of Pohjolan Voima's electricity production.

Changes in the production capacity

An investment decision was made in January to build a bio-fuelled power plant at the mill site of the UPM Rauma mill. The investment will be implemented by Rauman Voima Oy, owned by Pohjolan Voima Oy, 72%, and Rauman Energia Oy, 28%. The main fuels will be bark and felling residue. The electricity generation capacity of the new power plant is 65 MW, while its co-generation heat and district heat capacity is 190 MW. When completed towards the end of 2006, the plant will replace the existing power plant at the mill site, diminishing the CO₂ emissions by about 70,000 tonnes per year.

In early July, UMP-Kymmene Oyj acquired Pohjolan Voima Oy's subsidiary Jämsänkosken Voima Oy. As a result, the Jämsänkoski power plant is now owned by UPM.

During the annual revision performed at the Tahkoluoto power plant in the autumn, the entire automation system of the plant was replaced and its turbine modernised. As a result of improved efficiency, the net electrical output of the plant rose by some 10 MW to 235 MW.

Towards the end of the year, Pohjolan Voima acquired the power plants at the Kemira Oyj factory in Oulu and Kemira Pigments in Pori. The main fuels used by the Oulu power plant are peat and wood, while the Pori power plant is coal and oil-fired. Kemira's Oulu power plant was taken over by Laanilan Voima Oy which supplies electricity and heat to the Kemira production plants and the City of Oulu. In Pori, the power plant formerly owned by Kemira Pigments was taken over by Porin Prosessivoima Oy which provides the Kemira

Pigments production plants and the City of Pori with energy. Both Laanilan Voima and Porin Prosessivoima are wholly-owned subsidiaries of Pohjolan Voima. As a result of the ownership arrangements Kemira Oyj and the Cities of Oulu and Pori increased their ownership in Pohjolan Voima.

Biofuel programme

Since 2000, Pohjolan Voima's biofuel programme has contained about EUR 700 million worth of investments in new power plants as well as an R&D programme. The objective is to utilise the biomass resources provided by forestry and agriculture as efficiently as possible.

In 2005, the use of forest fuels and energy crops increased. In addition, studies were made on the feasibility of biofuel as a parallel fuel for coal-fired burners, as well as on the improved use of stumps in energy production. In 2005 the Kuusankoski power plant was provided with a multifuel crusher making it possible to exploit a wider selection of fuels. A biofuel dryer will be completed in 2006 at the Rauma power plant and will increase the dry matter content of the fuel to at least 60%.

The surface in contract cultivation of reed canary grass grew from 400 hectares in 2004 to 2,000 hectares in 2005 while the use of logging residues increased from 480,000 to 610,000 cubic metres. The increase exceeded the objective set in the 2001 biofuel programme by 110,000 cubic metres.

The environment

Emissions from thermal power production decreased considerably from 2004. In 2005, Pohjolan Voima's carbon dioxide emissions were 2.3 million tonnes, or 63% less than in 2004. Particulate emissions also decreased to 0.2 thousand tonnes. 148 thousand tonnes of fly ash, bottom ash and desulphurisation gypsum were produced as by-products from the flue gas cleaning. 62% of these

were reutilised in earthwork or by the construction industry.

In early 2005, some turbine lubrication oil leaked from the Mussalo power plant into the cooling water channel and dock basin. The accident was caused by damage in the oil cooler. In accordance with a plan made with the authorities, future damage will be prevented by more frequent checks of the heat exchangers and by fixed oil containment booms.

Emission trading

Pohjolan Voima's thermal power plants control their CO₂ emissions under the greenhouse gas emission permits granted to each power plant as required by the Emissions Trading Act, compiling the required reports on emissions. Every year, the number of emission allowances corresponding to the previous year's emissions will be returned to the authorities.

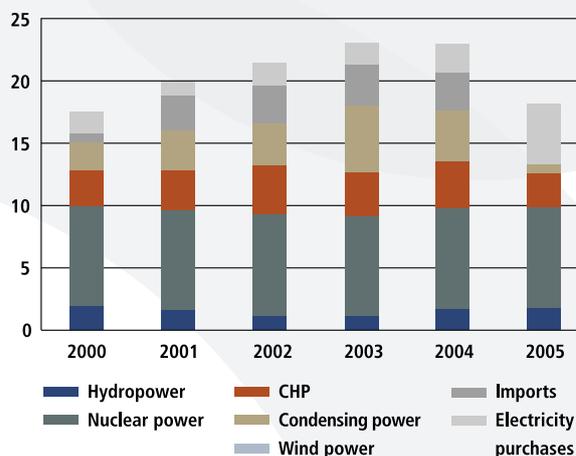
Pohjolan Voima's own electricity production was complemented in 2005 by purchasing electricity from the Nordic market, abundantly available owing to the good water situation. This is the reason why the production and respective CO₂ emissions of many Pohjolan Voima thermal power plants were lower than normal. The emission allowances allocated to the resources owned by Pohjolan Voima for 2005 were sufficient to cover the emissions from the production.

WIND POWER

Owned by the Pohjolan Voima subsidiary PVO-Innower, the wind power plants are located in Kokkola, Oulunsalo, Oulu and Kristiinankaupunki. Their combined production capacity is 12 MW, of which Pohjolan Voima's share is 8 MW.

In 2005, Pohjolan Voima generated 0.02 TWh of electricity with wind power. Wind power accounted for 0.1% of Pohjolan Voima's electricity production.

Pohjolan Voima's electricity supply in 2000–2005, TWh



Use of fuels by thermal power plants in 2005, TWh

Fuel	TWh
Coal	3.9
Natural gas	0.6
Oil	0.2
Biomass from forestry and agriculture	6.2
Peat	2.1
Refuse-derived fuel	0.1

Pohjolan Voima has participated in the feasibility study regarding the construction of a near-shore wind power park. The wind power plants would be built along the coastline, partly on firm ground, partly off-shore. The report on the study will be completed in March 2006.

PURCHASE OF ELECTRICITY

In 2005, Pohjolan Voima purchased 4.9 TWh of electricity from the Nordic electricity market. Due to the ample hydropower production in the Nordic countries, Pohjolan Voima's own production was substituted by electricity purchases.

Pohjolan Voima's long-term contract to import electricity from Russia expired at the end of 2004, and no new import contract has been signed.

POWEST

Pohjolan Voima's subsidiary Powest Oy owns companies to support the energy supply of its shareholders. Moreover, Powest provides the Pohjolan Voima Group with financial and payroll administration services. As the owner of Powest, Pohjolan Voima aims to safeguard the availability, quality and competitive price of the services related to power production.

The Powest Group employed 471 people on average in 2005. The Group's turnover was EUR 130 million. The Powest subgroup is not included in Pohjolan Voima's consolidated Financial Statements, as Pohjolan Voima owns only K series shares of its parent company, not entitling it to receive dividends. Powest publishes its own annual review.

Proma-Palvelut Oy

Proma-Palvelut Oy produces operation and maintenance services for thermal power plants. In 2005, the company employed 415 people on average. Of them, 119 were

hired by Empower Oy for the maintenance work of thermal power plants. At the end of the year, the permanent staff was 395. The turnover was EUR 21.6 million.

PVO-Alueverkot Oy

Pohjolan Voima Oy demerged its regional grid business and founded the company called PVO-Alueverkot Oy which started operations as of the beginning of 2006. PVO-Alueverkot acquired 127 km of local networks, most of which are 110 kV access networks between the Pohjolan Voima power plants and the Fingrid national grid.

Nordic Energy Oy

Nordic Energy Oy's business operations comprise electricity trading functions. In 2005, the company turnover was EUR 106 million. Nordic Energy employed 9 people on average in 2005. In the beginning of 2006, the company's portfolio management and brokerage services related to electricity trading were taken over by its subsidiary Solidus Oy. Nordic Energy's staff was reduced to three as most of the old personnel transferred to Solidus under their existing employment contracts.

Finestlink Oy

Finestlink Oy owns the shares in AS Nordic Energy Link, the company constructing the cable connection between Finland and Estonia. Powest owns 60% and the City of Helsinki 40% of Finestlink. The shareholders of AS Nordic Energy Link are Eesti Energia, Latvenergo and Lietuvos Energija, as well as Helsinki Energy and Pohjolan Voima through the joint venture Finestlink Oy.

AS Nordic Energy Link is responsible for the construction of the Estlink cable connection between Estonia and Finland, the first transmission connection between the Baltic and the Nordic countries. The cable

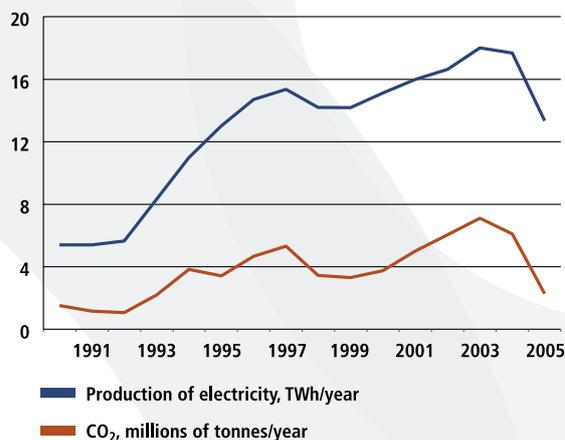
will allow the transmission of electricity at 350 MW capacity. The length of the direct current cable is 105 km, of which 75 km are underwater. In Finland, the cable will be linked to the Espoo substation while the link in Estonia is Harku. The Estlink cable connection will be completed by the end of 2006.

Martinlaakso gasification plant project

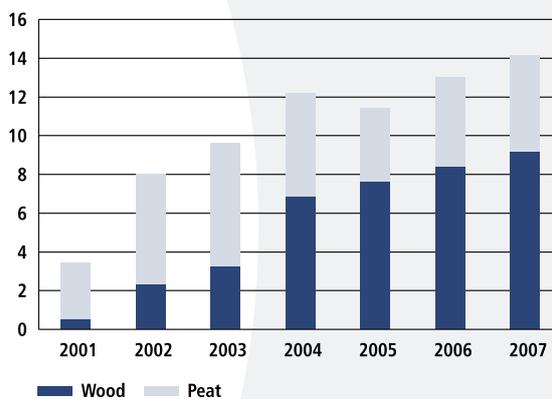
In the autumn, the Supreme Administrative Court repealed the decision made by the Vaasa Administrative Court in the case regarding the Martinlaakso plant for the gasification of refuse-derived fuels. The ruling of the Supreme Administrative Court put the original permit conditions into effect. According to the conditions, the emission limits under the Directive on the incineration of waste need not be applied to this power plant if it is fuelled with cleansed product gas, manufactured at the gasification plant of refuse-derived fuels, to be built at the power plant.

The environmental permit for the plant was applied for in 2002 by Powest Oy, Vantaan Energia Oy and Vapo Oy. The conditions for the utilisation of the gasification process in Martinlaakso were brought to naught due to the delays caused by the complaints. The ruling by the Supreme Administrative Court makes it possible to use the refuse-derived fuel gasification technology to replace fossil fuels at the existing power plants.

Pohjolan Voima's production and CO₂ emissions in 1990–2005



Use of biomass in Pohjolan Voima's biofuel programme in 2001–2007, TWh*



* Also includes shares of actors other than Pohjolan Voima.

CORPORATE RESPONSIBILITY

Pohjolan Voima's shareholders include export industry companies, as well as municipalities and their energy utilities. Pohjolan Voima supplies the procured electricity to its shareholders at cost. The objective is not to generate profit but ensure reliable electricity and heat supplies and stable energy prices for the shareholders.

Pohjolan Voima has power plants and power plant shares in 26 municipalities in Finland. In 2005, Pohjolan Voima employed people in 102 different municipalities. In addition, the Group uses a large number of sub-suppliers. The companies in the Group paid EUR 5.9 million in real estate taxes. The economic impacts thus extend over a wide area in Finland. They have particular importance for regional economies.

PERSONNEL

In 2005, the average number of Pohjolan Voima's personnel was 1,345*. As a consequence of the arrangements of late December, 24 employees of the Kemira Oulu plant transferred to Laanilan Voima as of the beginning of 2006.

The personnel turnover rate is minimal. The average age is 46.6 and the average length of permanent employment with Pohjolan Voima is 18 years. Men account for 80% of the personnel. During 2005, the Group's equal opportunities policy was updated to correspond to the reformed Equal Opportunities Act.

Positive co-operation between the personnel and management is the core of the company's HR policy. Co-operation takes place at every level of the Group. The 20-member Group meeting convened three times in 2005. Personnel representatives are included in subsidiary management groups, and local co-operation takes place not only in health and safety committees, but also in co-operation and leisure activity committees. Moreover, joint events are organised for management and personnel representatives.

Personnel development

The current status of core competence areas, related professional skills and development needs were reviewed in 2005. Special attention is paid to personnel development, and tailored training plays an important role. One focal area is leadership and supervision skills. A project to procure a new system for payroll and HR management was launched in 2005. The aim is to have a new system, which also supports the work of supervisors and managers, up and running during 2006.

Health and safety

Pohjolan Voima's aim is to make the working environment healthy and safe. Employees should not suffer from work-related diseases or injuries at work or in retirement. Work and safety issues are co-ordinated by a special H&S division, and its tasks also include the dissemination of the best labour protection practices into the entire organisation.

In 2005, the Group spent about EUR 697,000, or EUR 520 per person, on occupational health care. The number of work-related accidents was 36. The Group objective, or zero accident rate, was reached by the Nokia and Kokkola power plants.

INTERACTION WITH STAKEHOLDERS

Pohjolan Voima's contacts with its stakeholders have increased continuously on a national level. In the power plant locations, contact is maintained with the local authorities and decision-makers as well as local residents. Moreover, in hydropower production co-operation also involves working with municipalities and environmental authorities, as well as the other stakeholders utilising the same waterways.

RESPONSIBILITY FOR THE ENVIRONMENT

Pohjolan Voima is committed to good management and

continuous improvement of environmental issues. The Group's environmental policy defines the basic principles of environmental management work. All Group companies derive their own environmental aims and objectives from the common principles.

The premise for Pohjolan Voima's environmental policy is the identification of the environmental impacts and risks and the management of all aspects of operations, also considering the life-cycle approach. Due consideration for the environment is an integral part of all work-related tasks performed at Pohjolan Voima. The specific responsibility of the Group companies for environmental issues has been enhanced through organisational changes.

Pohjolan Voima's production companies follow their certified environmental management systems according to the ISO 14001 standard. Environmental programmes included in the systems ensure continuous improvement of the operations. The materialisation of the programmes is followed through audits performed at various levels.

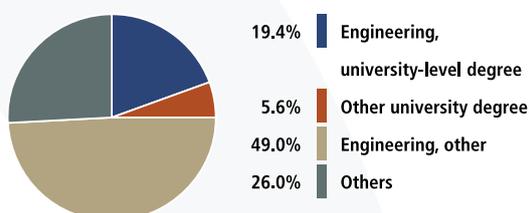
The most significant environmental information is published on Pohjolan Voima's Web site, also including the statutory data on the origin of and emissions from electricity production.

RESPONSIBILITY FOR THE SUPPLY CHAIN

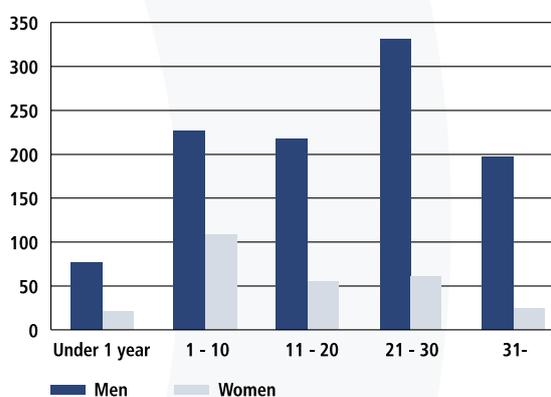
Pohjolan Voima's most significant purchases include fuels for energy production and acquisitions linked with the construction of power plants. The social responsibility policy for procurement sets out the rules for the good operating practices expected from the suppliers. The policy is part of the supply contracts and is attached to them. Pohjolan Voima's coal procurement is within the scope of an environmental management system audited by an outside certification authority.

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

Level of basic education of personnel



Years of service of personnel



CORPORATE GOVERNANCE

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

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

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

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

GENERAL MEETING OF SHAREHOLDERS

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

BOARD OF DIRECTORS

The Board of Directors is responsible for managing the company and organising its operations appropriately in accordance with legislation, the corporate documents and any decisions taken in the General Meeting of Sharehold-

ers. The Board of Directors supervises the operations and management of Pohjolan Voima, and decides on the Group's significant investments and borrowing. The Board of Directors discusses and approves the financing, insurance, risk management and competition rights policies as well as the internal audit guidelines. The working order drawn up by the Board of Directors defines its principal tasks and procedure more closely.

The members of the Board of Directors are elected annually at the General Meeting of Shareholders. According to the Articles of Association, the Board consists of 5–13 ordinary members. The Board members and their deputies are nominated by the shareholders. In the General Meeting of Shareholders of 4 April 2005, eight ordinary Board members were elected. The procedure for the election and organisation of the Board is specified in detail in the corporate documents.

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

The following persons served as members of the Board of Directors for the entire year 2005: Heikki Sara, Pekka Laaksonen, Sakari Suontaka, Esa Tirkkonen, Markku Tynkkynen, Erkki Varis and Rami Vuola. Tapio Ahola also served as member of the Board until the Annual General Meeting of 4 April 2005 and Seppo Ruohonen from that meeting onwards. Heikki Sara served as the Chairman of the Board and Pekka Laaksonen as the Deputy Chairman. Seppo Ehandi was the secretary of the Board of Directors from 1 July 2005 onwards. Arto Piela was the secretary until that date.

In 2005, the total remuneration to the members of the Board amounted to EUR 258,000. The Board of Directors convened 11 times and 83% of the Board members on average were present at the meetings.

COMMITTEES OF THE BOARD OF DIRECTORS

Elected among its members annually, the Pohjolan Voima's Board of Directors appoints a Salary working group to develop the incentive and remuneration system of the Group and to approve the criteria for the incen-

tive bonuses. The Board of Directors may authorise the Salary working group or the Chairman of the Board to approve the criteria for the remuneration of the President & CEO and the Executive Team. In 2005, Heikki Sara and Esa Tirkkonen were members of the Salary working group, with Timo Rajala as presenting official. However, the President & CEO was not present when the working group was handling matters pertaining to the assessment and remuneration of the President & CEO.

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

PRESIDENT & CEO AND CORPORATE EXECUTIVE TEAM

Timo Rajala, M.Sc. (Eng.) serves as the company's President & CEO. Matti Kaisjoki, M.Sc. (Eng.) was the Deputy CEO until 31 December 2005.

In operational management, the President & CEO is supported by the Corporate Executive Team, which discusses the main principles related to the operations of the Group and the parent company. In addition to the President & CEO, the Executive Team comprises Minna Korkeaaja, Pertti Simola, Jari Niemelä from 1 April 2005 and Timo Väisänen from 1 October 2005. The Executive Team also included Jukka Kiviluoto until 31 March 2005, Arto Piela until 30 June 2005 and Matti Kaisjoki until 30 September 2005. From 1 January 2006, Minna Korkeaaja acts as deputy to the President & CEO.

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

PERSONNEL REPRESENTATION IN THE ADMINISTRATION

Communication between the personnel and the employer, and the opportunities for personnel input are ensured by representative co-operation. Group-level co-operation is called the Group Meeting. Three Group meetings were held in 2005.

AUDITING AND AUDITOR

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

In 2005, the Annual General Meeting elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the regular auditor. Eero Suomela, Authorised Public Accountant, is the auditor in charge. The total amount of fees paid in 2005 for the auditing in the Group was EUR 210,000 while EUR 35,000 was paid to the Authorised Public Accountants for services other than the audit.

INTERNAL CONTROL,

RISK MANAGEMENT AND INTERNAL AUDITING

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

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

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

BOARD OF DIRECTORS, 31 DECEMBER 2005

Ordinary Members



HEIKKI SARA

Chairman, Executive Vice President,
Strategic Development, UPM-Kymmene Corporation
Born 1946; D.Sc. (Eng.)

Employed by the paper industry since 1976
Executive Vice President at UPM-Kymmene Corporation since 1996
Executive Vice President, Strategic Development since 2002
Member of the Board of Oy Metsä-Botnia Ab
Member of the Energy Committee of the Confederation of Finnish Industries, EK



PEKKA LAAKSONEN

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

Joined Stora Enso in 1979
Head of Stora Enso Fine Paper since May 2005
Member of the Boards of several subsidiaries and associated companies
Member of the Board of Suominen Corporation



SEPPO RUOHONEN

Managing Director, Helsingin Energia (Helsinki Energy)
Born 1946; M.Sc. (Eng.)

Secretary of the STYV in 1976–1985
Executive of TSL in 1986–1992, of TVS in 1993–1996
Several management positions in Fingrid companies in 1997–2000
Managing Director of Helsingin Energia since 2000
Member of the Board of several energy companies
Vice Chairman of Finnish Energy Industries



SAKARI SUONTAKA

CEO, Kymppivoima Tuotanto Oy
Born 1951; B.Sc. (Eng.)

Energy sector consultant in:
Enertek Oy 1975–1987
Energia-Ekono Oy 1987–1998
CEO of Kymppivoima since 1998
Member of the Electricity Production Committee of Finnish Energy Industries
Member of the Advisory Committee of Fingrid Oyj

Personal substitutes

ANJA SILVENNOINEN

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

TIMO KOIVUNIEMI

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

PATRICK WACKSTRÖM

Managing Director
Päijät-Hämeen Voima Oy
Born 1958; engineer

KARI HANNUS

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

Ordinary Members



ESA TIRKKONEN

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

Joined Kemira in 1974
Chairman or Member of the Board
of several Kemira subsidiaries
Member of the Board of Kemira GrowHow Oyj
Member of the Board of Teollisuuden Voima Oy (TVO)



MARKKU TYNKKYNEN

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

Joined United Paper Mills in 1982, holding several posts in
production, business development, sales and business management,
several management posts at UPM-Kymmene Corporation
since 1996, Executive Vice President, Resources, since 2004
Member of the Boards of Teollisuuden Voima Oy (TVO),
Kemijoki Oy and the Finnish Forest Industries Federation



ERKKI VARIS

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

Employed by the forest industry since 1975
President and CEO, Oy Metsä-Botnia Ab since 1997
Member of the Supervisory Board of Ilmarinen Mutual Pension
Insurance Company
Chairman of the Board of Excellence Finland
Member of the Board of Metsä Group Financial Services Oy
Chairman of the Board of Compania Forestal Oriental and Botnia
S.A., Chairman of the Supervisory Board of A/S Baltic Pulp



RAMI VUOLA

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

Employed by IVO Voimansiirto Oy in 1993–1998
Employed by Finnish Power Grid Plc and Fingrid System Oy in
1998–2000, Production Director for TXU in 2000–2003, CEO of
Etelä-Pohjanmaan Voima Oy and Vaskiluodon Voima Oy since 2003
Chairman of the Boards of Rapid Power Oy and Tornion Voima
Oy, Member of the Boards of Teollisuuden Voima Oy (TVO) and
Proma-Palvelut Oy

Personal substitutes

JUKKA LIIMATAINEN

Vice President, Energy
Kemira Oyj
Born 1946; M.Sc. (Eng.)

TAPANI SOINTU

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

AARRE METSÄVIRTA

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

HANNU LINNA

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

CORPORATE EXECUTIVE TEAM IN 2005

TIMO RAJALA

President & CEO, Pohjolan Voima Oy
Born in 1947, M.Sc. (Eng.), with the Group since 1975

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

MATTI KAISJOKI

Executive Vice President, Deputy CEO
Born in 1945, M.Sc. (Eng.), with the Group since 1991

Expert for the Energy Committee of Finnish Forest Industries
Member of the National Board of Economic Defence, power
economy pool and member of its energy supply sector
Deputy member of the Board of Fingrid Oyj
Chairman of the Board of several Group companies

MINNA KORKEAOJA

**Executive Vice President, Financial Control, Communications,
Corporate Planning, IT, Services**
Born in 1964, M.Sc. (Econ.), with the Group since 1989

Member of the Board of several Group companies
Member of the Board of Rambøll Gruppen A/S
Member of the Board of Energy Forum of Finland

JARI NIEMELÄ

**Executive Vice President, Thermal Production,
Power Plant Projects, Technology and Business Development**
Born in 1958, M.Sc. (Eng.), with the Group since 1996

Chairman or member of the Board of several Group companies
Member of the Electricity Production Committee of Finnish
Energy Industries, Member of the Energy working group of the
Energy-intensive Industries (co-ordinated by the Finnish Forest
Industries Federation)

PERTTI SIMOLA

President and CEO, Teollisuuden Voima Oy
Born in 1950, M.Sc. (Eng.)
with the Group since 2004

Chairman of the Board of Posiva Oy
Member of the Boards of Powest Oy and Nordic Energy Oy
Member of the delegation of the Central Chamber of Commerce
Member of the Board of the Rauma Chamber of Commerce

TIMO VÄISÄNEN

**Executive Vice President, Treasury, Power Procurement,
Fuels and Administration**
Born in 1959, M.Sc. (Eng.), with the Group since 1993

Chairman or member of the Board of several Group companies
Member of the Finance and Tax Committee of the Confederation
of Finnish Industries, EK



From left to right:

Jussi Kivimäki (Secretary), Timo Väisänen, Matti Kaisjoki, Timo Rajala, Minna Korkeaaja, Jari Niemelä and Pertti Simola

ANNUAL REPORT BY THE BOARD OF DIRECTORS 2005

THE ELECTRICITY MARKET

In 2005, electricity consumption in Finland totalled 84.9 TWh (87.0 TWh in 2004). 67.9 (82.1) TWh of electricity was produced in Finland, while net imports into Finland amounted to 17.0 (4.9) TWh. One fifth of Finnish electricity consumption was covered by imports from Russia and the Nordic countries.

Trading in the Nordic electricity exchange, the Nord Pool, continued at a brisk level in 2005. The volume of the electricity trading at the exchange was 176 TWh, compared to 167 TWh in 2004. Price increase was contained by the improved water situation, and thus the average Nord Pool system price was EUR 29.33 (28.92) per MWh, while the annual average of the Finnish area price was EUR 30.53 (27.68) per MWh.

The EU emissions trading system was launched in the beginning of 2005. Most EU countries were late in allocating their emission allowances and setting up national emission registers. The price of emission allowances rose beyond the anticipated level, reaching as high as EUR 30 per emission allowance in the summer. Almost 28 million emission allowances were traded in Nord Pool.

POHJOLAN VOIMA'S ELECTRICITY AND HEAT PRODUCTION

In 2005, Pohjolan Voima's electricity supply totalled 24.6 (30.0) TWh. Of this amount, the Group's own electricity production accounted for 19.7 (24.7) TWh, of which the Parent Company's supplies to its shareholders amounted to 13.3 (17.7) TWh. The subsidiaries supplied a total of 6.4 (7.1) TWh to their other shareholders. Pohjolan Voima's long-term contract to import electricity from Russia expired at the end of 2004 (2.9 TWh). Purchases from the Nordic electricity markets totalled 4.9 (2.3) TWh.

Nuclear power made up 57.7% (47.0%) of the electricity supply. Teollisuuden Voima's Olkiluoto power plant generated 14.2 (14.1) TWh of electricity, of which Pohjolan Voima obtained 8.1 (8.0) TWh in accordance with its shareholding. The load factor of the Olkiluoto plants was 96.1% (95.6%). The OL1 unit reached the best load factor in its history while the combined annual generation of the units was also record high.

Hydropower accounted for 1.8 (1.8) TWh, or 7.3% (6.0%), of the electricity supply.

Pohjolan Voima produced 0.8 (4.8) TWh of

condensing power. It represented 3.1% (16.2%) of the electricity supply.

A total of 3.0 (4.0) TWh of electricity was generated by the CHP plants. 2.2 (3.5) TWh of peat and 6.7 (6.3) TWh of wood-based fuels were used.

Pohjolan Voima's electricity supply in 2001–2005 (GWh)

	2001	2002	2003	2004	2005
Nuclear power	14,152	14,106	14,154	14,090	14,218
Hydropower	1,604	1,239	1,183	1,802	1,788
CHP	3,268	4,062	3,651	3,954	2,975
Condensing power	3,471	3,714	5,930	4,868	765
Wind	0	0	7	20	27
Imports from Russia	2,887	2,988	3,299	2,951	0
Purchases of electricity	1,057	1,756	1,698	2,288	4,852
Total	26,439	27,866	29,922	29,973	24,625

INVESTMENTS

Investments of the Pohjolan Voima Group, excluding financial investments, totalled EUR 703.6 (426.9) million.

Investments in the biofuel-fired power plants totalled EUR 8.9 (25.4) million (MEUR). Teollisuuden Voima invested MEUR 581.4 (328.3) in the OL3 project, MEUR 23.0 in the related area and infrastructure work and MEUR 46.8 (53.3) in the renewal of the turbine plant of the OL2 plant unit as well as in the changes and improvements performed in connection with the annual revisions. PVO-Lämpövoima Oy invested MEUR 16.1 in the turbine and automation renewal at Tahkoluoto. Laanilan Voima Oy bought the power plant at the Kemira Oyj Oulu production plant for MEUR 10.0 and Porin Prosessivoima Oy the Kemira Pigments Oy power plant for MEUR 14.0. The remaining investments were mainly made in repairs and renovations.

The sales of non-current assets totalled EUR 6.9 (0.7) million, most of which were accounted for by the sales of the regional grid business.

The 3 MW wind power plant was completed in Vihreäsaari, Oulu in autumn 2005.

Teollisuuden Voima obtained the municipal building permit for the construction of the power plant buildings in the OL3 project in January 2005 and the Government construction license for the new power plant unit in

February 2005. The preparation work at the building site of the OL3 project was finalised during the early part of the year, and the site was handed over to the plant supplier. The supplier continued its planning and subcontracting activities as well as the manufacture of the machinery and equipment at outside workshops. Some parts of the project have not progressed according to the original timetables but the objective remains to have the power plant up and running in 2009. In line with the 2003 decision of the Pohjolan Voima Board, the company has invested EUR 274.9 million in the OL3 project.

The construction of the Rauman Voima Oy biofuel-fired power plant continued. Combined with the current power plant, the capacity of the new plant is 140 MW of co-generation heat, 50 MW of district heat and 65 MW of electricity. The investment will be completed by the end of 2006.

RESEARCH AND DEVELOPMENT

The Group's expenditure on research and development totalled EUR 21.5 (19.8) million in 2005.

Most of the R&D operations focused on nuclear waste management. Excavation work on the underground rock characterisation facility known as ONKALO began under the final disposal project. In 2005, Teollisuuden Voima accounted for EUR 2.7 (2.7) million of the finance for public programmes on reactor safety and nuclear waste management.

Besides investments in biofuel-fired power plants, the biofuel programme also includes the R&D on the fuel procurement of the power plants. The use of forest fuels and energy crops as well as stumps in energy production grew in 2005. Moreover, technical and economical feasibility studies on the use of biomass as parallel fuel for coal-fired burners continued.

PERSONNEL

Pohjolan Voima aims at creating a healthy and safe working environment.

The current status and development needs related to core competence areas and professional skills were charted. Supervision and leadership skills were the focal area of personnel development. During 2005, the Group's equal opportunities policy was updated to correspond to

the reformed Equal Opportunities Act.

The average number of employees working for the Group was 938 (873) and for the Parent Company 73 (72). At the end of the year, the Group personnel numbered 933 (838).

Their average age was 45.3 years. Men accounted for 80 percent of the personnel. At year's end, the Group employed 190 wage-earners and 743 salaried employees.

THE ENVIRONMENT

All power plants in Pohjolan Voima have valid environmental permits and Water Court permits. Environmental management is based on the certified environmental management systems in accordance with the ISO 14001 standard. The operations of Teollisuuden Voima were also in compliance with the environmental permits and the environmental management system. No material or serious deviations from the commitments of the environmental programme were identified during 2005. All operations related to the construction phase of the OL3 project are covered by a certified environmental management system.

Regulation of waterways and use of hydropower plants took place under the permit conditions. A total of 3.2 (2.6) million fry was stocked in the Kemijoki and Iijoki watercourses and in the nearby sea areas. In several successive years, the number of lampreys migrating to the river mouths has been exceptionally small, and for this reason Pohjolan Voima has not been able to fulfil the obligation regarding the number of lampreys to be conducted past the power plants.

At the thermal power plants, there were no deviations from regulatory compliance. The emissions from production decreased because the production of the condensing power plants was lower than usual due to the abundant water conditions. The carbon dioxide emissions from electricity and heat produced and delivered to shareholders totalled 2.3 (6.9) million tonnes. Notes to the Accounts only report the CO₂ emissions, which amount to 1.3 million tonnes. The emissions of nitrogen oxides, sulphur dioxide and particles also diminished. The sulphur dioxide emissions amounted to 2.7 (7.9) thousand tonnes, the nitrogen oxide emissions to 4.2 (12.1) thousand tonnes and the particle emissions to

0.2 (0.4) thousand tonnes. All the thermal power plants of the Group are covered by the Emissions Trading Act.

Kymin Voima Oy and the Kymi plant of UPM-Kymmene Corporation make joint use of the Lamminmäki landfill. According to the permit given by the Southeast Finland Regional Environment Centre, the landfill can be used until 2019. The total costs incurred for the closing stage are estimated to be EUR 2.0 million, with Kymin Voima Oy standing for about EUR 1.4 million of the whole. The full materialisation of these costs is uncertain, because the ash can possibly be utilised and, on the other hand, the amount of ash and waste produced depends on the future degree of use of the power plant. Pohjolan Voima and its subsidiaries and associated companies are not aware of any environmental liabilities that would not have been covered.

Pohjolan Voima's major environmental information is published at the company Internet site at www.pohjolanvoima.fi. Teollisuuden Voima provides information on the environmental issues related to nuclear power generation on its site at www.tvo.fi and in a separate social responsibility report.

CHANGES IN THE GROUP STRUCTURE

UPM-Kymmene Corporation exercised its redemption right under the Pohjolan Voima Articles of Association and acquired the entire stock of shares of Jämsänkosken Voima Oy on 1 July 2005.

Towards the end of the year, Pohjolan Voima sold its regional grid business to the Powest subsidiary PVO-Alueverkot Oy. It took over 127 km of mainly 110 kV lines which connect the power plants to the national grid.

In December, Pohjolan Voima acquired the power plants at the Kemira Oyj production plant in Oulu and Kemira Pigments in Pori. The Oulu power plant was transferred to the new subsidiary incorporated for the purpose, Laanilan Voima Oy, while the Pori power plant went to Porin Prosessivoima Oy. Laanilan Voima provides the Kemira production plants and the City of Oulu with electricity and heat while Porin Prosessivoima supplies energy to Kemira and the City of Pori.

FINANCES

Pohjolan Voima operates at cost. The shareholders pay

the overhead costs in accordance with their ownership share, irrespective of whether they have used the capacity or energy share, as well as the variable costs according to the energy supplied. As a result of this operating principle, it is not relevant to present any financial key indicators to understand the companies' business, financial status or result.

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

The Group's liquidity remained good. Net interest-bearing liabilities at the end of the year stood at EUR 1,632.9 (1,062.7) million. There were no liabilities in foreign currencies involving an exchange risk.

The Group has the following long-term credit ratings:

Pohjolan Voima Oy

Japan Credit Rating Agency	AA
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Teollisuuden Voima Oy

Japan Credit Rating Agency	AA
Standard & Poor's	BBB

For liquidity management, the Group was able to rely on domestic commercial paper programmes of EUR 900 (900) million, of which EUR 306 (789) million was unused. At the end of the year, long-term credit facilities amounted to EUR 3,225 (2,757) million, of which EUR 2,559 (2,577) million was available.

At the end of the year, the Group had an equity-to-assets ratio of 35.9% (43.1%). The deferred tax liability is not included in the figure, as it is not expected to materialise.

Consolidated result was EUR -12.4 (2.7) million. Due to the at-cost-principle followed, the result for the financial year of the subsidiaries is zero. When the changes in the depreciation differences of the subsidiaries were recognised at Group level in the profit or loss for the financial year and in the deferred tax liability, the result for 2005 was a MEUR 18.1 loss. The result for 2004 was improved by smaller deferred tax liabilities as a consequence of the tax rate falling from 29 to 26 percent.

SHAREHOLDERS' EQUITY AND SHARE ISSUES

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

- Increase of share capital tied to series G2 shares (4 April 2005), 84,495 shares at the subscription price of EUR 4,677 million, issue directed to UPM-Kymmene Corporation.
- Increase of share capital tied to series G2 shares (17 November 2005), 51,944 shares at the subscription price of EUR 2,909 million directed to Kemira Oyj, 19,643 shares at the subscription price of EUR 1,100 million directed to the City of Oulu and 23,199 shares at the subscription price of EUR 1,299 million directed to the City of Pori.

SHAREHOLDERS OF POHJOLAN VOIMA (GENERAL SHAREHOLDING)

Shareholder	shareholding in % on 31 December	
	2004	2005
Etelä-Pohjanmaan Voima Oy	7.517	7.519
City of Helsinki	0.832	0.833
Ilmarinen Mutual Pension Insurance Company	4.354	4.355
Kemira Oyj and Pension Foundation Neliapila	2.797	3.082
Kemira GrowHow Oyj and Kemira GrowHow Oyj's Pension Foundation	1.756	1.756
City of Kokkola	2.443	2.443
Kymppivoima Tuotanto Oy	8.721	8.723
Kyro Corporation	0.181	0.182
Oy Metsä-Botnia Ab	1.575	1.575
M-real Corporation	2.865	2.866
Myllykoski Corporation	0.864	0.864
Nordic Energy Oy	0.004	0.004
City of Oulu	1.749	1.807
Outokumpu Oyj	0.016	0.107
Oy Perhonjoki Ab	2.684	2.685
City of Pori	1.159	1.226
Päijät-Hämeen Voima Oy	1.980	1.980
Rautaruukki Oyj	0.016	0.039
Stora Enso Oyj	15.598	15.603
UPM-Kymmene Corporation	42.573	42.035
Vantaan Energia Oy	0.316	0.316

CORPORATE MANAGEMENT

The Annual General Meeting elected the following members to the Board of Directors: Pekka Laaksonen, Senior Executive Vice President of Stora Enso Oyj; Seppo Ruohonen, Managing Director of Helsinki Energy; Heikki Sara, Executive Vice President of UPM-Kymmene Corporation; Sakari Suontaka, CEO of Kymppivoima Tuotanto Oy; Esa Tirkkonen, Deputy CEO of Kemira Oyj; Markku Tynkkynen, Executive Vice President of UPM-Kymmene Corporation; Erkki Varis, President and CEO of Oy Metsä-Botnia Ab; and Rami Vuola, CEO of Etelä-Pohjanmaan Voima Oy.

Heikki Sara was elected Chairman and Pekka Laaksonen Deputy Chairman in the organising meeting of the Board of Directors. The Board of Directors convened 11 (11) times in 2005.

LEGAL ACTIONS PENDING

In 1996 PVO-Vesivoima Oy filed a claim for damages against the Finnish Government for the business loss at the river Iijoki resulting from the enactment of the Rapids Protection Act. The case is now being examined by the Supreme Court.

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

A group of fishers lodged a complaint against the permit of the Raasakka fish farm with the Vaasa Administrative Court. A complaint against the decision on the survey of title act related to fishing rights was also lodged by the same parties with the Land Court.

In April, the Supreme Administrative Court issued its decision in the case concerning the ash disposal site of the PVO-Lämpövoima Oy power plant in Kristiinankaupunki. The Regional Environment Centre demands that the structural requirements for the bottom structure of the landfill should be returned to the form originally decided by the Environment Centre while the complaint by PVO-Lämpövoima regarded the surface structure

and drying layer materials of the site. The Supreme Administrative Court ruled for the Environment Centre, dismissing the appeal by PVO-Lämpövoima Oy.

The gasification plant planned at the Martinlaakso power plant, to be built jointly by Pohjolan Voima, Vapo Oy and Vantaan Energia Oy, obtained the environmental permit towards the end of 2002. The Vaasa Administrative Court reversed the permit decision on 31 December 2003 and returned the matter to the Western Finland Environmental Permit Authority for reconsideration. A complaint against the decision by the Vaasa Administrative Court was lodged with the Supreme Administrative Court which repealed the ruling of the Vaasa Administrative Court in late 2005, deciding that the original conditions of the permit were to take effect.

Verification of the permits of several thermal power plants is underway in accordance with the Environmental Protection Act and Decree, which took effect in 2000. The first decision on the verification of the permit under the new Act was issued in December regarding the Tahkoluoto power plant.

A case is pending at the Helsinki District Court in which Kyro Corporation requests that the directed issue of the series B shares, adopted by Pohjolan Voima's Extraordinary General Meeting of 1 December 2004, be declared null and void.

PREPARATIONS FOR IFRS FINANCIAL STATEMENTS

Pohjolan Voima has not taken any decision about the adoption of the International Financial Reporting Standards (IFRS). The most significant differences in the accounting practices would be the consolidation of Teollisuuden Voima as an associated company and the handling of leasing arrangements, financial instruments, revaluations and interest during construction. Compared with the 2005 Consolidated Financial Statements in accordance with the Finnish accounting standards, the IFRS transition would decrease the Balance Sheet total by EUR 1,460.0 million (957.1) and increase the equity-to-assets ratio to 48.1% (51.4).

SHORT-TERM OUTLOOK

Government gave its Energy and Climate Policy report to Parliament in November. The national energy

and climate strategy focuses on means for Finland to manage its emission control commitment under the Kyoto Protocol, set for the years 2008–2012. According to the scenario-related calculations, the Finnish annual greenhouse gas emissions exceed the allowable carbon dioxide emissions of about 71 million tonnes by approximately 11 million tonnes. According to the strategy outlines, the companies in the emission trading sector must decrease their greenhouse gas emissions by about 8 million tonnes annually to meet the objective.

The energy and climate strategy envisages the allocation of the emission allowances in 2008–2012 with due consideration to the overall efficiency of the power plants. This will probably mean that in the second emission trading round, coal-fired condensing power plants will obtain considerably fewer emission allowances which will make the use of the power plants increasingly difficult. However, condensing power plants are indispensable in view of Finland's security of supply. When there is a good year of rainfalls in the Nordic countries, the use of condensing power plants is minimal. If there is little water available for the production of electricity, as was the case in 2002–2003 with scarce rainfalls, condensing power plants are needed to cover the deficit in power production. Used as safeguards for the peaks in consumption, the operating conditions of the condensing power plants should be maintained.

Porin Prosessivoima is planning for the construction of a new biofuel-fired power plant. The investment decision should be made in 2006. In Oulu, Laanilan Voima seeks to increase its energy production capacity by building a power plant that will utilise local energy wastes.

The Act on real estate taxes was modified so that the upper limit of the real estate tax rate was raised and set at 2.5% for all power plants as of the beginning of 2006. The former tax rate was 1.4%, while a 2.2% rate was applied to nuclear power plants. The higher tax rate will increase the production costs of hydropower, in particular, because most of the structures at hydropower plants are fixed structures included in the taxable value. The increase was about 50% of the proposal made by the working group constituted by officials.

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PROFIT AND LOSS ACCOUNT

EUR 1,000 • 1 JAN - 31 DEC	GROUP		PARENT COMPANY		
	2005	2004	2005	2004	
Turnover	(1)	600 925	666 770	276 691	475 136
Production for own use		16 845	4 664	-	-
Other operating income	(2)	14 294	8 264	4 475	2 135
Raw materials and services	(3)	-324 979	-353 350	-60 904	-233 571
Personnel expenses	(4)	-60 120	-54 276	-6 443	-5 619
Depreciation and reduction in value	(5)	-91 056	-92 799	-1 147	-1 184
Other operating expenses	(6)	-163 527	-179 479	-208 937	-233 026
Operating profit or loss		-7 618	-206	3 735	3 871
Financial income and expenses	(7)	-21 598	-22 889	-3 556	-2 660
Profit or loss before appropriations and taxes		-29 216	-23 095	179	1 211
Appropriations					
Increase (-) or decrease (+) in depreciation difference				1 551	-368
Income taxes	(8)	9 034	22 831	-	-398
Minority interest		7 756	2 930		
Profit or loss for the financial year		-12 426	2 666	1 730	445

BALANCE SHEET

EUR 1,000 • 31 DEC	GROUP		PARENT COMPANY	
	2005	2004	2005	2004
ASSETS				
Non-current assets				
Intangible assets (9)	26 704	25 704	705	821
Tangible assets (10)	2 368 857	1 827 622	2 318	5 761
Investments (11)				
Holdings in Group companies			968 332	865 951
Other investments	411 134	395 651	335 811	310 291
	2 806 695	2 248 977	1 307 166	1 182 824
Current assets				
Inventories (12)	208 554	206 933	-	-
Non-current receivables (13)	37 988	38 492	36 721	36 893
Current receivables (14)	189 319	140 195	58 408	68 881
Securities held as liquid assets (15)	44 947	-	-	-
Cash in hand and at banks	23 728	29 672	20 373	17 633
	504 536	415 292	115 502	123 407
	3 311 231	2 664 269	1 422 668	1 306 231
EQUITY AND LIABILITIES				
Shareholders' equity (16)				
Share capital	57 675	57 948	57 675	57 948
Share issue	8 546	4 777	8 546	4 777
Share premium	379 278	387 925	375 809	384 455
Contingency reserve	547	547	547	547
Revaluation reserve	218 644	218 644	218 644	218 644
Retained earnings	144 475	141 769	37 272	36 786
Profit or loss for the financial year	-12 426	2 706	1 730	485
	796 739	814 316	700 223	703 642
MINORITY INTEREST	279 807	212 381		
Accumulated appropriations				
Depreciation difference			1 562	3 113
Liabilities				
Deferred tax liability (17)	109 856	118 916		
Non-current liabilities (18)	1 372 616	1 213 681	397 817	438 878
Current liabilities (19)	752 213	304 975	323 066	160 598
	2 234 684	1 637 572	720 883	599 476
	3 311 231	2 664 269	1 422 668	1 306 231

CASH FLOW STATEMENT

EUR 1,000 • 31 DEC	GROUP		PARENT COMPANY	
	2005	2004	2005	2004
Cash flow from operating activities				
Operating profit or loss	-7 619	-206	3 735	3 871
Adjustments to operating profit or loss ¹⁾	77 682	80 118	-1 420	946
Change in net working capital ²⁾	-11 596	-3 551	4 127	-9 097
Interests paid	-30 227	-34 163	-12 112	-15 338
Interests received	7 207	17 504	9 405	8 812
Dividends received	1 945	2 892	1 665	1 778
Other financial items	-2 918	-1 387	-1 091	-1 228
Income taxes	-19	-3 274	0	-3 187
Net cash flow from operating activities	34 456	57 933	4 309	-13 443
Cash flow from investing activities				
Acquisition of subsidiaries	-	-574	-59 062	-21 290
Acquisition of other shares	-134	-4 361	-25	-
Investments in tangible and intangible assets	-704 947	-416 156	-923	-419
Demerged subsidiaries	-2 532	159	3	-
Divestment of shares	169	263	20	-
Proceeds from sales of tangible and intangible assets	2 659	1 498	260	385
Increase (-) or decrease (+) in loan receivables	-8 808	-9 972	-25 500	-107 195
Net cash flow from investing activities	-713 592	-429 143	-85 227	-128 519
Cash flow from financing activities				
Withdrawals of non-current loans	435 234	340 005	62 307	113 458
Repayment of non-current loans	-284 570	-140 725	-103 367	-63 367
Increase (-) or decrease (+) in interest-bearing receivables	-29 506	15 875	6 694	20 180
Increase (+) or decrease (-) in current interest-bearing liabilities	503 717	66 784	108 039	-74 835
Share issue	48 316	99 358	9 985	92 186
Net cash flow from financing activities	673 192	381 297	83 658	87 622
Net change in cash and cash equivalents	-5 945	10 087	2 740	-54 340
Cash and cash equivalents on 1 Jan	29 672	19 585	17 633	2 913
Cash and cash equivalents received in merger	-	-	-	69 060
Cash and cash equivalents on 31 Dec	23 727	29 672	20 373	17 633
1) Adjustments to operating profit or loss				
Depreciation and impairment	91 056	92 799	1 147	1 184
Gains (-) or losses (+) from the sale of non-current assets	-3 281	-1 156	-2 658	-238
Share of associated companies' profits or losses	-10 348	-11 525	-	-
Decrease of value in ongoing investments	255	-	91	-
	77 682	80 118	-1 420	946
2) Change in working capital				
Increase (-) or decrease (+) in inventories	-1 621	-3 700	0	6 076
Increase (-) or decrease (+) in non-interest-bearing receivables	-10 404	3 692	10 065	-10 052
Increase (+) or decrease (-) in current non-interest-bearing liabilities	429	-3 543	-5 938	-5 121
	-11 596	-3 551	4 127	-9 097

ACCOUNTING POLICIES

CONSOLIDATION PRINCIPLES

The consolidated Financial Statements include, in addition to the Parent Company, the companies in which the Parent Company holds more than half of the voting rights, either directly or indirectly, or companies over which it otherwise exercises a dominant influence as prescribed in Chapter 1(3) of the Companies Act.

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

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

ACCOUNTING PRINCIPLES APPLIED FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Mutual shareholdings

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

Inter-company transactions and margins

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

Minority interest

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

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

Voluntary provisions

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

Associated companies

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

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

ITEMS IN FOREIGN CURRENCIES

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

NON-CURRENT ASSETS

Non-current assets have been recognised in the Balance Sheet at their original acquisition cost less the depreci-

ation according to plan. Revaluation has been made on hydropower buildings and dam structures, and these are included in the Balance Sheet values.

Depreciation according to plan has been calculated according to the expected useful life. Useful life has been defined as follows:

- hydropower plants 40 to 80 years
- nuclear power plants 10 to 41 years
- condensing power plants 25 years
- CHP power plants 4 to 33 years
- wind power plants 10 to 20 years
- transmission lines 30 years
- other non-current assets 3 to 40 years

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

INVENTORIES

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

TURNOVER

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

PENSION ARRANGEMENTS

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

INCOME TAXES

The estimated taxes corresponding to the results of Group companies for the financial year, adjustments to taxes in previous financial years, and the change in

deferred tax liability are all entered as taxes. Deferred tax liability is calculated using the confirmed tax rate on the closing date.

EMISSION ALLOWANCES

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

HANDLING OF DERIVATIVES

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

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

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

NOTES TO THE PROFIT AND LOSS ACCOUNT

EUR 1,000	GROUP		PARENT COMPANY	
	2005	2004	2005	2004
(1) Turnover				
Sales of electricity produced	289 995	496 947	208 956	400 761
Sales of heat produced	81 820	81 279	62 296	60 919
Other sales	229 110	88 544	5 439	13 456
	600 925	666 770	276 691	475 136
(2) Other operating income				
Capital gains from sale of non-current asset items	3 328	1 279	2 693	238
Rental income	2 778	2 460	1 051	1 478
Other income	3 937	1 963	731	419
Electricity production subsidies	4 251	2 562	-	-
	14 294	8 264	4 475	2 135
(3) Total materials and services				
Fuels	119 249	204 605	-	11 373
Other raw materials, supplies and consumables	179 785	126 724	60 411	208 264
Purchases during the financial year	299 034	331 329	60 411	219 637
Change in inventories	-1 121	-11 280	-	6 076
External services	27 066	33 301	493	7 858
	324 979	353 350	60 904	233 571

EMISSION ALLOWANCES IN 2005

As a rule, the emission allowances held by the Pohjolan Voima Group companies on 31 December 2005 corresponded to the annual CO₂ emissions, or exceeded them. If the materialised emissions exceed the emission allowances held by the company, the company has recognised the tonnes in excess as an expense at the market price quoted on the closing date.

	CO ₂ , TONNES	EUR 1,000
Emission allowances obtained without consideration	4 192 428	
Annual emissions	1 290 850	
Emission allowances held	1 385 140	
Emission allowances sold	2 835 327	57 409 ¹⁾
Emission allowances purchased	28 040	606 ²⁾

¹⁾ Emission allowances sold are included under Net sales, Other sales, and they have been taken into consideration in determining the at-cost price. (Sales of electricity and heat produced).

²⁾ Emission allowances purchased are recognised under Immaterial rights in the Balance Sheet.

(4) Personnel expenses

Salaries and fees				
Board Members and CEO	1 478	1 349	552	539
Other salaries and wages	46 130	41 009	4 212	3 857
	47 608	42 358	4 764	4 396
Pension expenses	8 254	8 279	1 231	941
Other personnel-related costs	4 258	3 639	448	282
	12 512	11 918	1 679	1 223
Total personnel expenses	60 120	54 276	6 443	5 619
Average number of personnel				
Salaried employees	724	656	68	67
Wage-earners	214	217	5	5
Total	938	873	73	72

The retirement age of the Group company Presidents and certain other management members is 62 years according to agreements made with them.

EUR 1,000	GROUP		PARENT COMPANY	
	2005	2004	2005	2004
(5) Depreciation				
Planned depreciation				
Intangible rights	138	138	-	-
Other capitalised long-term expenses	2 869	2 562	205	207
Buildings and constructions	13 336	11 314	46	45
Machinery and equipment	68 370	76 963	449	485
Other tangible assets	2 322	1 765	-	-
Goodwill	57	57	-	-
Reduction in value of the goods in non-current assets	3 964	-	-	-
Investments	-	-	447	447
	91 056	92 799	1 147	1 184
(6) Other operating expenses				
Purchases of energy	28 450	55 036	201 754	225 344
Share of associated companies' profits or losses	-10 348	-11 525	-	-
Repair, servicing and maintenance services	25 213	26 155	329	369
Rents	16 691	11 161	1 856	1 852
Real estate taxes	5 972	5 816	58	56
Other	97 549	92 836	4 940	5 405
	163 527	179 479	208 937	233 026
(7) Financing income and expenses				
Dividend income				
From associated companies	-	-	1 664	2 343
From others	281	1 731	1	161
	281	1 731	1 665	2 504
Interest income from non-current investments				
From Group companies	-	-	7 174	7 169
From associated companies	1 008	1 008	1 008	1 008
From others	5 740	4 965	-	-
	6 748	5 973	8 182	8 177
Other interest and financial income				
From Group companies	-	-	656	135
From associated companies	383	19	383	19
From others	797	1 112	267	513
	1 180	1 131	1 306	667
Total interest and financial income	7 928	7 104	9 488	8 844
Reduction in value of the investments in non-current assets	-	-	-	-4
Interest and other financial expenses				
To Group companies	-	-	-7 486	-6 736
To associated companies	-13	-35	-13	-34
To others	-29 794	-31 689	-7 210	-7 234
	-29 807	-31 724	-14 709	-14 004
Total financial income and expenses	-21 598	-22 889	-3 556	-2 660
Net exchange change gains included in Other interest and financial income	39	-227	45	-222
(8) Income taxes				
Taxes for the financial year	26	170	-	399
Taxes for the previous financial years	-	-1	-	-1
Change in deferred tax liability	-9 060	-23 000	-	-
	-9 034	-22 831	0	398

NOTES TO THE BALANCE SHEET

(9) Intangible assets

EUR 1,000	Intangible rights	Other capitalised expenses	Prepayments	Goodwill	Total
Group					
Acquisition cost on 1 Jan	1 275	57 696	931	534	60 436
Increases	654	3 987	1 963	-	6 604
Decreases	-10	-1 255	-2 458	-	-3 723
Acquisition cost on 31 Dec	1 919	60 428	436	534	63 317
Accumulated depreciation on 1 Jan	-386	-34 202	-	-144	-34 732
Accumulated depreciation on decreases	-	1 183	-	-	1 183
Depreciation during the financial year	-139	-2 869	-	-57	-3 065
Accumulated depreciation on 31 Dec	-525	-35 888	-	-201	-36 614
Book value on 31 Dec 2005	1 394	24 540	436	333	26 704
Book value on 31 Dec 2004	889	23 494	931	390	25 704
Subsidies decreasing the acquisition cost					29
Parent Company					
Acquisition cost on 1 Jan	11	2 855	-	-	2 866
Increases	22	139	-	-	161
Decreases	-	-1 227	-	-	-1 227
Acquisition cost on 31 Dec	33	1 767	-	-	1 799
Accumulated depreciation on 1 Jan	-	-2 045	-	-	-2 045
Accumulated depreciation on decreases	-	1 155	-	-	1 155
Depreciation during the financial year	-	-205	-	-	-205
Accumulated depreciation on 31 Dec	-	-1 095	-	-	-1 095
Book value on 31 Dec 2005	33	672	-	-	705
Book value on 31 Dec 2004	11	810	-	-	821

Emission allowances on 31 Dec 2005: Intangible rights include emission allowance assets totalling EUR 606 thousand recorded in the Group accounts. The combined value of the off Balance Sheet emission allowance assets at the Group's disposal is EUR 1,641 thousand (77,941 tonnes of CO₂)

(10) Tangible assets

Group	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Pre-payments	Total
Acquisition cost on 1 Jan	43 281	425 457	1 869 351	277 982	373 929	2 990 000
Increases	1 453	30 973	93 318	6 898	633 624	766 266
Decreases	-53	-13 997	-86 434	-1 622	-66 689	-168 795
Acquisition cost on 31 Dec	44 681	442 433	1 876 235	283 258	940 864	3 587 471
Accumulated depreciation on 1 Jan	-	-163 502	-975 653	-23 223	-	-1 162 378
Accumulated depreciation on decreases	-	2 205	29 410	141	-	31 756
Depreciation during the financial year	-	-13 336	-72 335	-2 322	-	-87 993
Accumulated depreciation on 31 Dec	-	-174 633	-1 018 578	-25 404	-	-1 218 615
Book value on 31 Dec 2005	44 681	267 800	857 657	257 854	940 864	2 368 856
Book value on 31 Dec 2004	43 281	261 956	893 698	254 758	373 929	1 827 623
Revaluations included in acquisition cost on 31 Dec		66 296		198 849		
Production machinery and equipment on 31 Dec			805 369			
Subsidies decreasing the acquisition cost						12 437

Capitalised interests during construction

EUR 1,000	Other capitalised expenses	Buildings and constructions	Machinery and equipment	Other tangible assets	Pre-payments	Total
Group						
Acquisition cost on 1 Jan	3 530	31 503	114 325	2 609	26 043	178 010
Increases	-	-	-	-	24 749	24 749
Decreases	-	-	-	-	-	-
Acquisition cost on 31 Dec	3 530	31 503	114 325	2 609	50 792	202 759
Accumulated depreciation on 1 Jan	-1 752	-18 383	-66 155	-1 556	-	-87 846
Depreciation during the financial year	-123	-859	-3 177	-67	-	-4 226
Accumulated depreciation on 31 Dec	-1 875	-19 242	-69 332	-1 623	-	-92 072
Book value on 31 Dec 2005	1 655	12 261	44 993	986	50 792	110 687
Book value on 31 Dec 2004	1 778	13 120	48 170	1 053	26 043	90 164

(10) Tangible assets

Parent Company	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Pre-payments	Total
Acquisition cost on 1 Jan	198	1 566	9 492	-	91	11 347
Increases	-	141	261	6	-	408
Decreases	-	-769	-6 102	-	-91	-6 962
Acquisition cost on 31 Dec	198	938	3 651	6	0	4 793
Accumulated depreciation on 1 Jan	-	-1 023	-4 563	-	-	-5 586
Accumulated depreciation on decreases	-	595	3 010	-	-	3 605
Depreciation during the financial year	-	-46	-449	-	-	-495
Accumulated depreciation on 31 Dec	-	-474	-2 002	-	-	-2 476
Book value on 31 Dec 2005	198	464	1 649	6	0	2 317
Book value on 31 Dec 2004	198	543	4 929	-	91	5 761
Production machinery and equipment on 31 Dec			1 090			

NOTES TO THE BALANCE SHEET

(11) Investments

EUR 1,000	Investments in associated companies	Other shares and holdings	Other receivables	Total
Group				
Acquisition cost on 1 Jan	98 186	42 986	254 480	395 652
Increases	10 348	133	9 368	19 849
Decreases	-3 709	-97	-560	-4 366
Acquisition cost on 31 Dec	104 825	43 022	263 288	411 135
Book value on 31 Dec 2005	104 825	43 022	263 288	411 135
Book value on 31 Dec 2004	98 186	42 986	254 480	395 652

EUR 1,000	Holdings in Group companies	Receivables from Group companies	Holdings in associated companies	Other shares and participations	Total
Parent Company					
Acquisition cost on 1 Jan	865 951	256 354	48 839	5 098	1 176 242
Increases	117 967	33 000	-	25	150 992
Decreases	-15 586	-7 500	-	-5	-23 091
Acquisition cost on 31 Dec	968 332	281 854	48 839	5 118	1 304 143
Book value on 31 Dec 2005	968 332	281 854	48 839	5 118	1 304 143
Book value on 31 Dec 2004	865 951	256 354	48 839	5 098	1 176 242
Revaluations included in acquisition cost on 31 Dec	265 145				

EUR 1,000	GROUP		PARENT COMPANY	
	2005	2004	2005	2004

(12) Inventories

Materials and supplies	122 215	123 602	-	-
Fuels	86 339	83 331	-	-
	208 554	206 933	-	-
Fuels (coal + unrefined uranium)				
Reacquisition price	123 560	105 330	-	-
Book value	-86 339	-83 331	-	-
Difference	37 221	21 999	-	-

(13) Non-current receivables

Loans receivable	4 113	4 424	3 083	3 255
Capital loan receivables	33 638	33 638	33 638	33 638
Non-current other receivables	237	430	-	-
	37 988	38 492	36 721	36 893
Receivables from Group companies				
Capital loan receivables			1	1
Receivables from associated companies				
Loans receivable	3 069	3 236	3 069	3 236
Capital loan receivables	33 638	33 638	33 638	33 638
	36 707	36 874	36 707	36 874

EUR 1,000	GROUP		PARENT COMPANY	
	2005	2004	2005	2004
(14) Current receivables				
Trade receivables	49 289	64 754	19 585	46 354
Loans receivable	5 000	11 500	5 000	11 500
Share issue receivables	71 304	32 411	-	-
Accrued income	42 347	13 337	18 267	10 880
Other receivables *)	21 379	18 193	15 556	147
	189 319	140 195	58 408	68 881
Receivables from Group companies				
Trade receivables			1 218	1 124
Accrued income			7 710	8 323
Other receivables			2 816	-
			11 744	9 447
Receivables from associated companies				
Trade receivables	428	601	222	77
Loans receivable	5 000	11 500	5 000	11 500
Accrued income	2 545	3	1 917	3
Other receivables	-	-	-	-
	7 973	12 104	7 139	11 580
Material items included in current accrued income				
Personnel expenses allocated to financial year	131	154	-	-
Interest income allocated to financial year	6 014	5 025	611	573
Interest expenses allocated to financial year	9 392	308	-	-
Income taxes allocated to financial year	328	337	327	334
Indirect taxes allocated to financial year	1 176	-	-	-
Other	25 306	7 513	17 329	9 973
	42 347	13 337	18 267	10 880
*) Other receivables include Group account receivables of associated and other companies				
	509	8 947		
Interest bearing receivables				
Non-current assets	263 124	254 316	281 854	256 354
Current assets	111 796	88 615	62 094	66 026
	374 920	342 931	343 948	322 380
(15) Securities included in financial assets				
Units in investment funds with short-term interests				
Reacquisition price	40 452	-	-	-
Book value	40 000	-	-	-
Difference	452	-	-	-
Certificates of deposit				
	4 947	-	-	-
	44 947	-	-	-

NOTES TO THE BALANCE SHEET

EUR 1,000	GROUP		PARENT COMPANY	
	2005	2004	2005	2004
(16) Shareholders' equity				
Share capital on 1 Jan	57 948	55 302	57 948	55 302
Invalidation in series of shares	-460	0	-460	0
Transfer from share issues	187	2 646	187	2 646
Share capital on 31 Dec	57 675	57 948	57 675	57 948
Share issue on 1 Jan	4 777	78 999	4 777	78 999
Transfer to share capital	-187	-2 646	-187	-2 646
Transfer to premium fund	-6 029	-85 323	-6 029	-85 323
Share issues during financial year	9 985	13 747	9 985	13 747
Share issue on 31 Dec	8 546	4 777	8 546	4 777
Share premium fund on 1 Jan	387 925	302 602	384 455	299 132
Invalidation in series of shares	-14 676	-	-14 676	-
Emission gain in share issues	6 029	85 323	6 029	85 323
Share premium fund on 31 Dec	379 278	387 925	375 809	384 455
Contingency reserve on 1 Jan	547	547	547	547
Contingency reserve on 31 Dec	547	547	547	547
Revaluation reserve on 1 Jan	218 644	218 644	218 644	218 644
Revaluation reserve on 31 Dec	218 644	218 644	218 644	218 644
Retained earnings on 1 Jan	144 475	141 787	37 272	36 804
Recognition of expenses for previous financial years	-	-18	-	-18
Retained earnings on 31 Dec	144 475	141 769	37 272	36 786
Profit or loss for the financial year	-12 426	2 666	1 730	445
Adjustments to the profit or loss for the year	-	40	-	40
	-12 426	2 706	1 730	485
Shareholders' equity total	796 739	814 316	700 223	703 642
Distributable funds on 31 Dec				
Retained earnings	144 475	141 787	37 272	36 804
Profit or loss for the financial year	-12 426	2 666	1 730	445
- Share of depreciation difference recognised under Shareholders' equity	-94 627	-112 681	-	-
	37 422	31 772	39 002	37 249

SHARE CAPITAL BY SERIES OF SHARES	NUMBER	EUR 1,000
Series A - entitling the holder to obtain electricity produced or supplied by PVO-Vesivoima Oy	13 350 077	22 453
Series B - some of the shares entitle the holder to obtain 56.8% of the electricity supplied or produced by Teollisuuden Voima Oy's Olkiluoto 1 and 2 units or coal while other shares entitle the holder to obtain 60.2% of the electricity supplied or produced by Teollisuuden Voima Oy's Olkiluoto 3 unit once it is completed.	8 979 713	15 103
Series C - entitling the holder to obtain electricity produced or supplied by PVO-Lämpövoima Oy	7 107 592	11 954
Series D2 - entitling the holder to obtain electricity and heat produced by Wisapower Oy	661 300	1 112
Series E1 - entitling the holder to obtain electricity and heat produced by Mussalon Kaukolämpö Oy	229 741	386
Series G - entitling the holder to obtain 49.9% of the electricity and heat produced by Oy Alholmens Kraft Ab	354 290	596
Series G2 - some of the shares entitle the holder to obtain 76.0% of the electricity and heat produced by Kymin Voima Oy, some entitle the holder to obtain 72.0% of the electricity and heat produced by Rauman Voima Oy, some by Laanilan Voima Oy and some by Porin Prosessivoima Oy	264 216	444
Series G3 - entitling the holder to obtain 50.0% of the electricity and heat produced by Järvi-Suomen Voima Oy	115 850	195
Series H - entitling the holder to obtain electricity and heat produced by PVO-Huippuvoima Oy	500 000	841
Series I - entitling the holder to obtain 67.8% of the electricity and heat produced by PVO-Innopower Oy	20 520	35
Series K1 - entitling the holder to obtain electricity and heat produced or supplied by Kokkolan Voima Oy	130 000	219
Series K2 - entitling the holder to obtain electricity or heat produced or supplied by Vieskan Voima Oy	25 178	42
Series N - entitling the holder to obtain 80.1% of the electricity and heat produced by Nokian Lämpövoima Oy	1 506 938	2 534
Series V - entitling the holder to obtain 50.0% of the electricity and heat produced by Vaskiluodon Voima Oy	1 046 823	1 761
		57 675

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

NOTES TO THE BALANCE SHEET

EUR 1,000	GROUP		PARENT COMPANY	
	2005	2004	2005	2004
(17) Deferred tax liability				
Deferred tax liability				
Of appropriations	109 856	118 916		
(18) Non-current liabilities				
Loans from credit institutions	698 904	562 457	56 346	109 713
Other non-current liabilities	673 712	651 224	341 471	329 165
	1 372 616	1 213 681	397 817	438 878
Amounts owed to Group companies				
Other non-current liabilities			341 471	329 164
Debts with the maturity after five years or later				
Loans from credit institutions	374 050	175 980	50 000	-
Other non-current debts	78 221	80 474	-	-
	452 271	256 454	50 000	-

EUR 1,000	GROUP		PARENT COMPANY	
	2005	2004	2005	2004
(19) Current liabilities				
Bonds	30 000	60 000	-	-
Loans from credit institutions	16 132	20 482	3 367	3 367
Pension loans	-	1 635	-	-
Prepayments received	5 716	5 693	-	-
Trade payables	42 833	49 065	33 561	43 308
Accruals and deferred income	61 753	49 912	119 917	60 506
Other current liabilities	595 779	118 188	166 221	53 417
	752 213	304 975	323 066	160 598
To Group companies				
Trade payables			26 822	32 908
Accruals and deferred liabilities			115 276	55 519
Other current liabilities			8 579	-
			150 677	88 427
To associated companies				
Trade payables	1 615	8 240	1 321	7 931
Accruals and deferred liabilities	137	72	71	-
Other	-	9	-	-
	1 752	8 321	1 392	7 931
Items with material importance included in accruals and deferred liabilities				
Personnel expenses allocated to financial year	11 664	11 203	861	751
Interest expenses allocated to financial year	19 765	13 913	7 955	6 494
Income taxes allocated to financial year	2	-	-	-
Indirect taxes allocated to financial year	56	375	-	-
Other	30 266	24 421	111 101	53 261
	61 753	49 912	119 917	60 506
Non-interest-bearing and interest-bearing liabilities				
Non-current				
Interest-bearing	1 372 616	1 213 681	397 817	438 878
	1 372 616	1 213 681	397 817	438 878
Current				
Non-interest bearing	116 984	113 067	162 470	108 042
Interest-bearing	635 229	191 908	160 596	52 556
	752 213	304 975	323 066	160 598

NOTES TO THE BALANCE SHEET

EUR 1,000	GROUP		PARENT COMPANY	
	2005	2004	2005	2004
(20) Contingent liabilities				
Mortgages				
As security for own debt	11 773	13 455	-	-
Pledged deposits				
As security for own liabilities	7 467	-	716	-
Guarantees				
Guarantees for loans				
On behalf of associated companies	99 533	102 773	99 495	102 732
Other guarantees				
As security for own liabilities	505	2 434	505	505
For Group companies	-	-	27 081	28 547
	100 037	105 207	127 081	131 783
Leasing liabilities				
Payments in 2006/2005	14 314	10 014	18	-
Payments in the following years	214 993	210 608	23	-
	229 307	220 622	42	0
Rental liabilities				
	7 962	-	-	-
Other liabilities				
	826 600	792 700	-	-
Nuclear waste management liabilities				
Quantification of the nuclear waste management liability	826 600	792 700		
Assets in the State Nuclear Waste Management Fund (2 April)	826 600	792 700		
Guarantee under Section 44 of the Nuclear Energy Act	75 310	84 080	42 774	47 755
Nuclear waste management receivables pledged to the State Nuclear Waste Management Fund	256 554	247 186		

As part of the decision to invest in Teollisuuden Voima's OL3 nuclear plant unit, Pohjolan Voima Oy has a commitment to invest EUR 432.0 million in 2004-2009 and to give a shareholder loan of EUR 108.0 million. By 31 December 2005, Pohjolan Voima Oy had paid out EUR 274.9 million of its commitment.

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

(21) Derivative contracts

Capital values and market values of derivative contracts providing a hedge against exchange rate and interest risks were as follows:

Interest derivatives

Option contracts

Purchased (nominal value)	1 370 000	1 220 000	-	-
Market value	-3 217	-3 464	-	-
Placed (nominal value)	1 320 000	1 140 000	-	-
Market value	-3 082	-2 997	-	-
Interest swap contract (nominal value)	593 638	348 638	113 638	133 638
Market value	821	-5 542	-910	-3 273

Currency derivatives

Forward contracts (nominal value)	153 220	46 546	-	-
Market value	3 062	-5 137	-	-

Financing risks

The objectives and risks of financing operations have been defined in the financing policy, adopted by the Board of Directors. The refinancing risk is managed through diversified sources of financing, sufficiently long maturity of loans and a balanced schedule of maturity. Agreements on the maturity and refinancing of long-term credits are made so that a maximum of 25% of the outstanding credits will fall due within the next 12 months. The loan currency is euro. If loans are taken out in other currencies, the currency risk is eliminated by means of derivative contracts. The currency risks included in the raw-material purchased paid in foreign currencies are managed through currency derivatives. The interest rate risk is monitored by means of duration, which indicates the sensitivity of the loan portfolio to changes in the interest rate level. The Group maintains a certain amount of liquid assets, credit limit arrangements and commercial paper programmes to reduce the liquidity risk. Free liquidity is invested in financial instruments issued by companies specified in the financing policy that can be liquidated quickly, if necessary.

INFORMATION REQUIRED BY SECTION 32 OF THE ELECTRICITY MARKET ACT ON POHJOLAN VOIMA OY

GRID OPERATIONS

Grid business comprises Pohjolan Voima Oy's regional grid operations. On 31 December 2005 the company sold its regional grid operations to PVO-Alueverkot Oy. The impacts of the transaction are not taken into consideration in the Profit and Loss Account.

Allocation of joint items

Joint cost items have been allocated in accordance with the matching principle. The capital structure of the Balance Sheet is derived from the equity-to-assets ratio requirements imposed by Pohjolan Voima on Group companies.

Valuation of non-current assets

Non-current assets have been valued according to the valuation principles used by the Group.

Return on investment

Return on investment was 6.0% (12.2%). ROI% =

$$100 \times \frac{\text{profit before extraordinary items} + \text{financial income and expenses}}{\text{capital invested (average for the year)}}$$

Personnel

Grid operations employed one person on average. The necessary maintenance services and a number of administrative services were purchased from outside.

Investments

A total of EUR 363 thousand was invested in the grid.

BALANCE SHEET

EUR 1,000 • 31 DEC	2005	2004
ASSETS		
Non-current assets		
Intangible assets		
Other capitalised expenses	33	172
Tangible assets		
Grid	1 090	4 368
	1 123	4 540
Current assets		
Current receivables		
Trade receivables	393	343
Cash in hand and at banks	12 986	11 015
	13 379	11 358
	14 502	15 898

PROFIT AND LOSS ACCOUNT

EUR 1,000 • 1 JAN – 31 DEC	2005	2004
Turnover	2 036	3 460
Other operating income	50	62
Raw materials and services	-580	-1 278
Personnel expenses	-184	-145
Depreciation and reduction in value	-308	-321
Other operating expenses	-449	-369
Operating profit or loss	565	1 409
Financial income and expenses	292	311
Profit or loss before appropriations and taxes	857	1 720
Appropriations		
Change in depreciation difference	-144	-281
Income taxes	-186	-418
Profit or loss for the financial year	527	1 021

EUR 1,000 • 31 DEC	2005	2004
EQUITY AND LIABILITIES		
Shareholders' equity		
Calculated equity	2 838	2 838
Retained earnings	9 774	8 753
Profit or loss for the financial year	527	1 021
	13 139	12 612
Accumulated appropriations		
Depreciation difference	1 090	2 841
Liabilities		
Current		
Trade payables	87	28
Accruals and deferred liabilities	186	417
	273	445
	14 502	15 898

PROPOSAL OF THE BOARD OF DIRECTORS REGARDING THE RESULT FOR THE FINANCIAL YEAR AND AUDITOR'S REPORT

PROPOSAL OF THE BOARD OF DIRECTORS

REGARDING THE RESULT FOR THE FINANCIAL YEAR

The Group's distributable assets are EUR 37,422,019.36.

The Profit and Loss Account of the Parent Company Pohjolan Voima shows a profit of EUR 1,730,397.89, after which its distributable assets amount to EUR 39,001,528.71.

The Board proposes to the Annual General Meeting that the profit be transferred in the retained earnings and that no dividends be distributed.

Helsinki, 17 February 2006

Heikki Sara Pekka Laaksonen Seppo Ruohonen
Chairman Deputy Chairman

Sakari Suontaka Esa Tirkkonen Markku Tynkkynen

Erkki Varis Rami Vuola

Timo Rajala
President and CEO

AUDITOR'S REPORT

To the shareholders of Pohjolan Voima Oy.

We have audited the accounting records, the Financial Statements, the Annual Report by the Board of Directors and the administration of Pohjolan Voima Oy for the period 1.1.–31.12.2005. The Board of Directors and the Managing Director have prepared the Report by the Board of Directors and the Financial Statements, which include the consolidated and parent company Balance Sheets, Profit and Loss Accounts, Cash Flow Statements and Notes to the Financial Statements. Based on our audit we express an opinion on these Financial Statements, on the Report by the Board of Directors and on administration of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the Financial Statements and the Report by the Board of Directors are free of material misstatement. The purpose of our audit of administration is to examine that the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies Act.

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

We have examined the separate Profit and Loss Account and the Balance Sheet on grid operations, and the related additional information presented in the Notes to the Financial Statements. In our opinion they have been drawn up in accordance with the Electricity Market Act, and legislation and regulations based on it.

Helsinki March 8, 2006

PricewaterhouseCoopers Oy
Authorised Public Accountants

Eero Suomela
Authorised Public Accountant

GLOSSARY

Acidification

Acidification is caused by the emissions of sulphur dioxide, nitrogen oxides and ammonia, which, when released into the air, react with water vapour to form sulphuric and nitric acid.

Area price

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

Biofuel

Produced from biomass, biofuels are fuels used in power plants or motors.

Biomass

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

Black liquor

The mixture of the material containing plenty of lignin dissolved from wood during the pulp-cooking process and of the pulping chemicals, which is recovered in the pulp-washing phase, concentrated at the evaporating plant and burnt in the recovery burner to recover the chemicals and generate energy. About half the dry mass of wood dissolves in black liquor during the pulp cooking.

Bottom ash

By-product produced from the burning of coal. Bottom ash can be utilised for earthworks.

Certification

Verification of e.g. an environmental management system to fulfil the requirements of a standard.

Climate change

Climate change is deemed to be caused by direct or indirect human activity. It alters the composition and physicochemical processes of the atmosphere which affect, for example, the temperature and precipitation conditions of the earth.

Combined heat and power production CHP

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

Condenser

The steam from the turbine is condensed into water in the condenser.

Condensing power production

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

Deposition

Deposition is the mass of substances deposited at a certain time on the ground per unit area.

Efficiency

In the generation of thermal power, efficiency refers to the proportion of the total energy contained in fuels that becomes available in the form of electricity and heat.

Electricity exchange

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

Electrostatic precipitator

Air pollution control equipment installed to remove particles, for example fly ash, from the flue gas. The removal of particles is based on electrostatic forces.

Elspot trading

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

Emission trading

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

Fly ash

By-product produced from the use of solid fuels. Fly ash can be utilised for earth works, in the manufacture of asphalt and cement, and as mine-filling material.

Fossil fuel

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

Hydropower production

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

Kyoto Protocol

The Kyoto Protocol obliges industrial countries to reduce their emissions of six greenhouse gases. The Protocol includes binding emission reduction commitments for 2008–2012. The Protocol, which was adopted in 1997, entered into force on 16 February 2005. The United States and Australia have announced their withdrawal from the Protocol.

Logging residue

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

Low-NO_x technology

The means of reducing nitrogen oxides in combustion include low-NO_x burners, the staging of combustion air and fuel feeding, and the reduction in temperature.

MW or megawatt

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

National grid

The national grid is the national high-voltage electricity transmission network, which includes the 400 and 220 kilovolt (kV) lines and the most important 110 kV lines as well as substations. The Finnish national grid is owned by Fingrid Oyj.

NO_x or nitrogen oxides

Nitrogen oxides originate from nitrogen contained in fuels and in the combustion air.

Nuclear power production

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

Particles

Particles are generally divided into TPS and PM10. TSP includes all particles contained in the air, while PM10 refers to particles with a diameter of less than PM10 micrometres. In urban areas, particles mainly originate from vehicle traffic.

Power grid

A system of power lines, substations and other necessary electrical equipment connected to each other, which is intended for the distribution and transmission of electricity. The power grid is divided into the national grid, regional grids and distribution networks.

Reed canary grass

Reed canary grass is an energy crop, a perennial grass. The first crop can be harvested two years after sowing. From the perspective of food production, a field in reed canary grass cultivation is in reserve.

Refuse-derived fuel

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

Regional grid

A regional high-voltage grid of 110 kilovolts (kV). Combines the power plants through the power stations to the 400 kV national grid.

Regulation

The changing of water flow by continuous measures in such a way that the flow rate and water level correspond with the objectives set for the use of the watercourse.

Renewable energy sources

E.g. water, solar and wind energy, bioenergy, geothermal energy, wave energy and tidal power.

SO₂ or sulphur dioxide

Sulphur dioxide is produced when the sulphur contained in the fuel reacts with the oxygen contained in the combustion air. Sulphur dioxide is a water-soluble and colourless gas, which further oxidises in outdoor air to become, for example, sulphuric acid.

Specific emissions

The volume of emissions calculated per energy unit produced (mg/kWh) or consumed (mg/MJ).

System price

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

Systems responsibility

“A grid operator under the systems responsibility shall ...maintain, operate and develop its electricity system and other equipment needed for fulfilling the systems responsibility and the connection to other systems, so that the prerequisites for an efficiently functioning electricity market can be ensured.” *Electricity Market Act, Chapter 4*

TWh or terawatt-hour

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

V or volt

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

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