

Annual Report 2005



Koivuniemen Puutarha, a leading commercial rose grower in Finland, is Fortum's electricity customer.

Tapio Aronen (left), Koivuniemen Puutarha
Tor Manngård, Fortum

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Fortum's Annual Report 2005 consists of two separate volumes: the Review of Operations and the Financials. Sustainable development is reported in the Review of Operations.

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Investor information

Annual General Meeting

The Annual General Meeting (AGM) of Fortum Corporation will be held on Thursday, 16 March 2006, at 1:00 pm, at Finlandia Hall, Mannerheimintie 13 e, Helsinki. Registration of shareholders who have notified the Company of their attendance will begin at 11:45 am.

A shareholder who wishes to attend the AGM must give a prior notice to Fortum. The notice to attend may be given through Fortum's website at www.fortum.com/aggm, by telephone at +358 10 452 9460, by fax at +358 10 262 2727 or by mail to Fortum Corporation, Rita Lagerstedt, POB 1, 00048 FORTUM, Finland. The notice and any powers of attorney must arrive by 4:00 pm (Finnish time), 13 March 2006.

Payment of dividends

The Board of Directors will propose to the AGM that a cash dividend of EUR 1.12 per share be paid for the financial period 2005. The record date for dividend payment is 21 March, 2006, and the expected dividend payment date is 28 March 2006 onwards.

Publication of results

- Interim Report January–March will be published on 25 April 2006
- Interim Report January–June will be published on 19 July 2006
- Interim Report January–September will be published on 19 October 2006

The Annual Report and Interim Reports are available in Finnish, Swedish and English and can be read online at www.fortum.fi, www.fortum.se and www.fortum.com.

Fortum management serves analysts and the media with regular press conferences, which are web cast to the company's website. Management also gives personal interviews on a one-on-one and group basis. Fortum participates in various conferences for investors.

Fortum observes a silent period of 30 days prior to publishing its results. Additional information about shares and shareholders in the Financials.

Investor Relations at Fortum

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Investor information is available online at www.fortum.com/investors

Share information for 2005

Highest share price	EUR 16.90
Lowest share price	EUR 10.45
Average share price	EUR 13.87
Total number of shares traded	900.1 million pcs
Market capitalisation 31 Dec 2005	EUR 13.9 billion

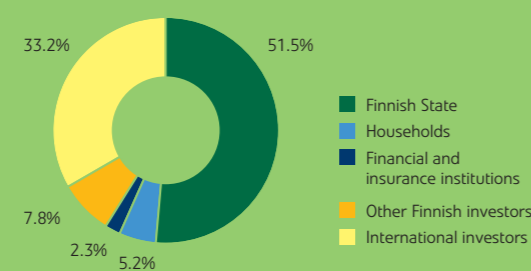
Largest registered shareholders

31 December 2005	
Finnish State	51.52%
Ilmarinen Mutual Pension Insurance Company	1.25%
Social Insurance Institution	1.02%
The municipality of Kurikka	0.71%
The State Pension Fund	0.57%
Varma Mutual Pension Insurance Company	0.44%
Etera Mutual Pension Insurance Company	0.37%
OP-Delta Investment Fund	0.33%
Fennia Mutual Pension Insurance Company	0.33%
Neste Oil Pension Foundation	0.27%

Trading code: FUM1V. Type: Utilities.

Distribution of ownership

31 December 2005

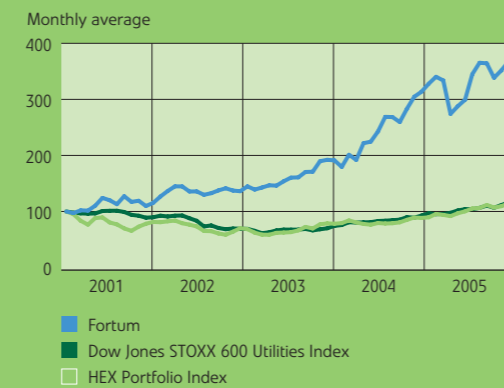


Equity analysts covering Fortum in 2005

ABG Sundal Collier, Oslo
Alfred Berg Finland Oy, Helsinki
Carnegie Investment Bank AB, Finland Branch, Helsinki
Citigroup Smith Barney, London
Crédit Agricole Indosuez Cheuvreux Nordic AB, Stockholm
Danske Equities, Copenhagen
Deutsche Bank AG, Helsinki Branch, Helsinki
Dresdner Kleinwort Wasserstein Securities, London
Enskilda Securities AB, Helsinki
Evli Bank Plc, Helsinki
EQ Bank Ltd., Helsinki
FIM Securities Ltd, Helsinki

Handelsbanken Securities, Helsinki
Kaupthing Sofi, Helsinki
Kepler Equities, Frankfurt
Mandatum Stockbrokers Ltd, Helsinki
Merrill Lynch, London
Morgan Stanley Dean Witter & Co, London
Opstock Investment Banking, Helsinki
Raymond James Euro Equities, Paris
Societe Generale, Helsinki
Standard & Poor's Equity Research, London
Valuatum, Helsinki
E. Öhman Jor Fondkommission AB, Finland Branch, Helsinki

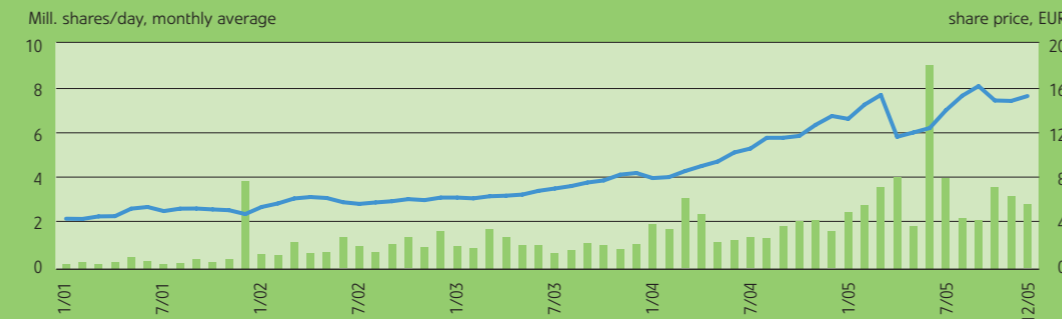
Share quotations 2001–2005



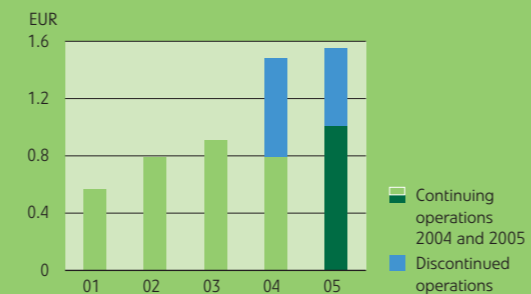
Market capitalisation 2001–2005



Number of shares traded 2001–2005

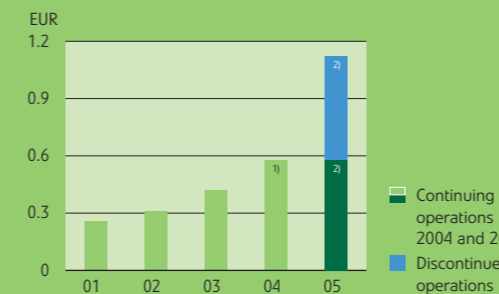


Earnings per share



2004 and 2005 under IFRS. Years 2001–2003 presented according to Finnish Accounting Standards (FAS).

Dividend per share

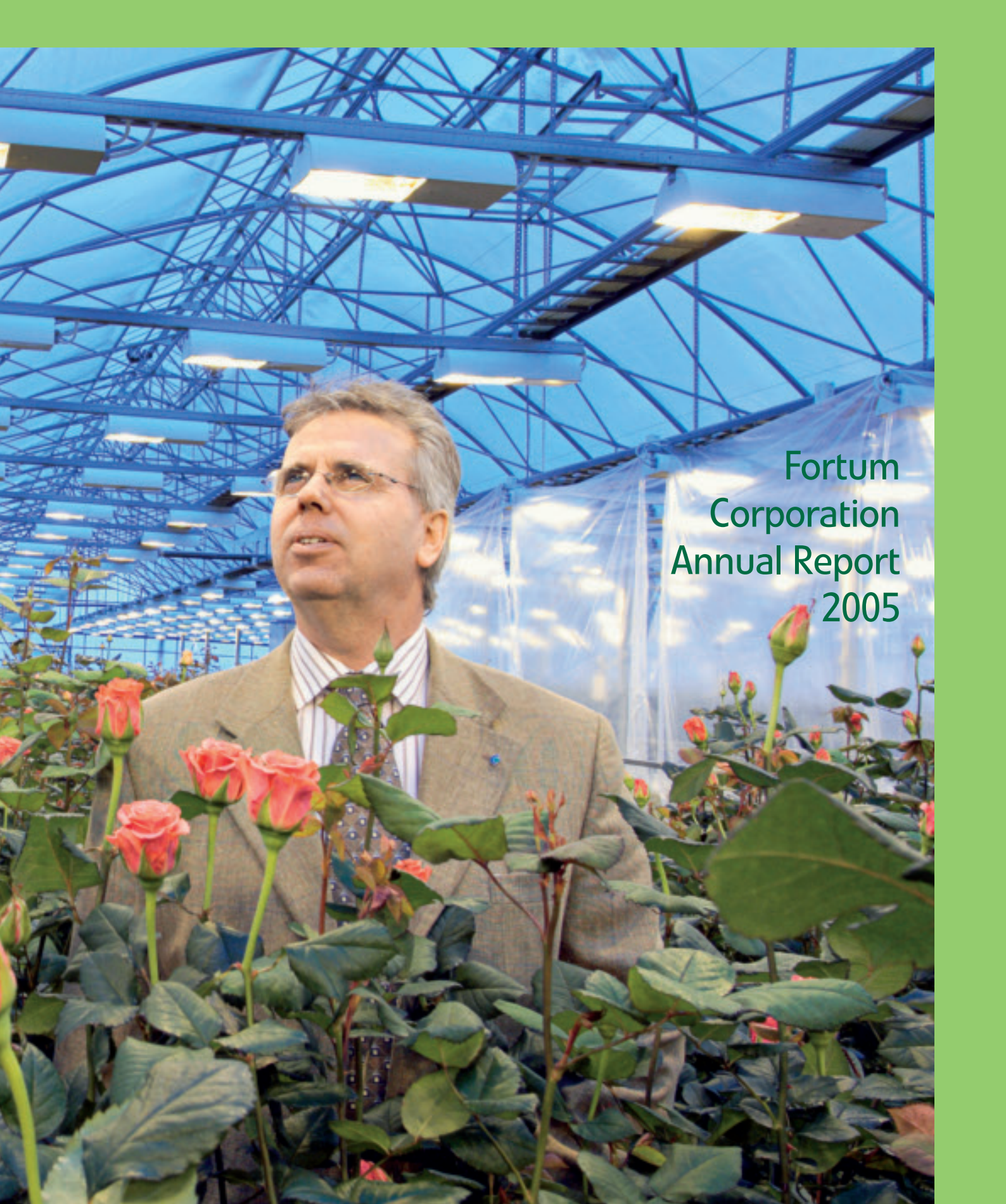


¹⁾ In addition to cash dividends, Fortum distributed approximately 85% of Neste Oil Corporation shares as dividends, in 2005.

²⁾ Board of Directors proposal for the Annual Meeting in March 2006.



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Fortum Corporation Annual Report 2005

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Fortum in brief

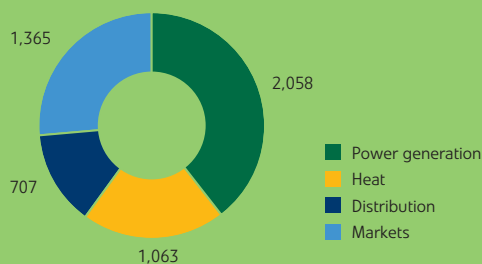
2 Fortum is a leading energy company in the Nordic countries and other parts of the Baltic Rim area. Our activities cover the generation, distribution and sale of electricity and heat, the operation and maintenance of power plants as well as energy related services. Our main products are electricity, heat and steam.

Our competitiveness is based on a pan-Nordic concept. It is also characterised by a high level of operational efficiency and a broad customer base. In all our operations we aim at benchmark business performance. Our goal is to create the leading power and heat company and become the energy supplier of choice in the chosen market areas.

In 2005, sales were EUR 3,877 million and operating profit was 1,347 million. The number of employees at the end of the year was 8,955. Fortum's shares are quoted on the Helsinki Stock Exchange.

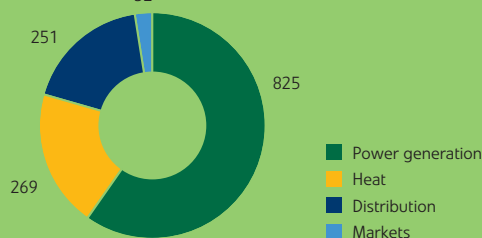
Group net sales

EUR million



Group operating profit

EUR million



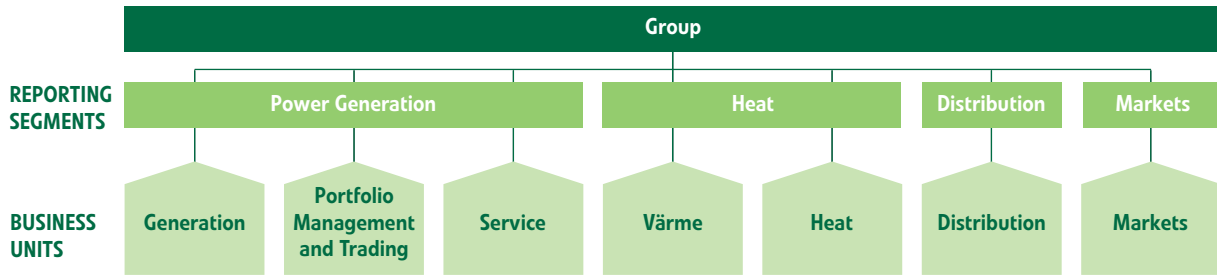
Position in the Nordic market

Electricity distribution	#1
District heating	#1
Power generation	#2
Number of electricity customers	#2

Customer base

	million
Electricity customers	1.2
Electricity distribution customers	1.4

Corporate structure



Power Generation

The Power Generation segment generates and sells power mainly to the Nordic electricity market. It is also responsible for the risk management operations within power generation. The Portfolio Management and Trading business unit within the segment is responsible for optimising the operating of power plants and for selling power to the Nordic power exchange Nord Pool. The Service business unit provides operation and maintenance services for the Nordic and selected international markets. Power Generation employed 4,330 people at the end of 2005.

Distribution

Distribution is responsible for a reliable and secure electricity supply to its customers in the Nordic countries and Estonia. Fortum owns and operates distribution and regional networks in Sweden, Finland, Norway and Estonia and distributes electricity to a total of 1.4 million customers. Distribution employed 946 people at the end of 2005.

Heat

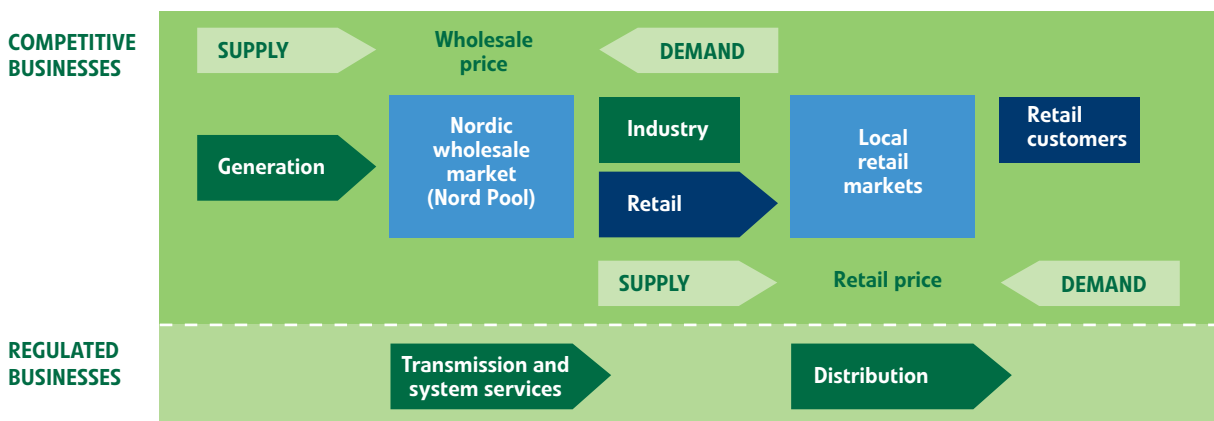
Heat provides district heating and cooling, industrial steam and energy produced in waste-to-energy production to industrial companies, municipalities and end-users. The Heat segment also sells electricity from its combined heat and power production (CHP) to the Nordic power exchange Nord Pool. Heat employed 2,393 people at the end 2005.

Markets

Markets is responsible for offering energy solutions to its customers in Finland, Sweden and Norway. The segment buys its electricity from the Nordic power exchange Nord Pool and sells it further to household and business customers as well as to other electricity retailers in the Nordic countries. In addition to the actual sale of electricity, Markets provides comprehensive risk and portfolio management solutions to its business customers. Markets employed 769 people at the end of 2005.

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The Power Value Chain



2005 operational highlights and financial summary

4

Create the leading power and heat company

- Oil businesses separated and Neste Oil listed on the Helsinki Stock Exchange
- Agreement with the city of Espoo over its E.ON Finland shares
- Increased stake to over 33% in Lenenergo, acquired a 25% stake in Kolenergo in Russia
- Two new district heating companies in Poland
- District heating company in Lithuania
- New waste fuel-based CHP plant inaugurated and preparations for construction of a new biofuel based power plant started in Sweden

Become the energy supplier of choice

- EUR 700 million investment plan to further upgrade the reliability of the electricity distribution networks
- Automatic meter management project proceeded
- Customer guarantee and customer ombudsman functions implemented
- New digital services and new electricity products

Key ratios	2004 IFRS	2005 IFRS
Continuing operations:		
Sales, MEUR	3,835	3,877
EBITDA, MEUR	1,583	1,754
Operating profit, MEUR	1,195	1,347
Comparable operating profit, MEUR	1,148	1,334
Profit before income tax, MEUR	962	1,267
Profit for the period from continuing operations, MEUR	703	936
- of which attributable to equity holders, MEUR	670	884
Capital employed, MEUR	12,890	11,357
Capital employed continuing, operations, MEUR	10,739	11,357
Interest-bearing net debt, MEUR	5,095	3,158
Capital expenditure and investments in shares, continuing operations, MEUR	514	479
Capital expenditure, continuing operations, MEUR	335	346
Funds from operations, MEUR	1,205	1,364
Net cash from operating activities, continuing operations, MEUR	1,232	1,271
Return on capital employed, %	15.8	16.6
Return on capital employed, continuing operations, %	11.4	13.5
Return on shareholders' equity, %	18.2	18.7
Gearing, %	67	43
Net debt/EBITDA	2.1	1.4
Net debt/EBITDA, continuing operations	-	1.8
Average number of employees, continuing operations	8,592	8,939

Key ratios	2004 IFRS	2005 IFRS
Earnings per share, total Fortum, EUR	1.48	1.55
Earnings per share, continuing operations, EUR	0.79	1.01
Earnings per share, discontinued operations, EUR	0.69	0.54
Equity per share, EUR	8.65	8.17
Dividend per share, total Fortum, EUR ¹⁾	0.58	1.12 ²⁾
Dividend per share, continuing operations, EUR		0.58 ²⁾
Dividend per share, discontinued operations, EUR		0.54 ²⁾
Payout ratio, total Fortum, %	39.2	72.3 ²⁾
Payout ratio, continuing operations, %		57.4 ²⁾
Market capitalisation at the end of the period, MEUR	11,810	13,865
Power Generation, TWh	55.5	52.3
Heat Generation, TWh	25.4	25.1
Electricity sales, TWh	62.3	59.7
Heat sales, TWh	23.8	23.8

¹⁾ In addition to a cash dividend Fortum distributed approximately 85% of Neste Oil Corporation shares as dividends in 2005

²⁾ Board of Directors proposal for the Annual General Meeting in March 2006. The total amount is calculated based on the number of registered shares as of 31 December 2005.

Definitions of the key ratios are presented in the Consolidated Financial Statements.

Key figures by segment

EUR million	Sales		Comparable operating profit		Comparable RONA% ²⁾	
	2004	2005	2004	2005	2004	2005
Power Generation	2,084	2,058	730	854	11.5	14.5
Heat	1,025	1,063	207	253	9.3	11.0
Distribution	707	707	240	244	8.3	8.6
Markets	1,387	1,365	23	30	17.1	16.4
Other	90	91	-52	-47		
Eliminations ¹⁾	-1,458	-1,407				
Continuing operations	3,835	3,877	1,148	1,334		
Discontinued operations	7,909	2,061	18	30		
Eliminations	-85	-20	29	-17		
Group	11,659	5,918	1,195	1,347		

¹⁾ Eliminations include sales and purchases with Nord Pool that is netted on Group level on an hourly basis and posted either as revenue or cost.

²⁾ Return on net assets (RONA) is calculated by dividing the sum of operating profit and share of profit of associated companies and joint ventures with average net assets.

Group financial targets	Target	2004	2005	Ratings	S&P	Moody's
ROCE	12%	15.8	16.6	Fortum Corporation	A- (Stable) / K1	A2 (Stable)
ROCE continuing operations		11.4	13.5			
ROE	12%	18.2	18.7			
Net debt / EBITDA	3.0-3.5	2.1	1.4			
Net debt / EBITDA continuing operations		-	1.8			

Key sensitivities during 2006

Approximate effect on the Group's full -year operating profit

Change in	EUR million
Market price of electricity, hedging included, EUR 1/MWh *	15
Achieved Nordic generation power price, EUR 1/MWh	50

* Based on hedge levels at the end of 2005



2004 and 2005 under IFRS. Years 2001–2003 presented according to Finnish Accounting Standards (FAS).

■ Continuing operations 2004 and 2005
■ Discontinued operations

2005 – an outstanding year

2005 was a year of changes. Fortum executed its biggest transaction ever by separating the oil businesses. CO₂ emissions trading started adding a new cost component.

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As also the fuel prices were high, the price for electricity rose, triggering a lively public debate over the functioning of the Nordic power market. In a challenging operational environment, Fortum performed outstandingly – we reached nearly all our targets with excellent results.

*A one-
industry
company*

Exchange. The preparations took almost two years and were a huge undertaking internally. Now both companies successfully pursue their own strategies.

After separating the oil businesses, we revised our strategy: the Nordic countries remain our main market area, but the Baltic Rim markets were given a stronger emphasis.

Growth in the chosen markets

We continued to deliver on our strategy that covers the Nordic countries and the Baltic Rim area, making significant progress on several fronts.

In Finland we signed an agreement with the city of Espoo in December over its share in E.ON Finland, and on 2 February 2006 an agreement was signed regarding E.ON Nordic's stake in the company. Acquiring E.ON Finland was strategically an important step. This transaction makes Fortum stronger in the Nordic electricity market and paves the way for further growth.

In Russia we increased our ownership in OAO Lenenergo to over 33% and agreed to acquire 25% of the shares in Kolenergo. Through Lenenergo, Fortum is also a part-owner of TGC-1, Territorial Generation Company No. 1, which began operations in October. As the company's generation capacity is largely hydro power, TGC-1 is a good addition to our generation portfolio. In 2005, Fortum was still the only foreign strategic investor on the Russian power market.

During 2005, we also continued to grow in Poland, where the privatisation of the heat sector proceeded. After starting three years ago practically from zero, we now have a Polish heat business with a turnover of 130 MEUR and a personnel of some 1,200 people. This forms a strong platform for further growth in the Polish market.

In Lithuania we created a sound basis for growth by acquiring the district heating company UAB Suomijos.

Separation of the oil businesses and refocused goals

A crucial strategic step was the separation of the oil businesses and listing of Neste Oil on the Helsinki Stock

We also defined Fortum's Core Purpose: *Our energy improves life for present and future generations*. It reflects our desire to make responsible choices in order to meet the long-term needs of the people and communities in which we operate. Another outcome of the strategy work was the launching of Fortum's renewed brand strategy.

Operational environment under scrutiny

From the very beginning, we have based our strategy on the EU decision to move to one common European electricity market through regional markets. The premise of the Commission is that real competition will set prices at the right level and thus benefit consumers. Hence, the further development of the Nordic power market and European integration is of utmost importance and strongly endorsed by Fortum. We welcome increased competition as long as it happens on equal terms. Although short term price peaks may trigger criticism against the system, it should not be allowed to hamper market driven development.

Consequently, we have, and will continue to promote a market-driven development of the electricity market, i.e. cross-border transmission and system services, market places for electricity trade, and handling of bottlenecks between the grid areas. Also the decision-makers have supported this development; the Nordic energy ministers adopted a co-operation plan for 2006–2009 and have requested the market actors to submit an action plan by March 2006. More uniform responsibilities of grid companies, harmonised national rules and practices, and making it easier to change electricity suppliers are other important measures that are necessary for the creation of a single common Nordic electricity retail



All in all, to make investment decisions extending over 40–60 years calls for both stability and predictability in the regulatory framework and trust in the political willingness to continue market liberalisation. Therefore, the recent speculation around windfall profits is a cause of concern.

market and for paving the way towards an integrated European market.

Sustainable development and people development for the future

Good handling of sustainable development (SD) means investing in efficient production processes, good environmental and social performance, and a reputation as both a reliable business partner and an ethical corporate citizen.

At Fortum, sustainable development is part of everyday work and the responsibility of line management. It's governed through the Sustainable Development Policy adopted in 2005. One concrete outcome is reducing CO₂ emissions: Over the past 6 years, we have increased the share of CO₂-free generation in our production portfolio from 29 to 49 TWh. This shows that we have taken the Kyoto Protocol seriously and steer our production to be more climate benign.

We continued people development with good results through leadership training programmes and a continued safety programme to mitigate lost workday injuries. By the end of 2006, the whole personnel will have participated in safety training.

Ensuring future supply of electricity

The security of supply is a concern. To do our part in securing the future supply, our investment programme covers e.g. a 25% share in the new Finnish nuclear power unit Olkiluoto 3 and upgrading of all the automation systems in our Loviisa plant to extend its lifetime. In January 2006, a decision was made to invest in capacity upgrading at the Swedish Oskarshamn nuclear unit, where Fortum is part-owner. In Sweden, we inaugurated a new waste fuel based CHP plant and began preparations for a new biofuel based CHP plant in Stockholm. Our investment plans contain many additional projects to increase e.g. hydro power capacity and build waste-to-energy plants. They can be implemented only if all permits are in place. Ensuring a smooth permitting process is crucial to all new investment decisions and thus good co-operation with authorities is needed also in this respect.

In 2005, we announced a EUR 700 million investment plan to further improve our electricity distribution networks and a project to develop meter reading management, allowing customers to monitor their real time electricity consumption. Most of our Nordic grid customers will have the new system installed during 2009. These are important steps as they also make it possible to adjust individual consumption according to price fluctuations in the Nordic power exchange and thus avoid the sharpest price peaks. But to make this a reality, the regulators need to agree on common Nordic-wide rules.

The continued success of Fortum will be dependent on our ability to grow and to leverage further on our core competencies and performance excellence. Growth is sought through Nordic consolidation and in the Russian and Baltic Rim markets, and also by leveraging our existing skills for instance by expanding our trading activities. Our actions to further increase customer loyalty are continuing also in 2006 with new offerings, further improved customer service, and improved reliability of the grids. Our proven skills of successfully integrating new units will be repeated, for example regarding E.ON Finland, and we will continue to be the benchmark company regarding plant availability.

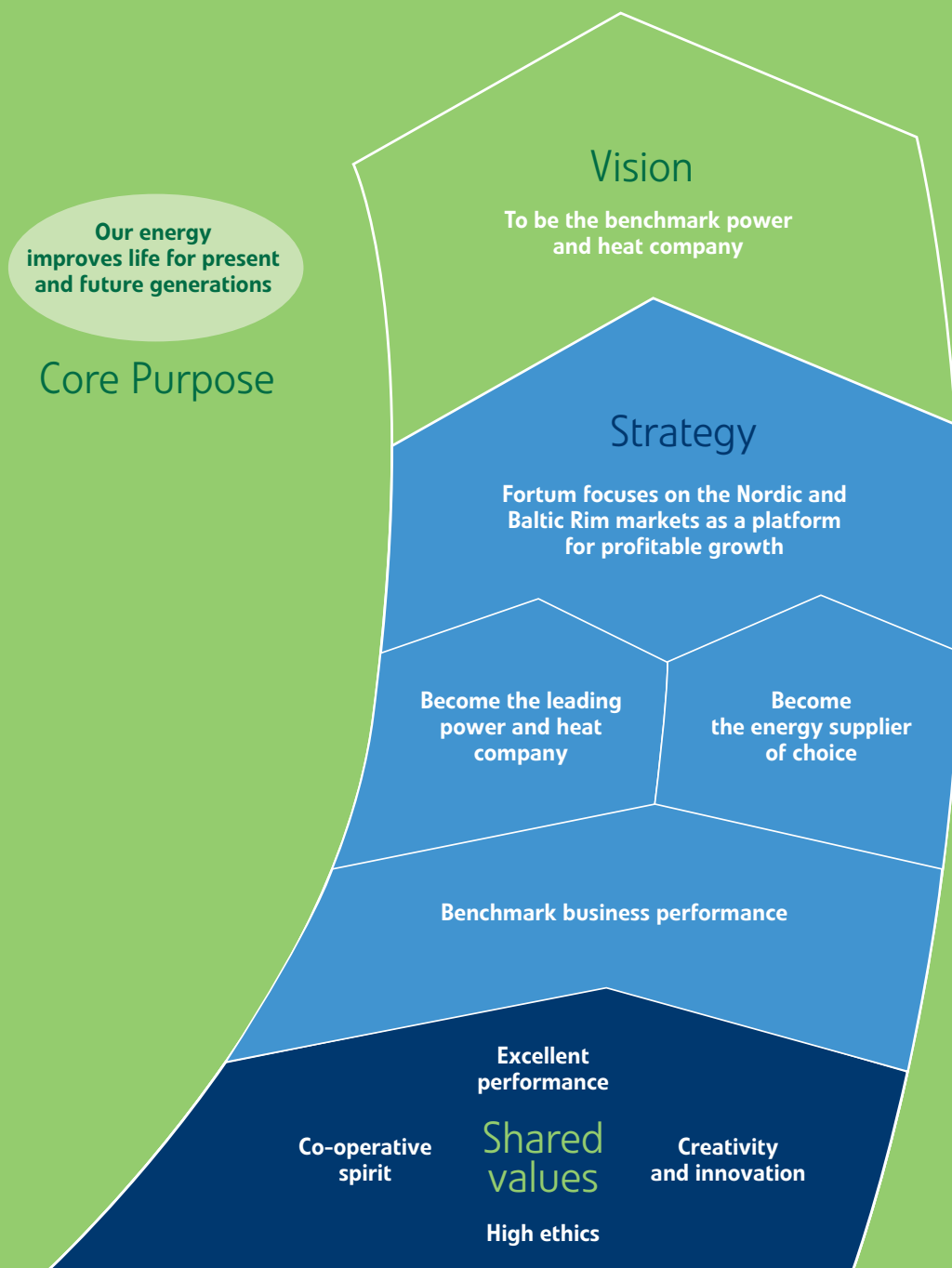
The year 2005 was a big success for Fortum. I want to take this opportunity to thank all our stakeholders for their support and in particular our employees for an outstanding job. With a team like this we have a competitive edge that is of significant value to the future of Fortum.

Mikael Lilius

The essence of Fortum

The essence of Fortum is captured in the Fortum Compass. This management tool describes the key elements that are needed to steer individuals, teams and the whole company with the same purpose towards the same vision. Implementing a common strategy is based on shared values.

8



The benchmark power and heat company

The Compass is the link between the group and the business Units' strategies. All businesses have their own adapted versions of the Compass. This cascading ensures consistency in targets and actions, and serves to guide and direct the whole company.

Fortum's vision is to be the benchmark power and heat company. On our chosen markets we aim for a leading position in our businesses, whilst securing performance excellence in all operations.

With this aim the focus is on

Becoming the energy supplier of choice

- Driving a customer focused sales culture in all our customer interfaces
- Creating the best customer experience for all our customers

Growth

- Profitable growth in chosen market areas, the Nordic countries, north-west Russia, Poland and the Baltic countries
- Leveraging organic growth opportunities in all our businesses
- Actively participating in further Nordic consolidation

Promoting market-driven development of the electricity market

- Supporting and driving further Nordic harmonisation
- Supporting Nordic infrastructure development and TSO co-operation
- Working for effective competition within the integrating European electricity market

Performance excellence – aiming for world-class performances

- Ensuring performance excellence in key areas
- Efficiency, sustainability and reliability in the whole energy chain
- Continuous people development

Core Purpose and Shared Values: the fundamentals

Fortum has defined its Core Purpose as: "Our energy improves life for present and future generations."

This statement reflects our desire to make responsible choices in order to meet the long-term needs of the people and communities in which we operate.

Fortum's shared values guide the way we work at Fortum, as well as how we interact with each other and with people outside the company.



Excellent performance

- We know our customers' needs and act to meet them.
- We achieve set targets.



Co-operative spirit

- We respect and support one another.
- We bring up and discuss issues openly and actively.



Creativity and innovation

- We take individual initiative and encourage one another to find new solutions.
- We continuously develop ourselves and are ready for change.



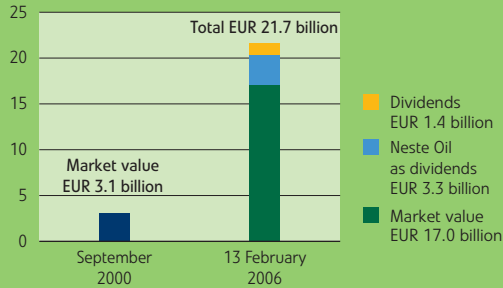
High ethics

- We are honest and we act with integrity.
- We work for sustainable development.

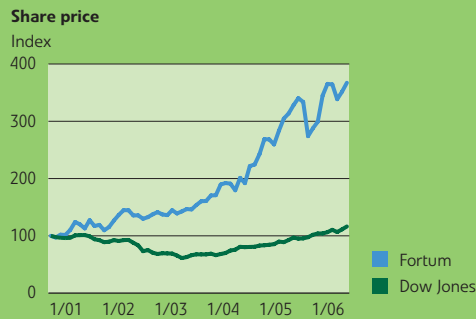
Major restructuring

10

Total shareholder value added EUR 19 billion



Share performance



- Fortum was established in 1998
- First major acquisition was 50% of Birka in 1999

2000–2001

Growth in core business and geographical focus

- Stora Enso's hydro and nuclear generation assets, Sweden and Finland
- Länsivoima, Finland
- Wesertal, Germany

"Become the benchmark power and heat company"

- Strategic focus on the Nordic and Baltic Rim area
- Start restructuring non-core businesses
- Strong focus on financial performance
- Participation in World Bank Prototype Carbon Fund

Divesting non-core business and non core-geographical areas

- Power and heat in Hungary



2002–2004

- Decision to participate in the Olkiluoto 3 nuclear power plant unit
- 30% stake in Lenenergo, Russia
- 34% Stake in Hafslund, Norway
- 50% of Birka, Sweden
- Shares in district heating companies in Estonia, Lithuania, Latvia and Poland

2005–

- E.ON Finland
- > 33% stake in Lenenergo
- 25%, stake in Kolenergo in Russia
- District heating in Poland and Lithuania
- * Starting TGC-1

EUR
7.8
billion

- Pan-Nordic organisation
- Birka transformation programme
- Focus on leadership development
- Included in the Dow Jones Sustainability Index

- Separation of oil businesses
- Strategy revision: stronger emphasis on Russia and the Baltic Rim

- Power plant and transmission engineering
- Power and Heat in Germany, UK, Hungary and Thailand
- Oil in Oman and Norway
- Wesertal, Germany

- North Transgas

EUR
6.2
billion

Moving towards an open European electricity market

Europe is moving towards a single liberalised electricity market. This integration aims at enhanced competition and improved efficiencies in the use of capital and natural resources that will bring both customer and environmental benefits.

Fortum believes the benefits of a liberalised market will be reached when supported by a stable regulatory framework. Therefore, Fortum is committed to developing the industry framework, and working towards an effective and competitive European electricity market.

The June 2003 EU Directive sets 1 July 2007 as the date for the opening of the market, and the date when all customers can freely choose their electricity supplier. Furthermore, the regulation on cross-border exchanges in electricity aims at setting fair rules, thus enhancing competition within the internal electricity market. This will involve a compensation mechanism for cross-border flows of electricity, harmonised principles on cross-border transmission charges and the allocation of available interconnection capacities between national transmission systems.

In its 2004 strategy, the EU Commission set a target of integrating the European electricity markets. This is expected to be reached by first developing integrated and harmonised regional markets, and then integrating these regional markets into one European power market. The resulting competition will lead to price convergence within the regional markets, and finally across the EU.

Eurelectric, the European power industry organisation, has defined its position and goals in relation to this process. At its annual congress in Vienna in June 2005, Eurelectric approved its "road map" outlining a parallel approach to reach the Commission's target. In Eurelectric's view, regional development could end up in structures that may complicate or even hinder European-level integration. The "road map" suggests that the most efficient means of meeting the goal of integrating the European power market is to develop regional markets in parallel with co-ordination between regions.

In power market integration, a well-functioning wholesale market is crucial. In 2005, the Nordic market was still the only regional market in Europe, and as such a forerunner towards European integration. It is also often referred to as the best functioning power market globally. Political commitment at an early stage enabled a functional market design, highlighted by co-operation in transmission

and system services, and a well-functioning regional power exchange, Nord Pool, that provides high market transparency. Especially financial power markets in Europe have started to expand beyond national and regional boundaries, and power exchanges are increasingly competing in product variety, including the newly established CO₂ emissions allowance trading.

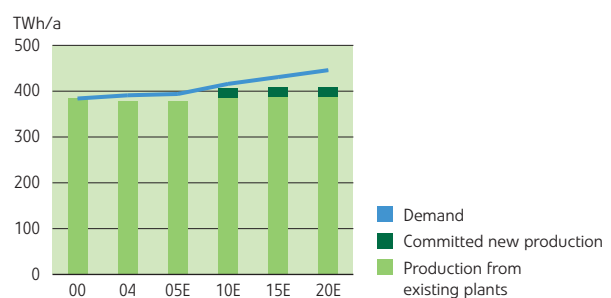
Integration is a challenge

Further integration of the Nordic market, however, remains a challenge, and discussions on further harmonisation of the power market by the Nordic energy ministers and the Nordic Council of Ministers continued in 2005. The energy ministers adopted a four-year plan for the Nordic energy policy co-operation 2006–2009, and asked Nordel, the Nordic co-operation body for Transmission System Operators (TSOs), and the authorities for an action plan by March 2006.

The vision paper for 2010 by the Nordic energy regulators, given in 2005, stated: "All customers in the Nordic electricity market will enjoy free choice of supplier, efficient and competitive prices and reliable supply through the common Nordic electricity market which also interacts smoothly with other regional electricity markets in the EU." As strategic priorities, the regulators point to a truly common Nordic retail market with free choice of supplier, a well-functioning Nordic wholesale market with competitive prices, reliable supply, and efficient regulation of the TSOs.

Evolving European integration combines the Nordic

Electricity demand and supply in the Nordic market



A holding in the local power company in north-west Russia increases the share of hydropower in Fortum's generation portfolio.



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market with Continental Europe. Integrating the continental thermal power-dominated and Nordic hydro power-dominated markets serves to increase efficiency and decrease price peaks. As the physical interconnections and cross-border trading develop, price convergence will gradually increase and price volatility decrease. In October 2005, Nord Pool launched a German spot bidding area KONTEK, to facilitate market coupling, i.e. market-based use of transmission capacity of the Kontek cable between Denmark and Germany. Commissioning of the NorNed cable between Norway and the Netherlands by 2008, and the Estlink cable between Estonia and Finland by 2007, will further enhance European cross-regional integration.

Despite a reasonably well functioning wholesale market, the Nordic retail markets still remain national. The goal set by Nordic regulators is to establish a Nordic retail market. This will require harmonisation and agreement by key procedures related to, for example, balance settlement, standardising of data structures and handling, supplier switching, metering, and billing components.

Market functionality questioned

During 2005, the functionality of the power markets was under frequent public discussion in Europe. Sharp global increases in oil and gas prices, the price of CO₂ as a new cost component, and the transposition of these costs from the wholesale market to customer prices fuelled the debate. The structure of the Nordic market and the trustworthiness of Nord Pool were questioned.

Several studies published in 2005 concluded that the Nordic market functions rather well. However, to further develop its functionality, actions are needed in the following areas:

- reduction of grid bottlenecks
- deeper co-operation between TSOs
- harmonisation of regulation
- equal treatment of market actors
- further development of the Nord Pool power exchange

Nord Pool took measures to improve trustworthiness for example by increasing maximum penalties for rule violations. The Nordic and other European financial derivative product volumes grew in 2005, compared to 2004, and the liquidity of the markets showed continuous improvement.

Increases in the price of electricity and gas also prompted the European Commission Directorate-General for Competition to initiate an inquiry into the functioning of the European electricity and gas markets. The inquiry focused on the behaviour of companies, the use of market power, and the functioning of the retail markets. The inquiry's preliminary report from November 2005 identified a number of impediments to power sector competition in Europe. These included the high level of market concentration in generation in most member states, vertical foreclosure and its negative effect on the wholesale market liquidity, as well as insufficient integration of the EU electricity market. Also listed as impediments was the lack of wholesale market transparency and fact that large consumers doubt that wholesale spot and forward prices result from fair competition. A report by the Directorate-General for Transport and Energy in November 2005 also called for further progress. The main criticism concerned the lack of integration between national markets, the absence of price-convergence across the EU, and the low level of cross-border trade. The Nordic wholesale market was, however, found relatively well developed in regional integration.

Emissions allowance prices higher than expected

In 2005, EU emissions trading began impacting power prices. This development had been foreseeable well before the beginning of 2005 when actual emissions allowance trading started. However, the high CO₂ prices were a surprise. A key driver was the high price of gas resulting from high oil prices, making the price of coal-to-gas switches expensive. Furthermore, the market remained immature during the full year 2005. All sellers were not yet on the market; some lacked

the finalisation of National Allocation Plans, e.g., or to didn't have the required allowance registers in place.

In implementing emissions trading, the EU has taken a leading global role in the mitigation of climate change. However, such measures applied in the EU only impact negatively on European competitiveness, a fact that emerged as a key concern in 2005. In particular, the goals set for the Kyoto period 2008–2012 will heavily impact the power sector in EU countries, as it is made responsible for the major part of the emissions reductions. Climate change policies after 2012 remain unclear even though the current Kyoto countries agreed in November 2005 in Montreal to start preparing new targets for the future emissions reductions. Countries outside the Kyoto Protocol including the USA, will not enter into these preparations, but will continue their dialogue with other nations. This uncertainty is severely affecting decisions on power generation investments, as most of the currently planned new capacity will only come into operation after the Kyoto period.

Despite a functioning wholesale market, the Nordic retail markets still remain national.

Need for new capacity

Total Nordic installed capacity was approximately 91.000 MW at year end 2005, while Nordic generation totalled 394 TWh. In addition to modernising the existing generation fleet, new generation capacity is needed to cover increasing demand and potential capacity closures.

In Sweden the closure of the Barsebäck 2 nuclear unit took place in May 2005, whilst significant nuclear upgrading plans progressed. Construction of the Olkiluoto 3 nuclear unit in Finland began, with commissioning planned for 2009. Plans for new gas-fired generation proceeded in both Norway and Sweden. In addition, plans for other new CHP (combined heat and power) production were made. Plans for new wind power capacity were introduced in the Nordic market. Altogether, more than 20 TWh of new power generation by the year 2020, has been committed to.

Demand in the Nordic market is estimated to grow by approximately 1% annually during the coming years. By 2020 it is estimated that annual Nordic demand will be around 450 TWh/a. Despite ongoing projects plans to increase capacity, a significant gap still remains in meeting this demand. New capacity will require a long-term electricity price of 35+ €/MWh to cover the capital and operating costs over the lifetime of the investment. In order to secure future investments, the regulatory framework needs to be stable and predictable.

Restructuring continued

Restructuring continued in the Nordic market, however, at a slow pace. The Nordic market remained highly fragmented on a European scale, with more than 350 generators and 500 distributors and some 450 retail companies. In Finland Fortum has agreed to acquire E.ON Finland. An agreement was signed with the city of Espoo over its share in E.ON Finland in December and, on February 2, 2006, an agreement was signed regarding E.ON Nordic's stake in the company. The Danish power sector consolidation by DONG and Vattenfall was cleared by the European Commission regarding Vattenfall's entry to the Danish electricity market.



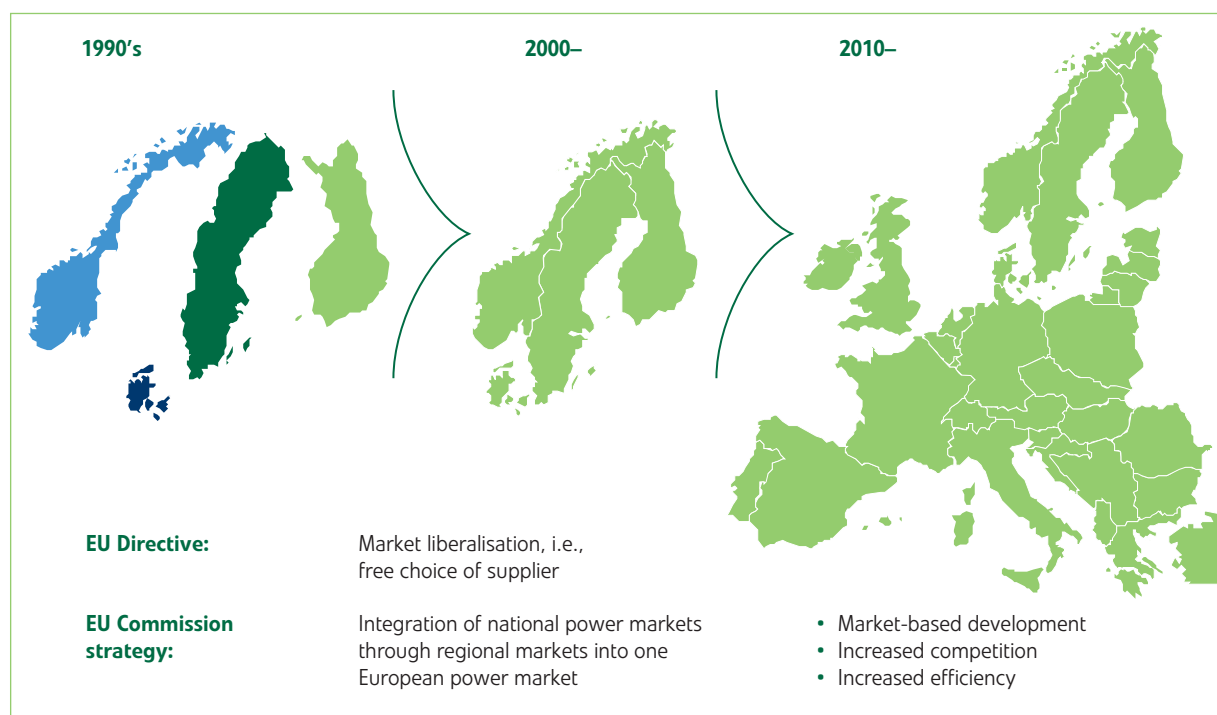
The European Commission's approval regarding DONG was still pending at the end of the year. Statkraft acquired generation assets in Sweden and Finland. E.ON consolidated its Swedish operations under the E.ON brand. Divestment of Statkraft's stake in TEV in Norway was cancelled against the earlier demand by Norwegian Competition Authority.

According to the Russian energy strategy to 2020, the demand for electricity will grow from the current somewhat more than 900 TWh per year to 1,215–1,365 TWh by 2020. It is estimated that more than 100,000 MW of new and replacement generation capacity, and more than EUR 100 billion in investments will be needed. The need for investments together with the need to enhance industry efficiency were the initial key drivers for the ongoing power sector reform. The Russian power sector liberalisation is scheduled for 2008 with much similarity in market design to the Nordic market.

The Russian power sector restructuring has broadly proceeded according to plan and establishment of the territorial generation companies continued in 2005. About half of the total Russian generation capacity will be in the new privatised territorial generation and federal thermal wholesale generating companies. TGC-1, comprising the generation assets of Lenenergo, Kolenergo and Karelenenergo in north-west Russia, started its operations on 1 October 2005 based on a leasing agreement. With its 26% share in TGC-1, Fortum remained the sole foreign strategic investor in the Russian power and heat sector.

The national economies of Poland and the Baltic countries the national economies are on a strong growth track. Poland has the largest heat market of all the Baltic Rim countries: its size corresponds to that of the Nordic and Baltic countries combined. The privatisation of Polish heat and power generation companies continued in 2005.

Towards an open European power market



R&D focus on core businesses

Research and development is vital for Fortum's technological competitiveness. The company forms research networks and focuses its own R&D activities on selected key areas.

R&D objective

Fortum applies various technologies in its core power and heat businesses. Technology know-how is inherent and significant in striving for efficient, safe, reliable power and heat generation, high plant availabilities, and low environmental impact of operations. Fortum also seeks to improve the reliability of its electricity distribution networks and to invest in top-class customer services and interfaces, thereby applying the most recent technologies in these areas. Fortum monitors the development of new energy technologies in order to have the capability to apply them in its core businesses in the future. From these perspectives, the objective of R&D in Fortum is to secure the company's technological competitiveness.

R&D profile and approach

Fortum engages in R&D to support its current operations, to enable growth, to support its sustainable development agenda, and to secure its long-term technology base. The company's R&D function has undergone a significant

restructuring since 2001. Currently, the role of R&D can be defined as building well functioning networks with research organisations, engineering companies, vendors and other partners, while at the same time actively conducting R&D in selected key areas.

Fortum has a business unit-centered approach to R&D, meaning that during 2005 R&D was a function of, and financed by, the individual business units. A Corporate Technology function was reinstated in the first half of the year. The goal is to continuously improve the balance between internal activities and the company's participation in national and international R&D programmes, together with suitable partners.

R&D expenditure

The total R&D expenditure in 2005 was EUR 14 million (EUR 26 million in 2004). This amounts to 0.24% of net sales (0.22% in 2004). In 2004, the expenditure included that of the oil businesses. Excluding oil, the R&D expenditure in 2005 was at the same level as the year before.

Advanced CFD modelling provides a versatile tool for design analysis

Fortum continuously conducts research in order to find new and innovative ways to lower emissions and enhance operational safety of its heat and power plants. One of the methodologies employed is Computational Fluid Dynamics (CFD), an approach for detailed mathematical modelling of fluid flow in different spaces.

CFD calculations are often used to simulate modifications in nuclear power plants prior to implementation, in order to ensure the feasibility of the planned approaches. CFD is also an invaluable tool in nuclear safety-related analyses where real, or even experimental, testing is not possible. In co-operation with VTT Technical Research Centre of Finland, Fortum has also



used CFD to design burners that would reduce nitrogen oxide emissions from the Haapavesi peat-fired power plant. Six new burners were installed in 2005, reducing the boiler's nitrogen oxide emissions by over 40%.

*A strategic partnership
with the energy supplier
is essential for energy
intensive industry to be
competitive.*



To be the benchmark power and heat company

Fortum reinforced its position as a leading Nordic power and heat company and made significant progress in strengthening its foothold in other parts of the Baltic Rim during 2005.

93% of generation is CO₂-free

Fortum's businesses are divided into four reporting segments. Power is generated in plants owned or partly owned by Fortum in the Power Generation segment and in combined heat and power plants in the Heat segment. Power Generation sells the electricity it generates through the Nordic power exchange Nord Pool. The Markets segment buys its electricity through Nord Pool and sells it to private and business customers as well as to other electricity retailers. The Heat segment sells steam and district heating mainly to industrial and municipal customers

as well as to real estate companies. Fortum's distribution and regional network transmissions are reported in the Distribution segment.

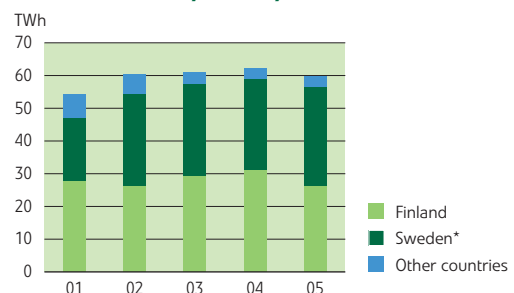
Fortum's power generation capacity, 31 Dec 2005

MW	Finland	Sweden	Other	Total
Hydropower	1,432	3,158		4,590
Nuclear power	1,428	1,661		3,089
Combined heat and power	567	531	145	1,243
Condensing power	1,595	639		2,234
Other	10	115		125
Total	5,032	6,104	145	11,281

Fortum's power generation by source

TWh	2004	2005
Hydropower	19.1	21.2
Nuclear power	25.8	25.8
Thermal power	10.6	5.3
Total	55.5	52.3

Fortum's electricity sales by area



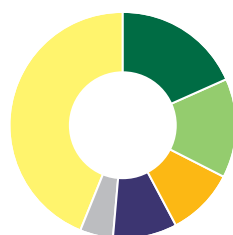
* Sweden 2002, Birka Energi is 100% March–Dec. and 50% Jan.–Feb.

The segments sell electricity to Nord Pool or external customers, and also purchase electricity from Nord Pool or other external sources. Fortum's Nord Pool transactions are calculated as a net amount of hourly sales and purchases at the Group level.

Still a highly fragmented Nordic electricity market

Generation

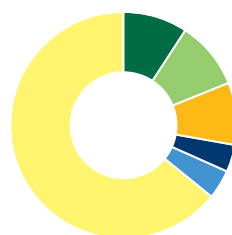
379 TWh
> 350 companies



■ Vattenfall
■ Statkraft
■ Fortum
■ PVO
■ E.ON
■ Others

Distribution

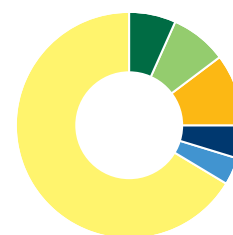
14 million customers
> 500 companies



■ Vattenfall
■ Hafslund
■ Fortum
■ Nesa
■ E.ON
■ Others

Retail

14 million customers
~ 450 companies



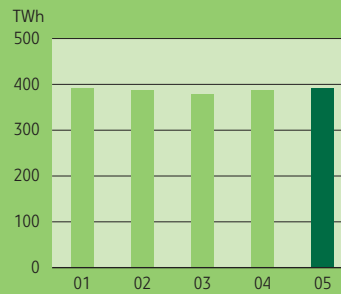
■ Vattenfall
■ Hafslund
■ Fortum
■ Nesa
■ E.ON
■ Others

Electricity generation and consumption in the Nordic countries

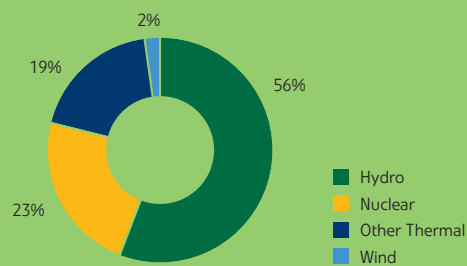
Electricity consumption

TWh	2004	2005
Finland	87	85
Sweden	146	147
Norway	122	126
Denmark	35	36

Total electricity consumption



Total electricity generation by source in 2005



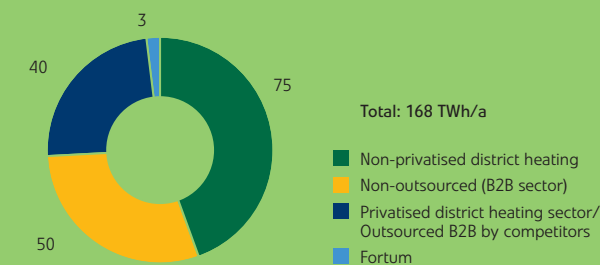
Electricity generation by source

TWh	2002	2003	2004	2005
Hydro	206	168	182	222
Nuclear	87	87	96	92
Other thermal	83	101	91	73
Wind	5	6	7	8
	381	362	376	395
Net exchange *	5	17	12	-1

* import-export

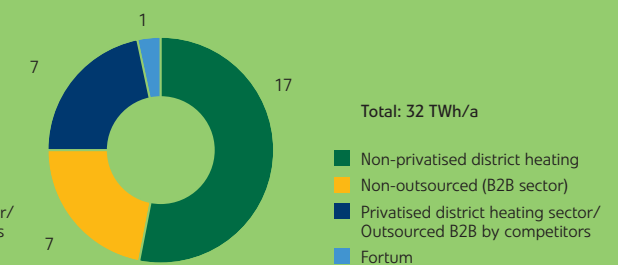
The heating markets in Poland and in the Baltic countries

Heat markets in Poland



Source: National statistics, 2004

Heat markets in Baltics

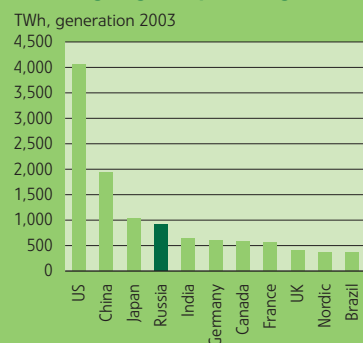


Source: National statistics, 2004

The Russian power market

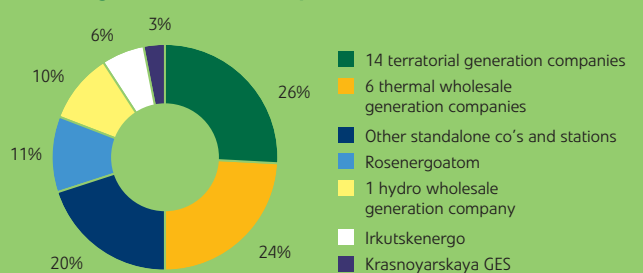
- Fortum's strong foothold in north-west Russia originates from stakes in Lenenergo and Kolenergo.
- Lenenergo owns 63% and Kolenergo 25% of Territorial Generation Company No. 1 in north-west Russia.
- The generation capacity of TGC-1 is approximately 5,750 MW, of which Fortum's calculated share is 26%.

The large Russian power market is undergoing a major change



Source: IEA

The emerging new structure of Russian generation ownership



Operational efficiency improved

In 2005, 93% of Fortum's total power generation was CO₂-free, which is a significant asset after the commencing of emissions trading. Fortum's generation represents 13% of Nordic consumption, and the company's position in Russia was strengthened with new acquisitions.

Power Generation generates and sells power, mainly on the Nordic electricity market. It is also responsible for the risk management operations in power generation. Power is sold by this business segment to the Nord Pool power exchange and the OTC* market. Additionally, the segment provides operation and maintenance services for the Nordic area and for selected international markets. Generation, Portfolio Management and Trading (PMT), and Service are the business units within Power Generation.

Power Generation plays a key role in Fortum's strategy of becoming the leading power and heat company in the Nordic and Baltic Rim areas, a strategy that emphasises performance excellence in all Fortum operations. In Power Generation, the focus is on securing a high level of power plant availability, upgrading production assets, and on operational excellence in physical and financial portfolio management. In addition to a long-term investment plan reaching to 2010, Fortum is looking for new investment opportunities in order to secure future capacity needs. As the Russian electricity market is being liberalised, north-west Russia is seen as having interesting growth possibilities in power generation.

The main performance driver in the power generation business is the market price for electricity. The main factors affecting the market price are the inflow to the Nordic water

Key figures

EUR million	2004	2005	Change %
Net sales	2,084	2,058	-1
power sales	1,695	1,682	-1
other sales	389	376	-3
Operating profit	763	825	+8
Comparable operating profit	730	854	+17
Net assets (at end of period)	6,218	5,954	-4
Return on net assets, %	12.1	14.0	+16
Comparable return on net assets, %	11.5	14.5	+26
Investments	210	129	-39
Average number of employees	4,588	4,374	-5

The segment's power generation by source

TWh	2004	2005
Hydropower	19.1	21.2
Nuclear power	25.8	25.8
Thermal power	6.0	1.3
Total	50.9	48.3

* OTC: Over the counter. A contract conducted via a broker or between two companies. In the electricity market almost all OTC trading is cleared in the power exchange.

reservoirs, and prices for emission allowances and fuels in the international markets. The main factors affecting the price development in 2005 have been a strong hydrological situation and the EU emissions trading scheme.



Outokumpu Tornio plant uses 5% of Finland's entire industrial energy.

A reliable energy supply is critical to Outokumpu's business operations. Even a one-second cut in supply can have a huge impact on costs. The price paid for energy should be competitive to that being paid by our competitors. We expect our partners to be professional and to be able to react quickly to the needs of their customers.

Risto Liisanantti, Vice President, Administration
Outokumpu Stainless Steel, Tornio



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High fuel and emissions allowance prices

After a two-year period with lower than normal inflows, 2005 started with a surplus in the Nordic water reservoirs and the inflows remained at a high level. At the end of the year, the water reservoirs were 7 TWh above the average and 5 TWh above the 2004 level.

The price for emission allowances was affected by high gas prices – resulting partly from high oil prices. During 2005, the market price for CO₂ emission allowances increased from around EUR 7 per tonne at the beginning of the year to nearly EUR 30 per tonne by mid-July. During the rest of the year, the price was rather stable at EUR 20–24 per tonne. Coal prices decreased compared to the historically high 2004 levels but were still above the 2003 average. This kept the production costs for coal condensing power at a high level.

The average spot price for power in the Nordic power exchange was EUR 29.3 (28.9) per megawatt-hour, or 1% higher than in 2004. In Continental Europe the spot price was higher, resulting in exports from the Nordic countries to Germany.

Power prices in the forward market had an increasing trend until mid-July due to the increasing CO₂ emissions allowance prices. During the rest of the year, the forward prices stabilised below the July peak due to stabilised CO₂ emissions allowance prices and a strengthened hydrological situation.

Increased hydropower generation – successful hedging

The segment's power generation was 48.3 (50.9) TWh, of which 47.2 (49.8) TWh originated in the Nordic countries. Of the segment's power generation in the Nordic countries, 21.2 (19.1) TWh, or 45% (38%), was hydropower-based, 25.8 (25.8) TWh, or 55% (52%), nuclear power-based, and 0.2 (4.9) TWh, or 0.4% (10%), thermal power-based.

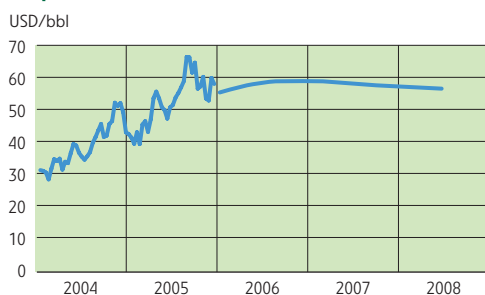
The increase in hydropower generation was due to a strengthened hydrological situation compared to the previous year. The decrease in thermal power generation was due to high hydro production volumes in the Nordic area together with higher fuel and CO₂ allowance prices in the international markets. The availability of Fortum's own and partly owned nuclear power plants remained high. Furthermore, Fortum's Loviisa nuclear power plant made a production record with a net production of 8.14 TWh.

In 2005, 93% (83%) of Fortum's power generation was CO₂-free. The amount of CO₂-free power generation has increased from 29 TWh to 49 TWh during the past six years.

At year end, the segment's power generating capacity totalled 10,003 (10,030) MW, of which 9,863 (9,890) MW was in the Nordic countries and 140 (140) MW in other countries.

Fortum's average achieved Nordic Generation power price (excluding pass-through sales) was EUR 31.2 (29.2) per MWh, 7% higher than the year before mainly, due to improved hedging prices. The average spot price for power

Oil price



Source: Reuters, Market prices on 2 January 2006; 2006–2008 future quotations

Gas price



Source: Reuters, Market prices on 2 January 2006; 2006–2008 future quotations

in Nord Pool was 1% higher than the year before. The related sales volume was 48.1 (51.0) TWh.

Improved efficiency through new and refurbished capacity

Fortum has an investment plan to increase its hydro and nuclear power generation in the Nordic area by some 10% by 2010. Additional power generation investment possibilities within the market area are being monitored. Fortum wants to keep all production methods available when making decisions on future capacity investments.

During 2005, Fortum made small capacity increases, both in hydro and nuclear power generation, and four hydropower plant refurbishment projects were completed. In addition, the refurbishment of the old Månsbo hydropower plant in Sweden was started and will be completed in 2007.

In order to ensure that the Loviisa nuclear power plant in Finland remains at a high technical level for the foreseeable future, Fortum began modernising the plant's automation systems in January 2005. All new automation systems will be implemented by 2014.

Fortum is engaged in the building of Teollisuuden Voima's new nuclear power plant unit, Olkiluoto 3, in Finland through a 25% share. This entitles Fortum to approximately 400 MW of the 1,600 MW pressurised water reactor unit's capacity. The Finnish government granted a construction licence in February 2005, and the unit is expected to begin operating in 2009.

In Sweden, there are plans to increase generating capacity in the existing nuclear power plants. Proposed capacity increases in Ringhals units 1 and 3 have already been given approval by the Swedish government. Fortum, as a part owner, will participate in possible plant upgrades of the Oskarshamn and Forsmark power plants. Fortum's share of

added generation capacity is estimated to be 200 MW. These upgrades are planned for completion during the next ten years.

Increased presence in the Russian market

During 2005, Fortum increased its ownership in OAO Lenenergo to 33.2%. In November, Fortum agreed to acquire 24.8% of the shares in the Russian company Kolenergo and will obtain 23.3% of the voting shares of Kolenergo and its incorporated companies. The transaction is estimated to take place during the first quarter of 2006.

In February, Lenenergo, Kolenergo and Karelenergo agreed on the formation of Territorial Generation Company No. 1, TGC-1, the regional power generation company of north-west Russia. TGC-1 began operations in October based on a leasing model whereby TGC-1 leases and operates the generation and heat assets of its three owners. TGC-1's power generation capacity is 5,750 MW, of which 2,874 MW is hydropower, the rest being mainly natural gas-based generation. Heat production capacity is 14,688 MW. Fortum owns approximately 26% of TGC-1 through its stakes in Lenenergo and Kolenergo.

Emphasis on growth in O&M business

Fortum Service offers operation and maintenance (O&M) services for industry and energy companies, as well as for electricity distribution companies. At Fortum, Service is the competence centre for the company's own power plant operation and maintenance, ensuring high availability and cost-efficient utilisation of the company's generation assets. Fortum also operates in the Nordic industrial maintenance market and is looking for growth in selected international O&M markets, e.g. in Russia.

The availability and efficiency of Fortum's own power plants as well as that of those operated globally by Fortum is

Nordic sales volume

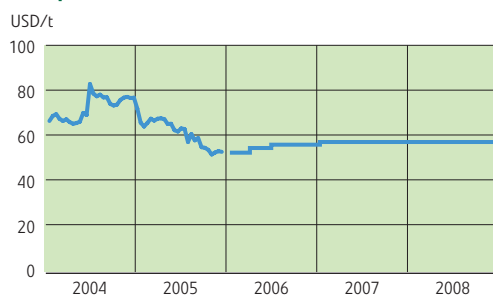
TWh	2004	2005
Sales	55.7	52.6
of which pass-through sales	4.7	4.5

Nordic sales price

EUR/MWh	2004	2005
Nordic Generation power price*	29.2	31.2

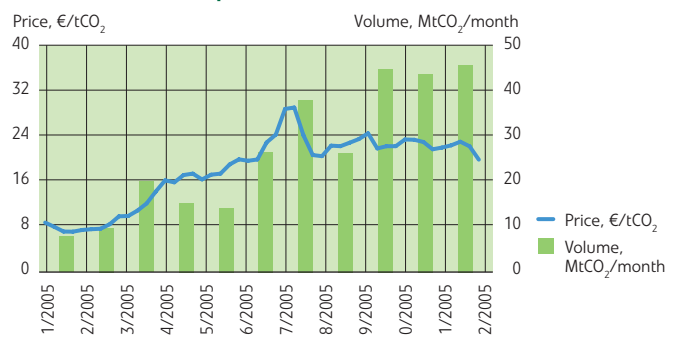
* For the Power Generation segment in the Nordic area, excluding pass-through sales.

Coal price



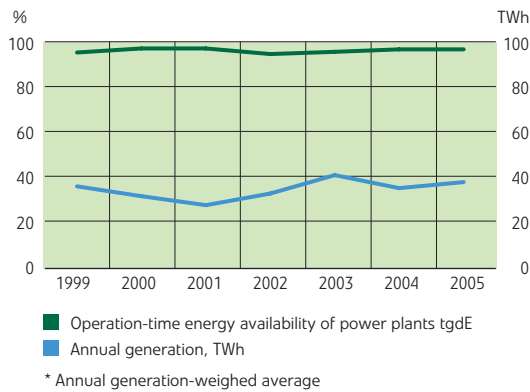
Source: Reuters, Market prices on 2 January 2006; 2006–2008 future quotations

EU emissions trading scheme CO₂ emissions allowance prices and volumes 2005



Source: Point Carbon, www.pointcarbon.com. Reproduced with permission.

Operation time availability (tgdE)*



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very good by international standards. In 2005, the operation-time energy availability (tgdE) of power plants in Fortum's O&M fleet excluding hydropower was 96.9 tgdE.

During 2005, Fortum signed an agreement with Russian companies RAO UES of Russia and Kes-holding (IES, Integrated Energy Systems), aimed at developing a joint operating model for improving the competitiveness of the territorial generation companies. Additionally, Fortum signed a co-operation agreement with Interros, a leading Russian investment company, concerning future expertise and operation and maintenance services of the wholesale power companies acquired by Interros.

A 15-year operation and maintenance agreement was signed in Germany with Trianel Energie covering an 800 MW combined cycle gas turbine power plant.

The continuously improving trend in occupational safety was supported by a comprehensive safety training programme initiated during the year. The programme involves all Fortum Service employees in the Nordic countries and will continue throughout 2006.

R&D to boost competitiveness

The segment's research and development work is aimed at securing the continuous and successful operation of Fortum's power plants, and maintaining know-how that supports power plant operations and maintenance. Future technologies are closely evaluated to assess their potential for efficient power generation. Specific R&D projects in nuclear, hydro and thermal power production are on-going. Fortum is also involved in

research on nuclear waste management and nuclear safety. In addition to its own projects, Fortum works in co-operation with different research organisations and institutes to study different production technologies such as large-scale wind power production and fuel cell technologies. R&D expenditures were approximately EUR 12 (10) million in the Power Generation segment.

Fortum is committed to sustainable power generation and aims to increase its CO₂-efficient production. All of Fortum's Nordic power generation operations have an ISO 14001 environmental certification. Emissions reduction opportunities at Fortum's own facilities have been systematically reviewed. Fortum has consistently made investments in CO₂-free power generation and has taken part in emissions trading since its beginning.

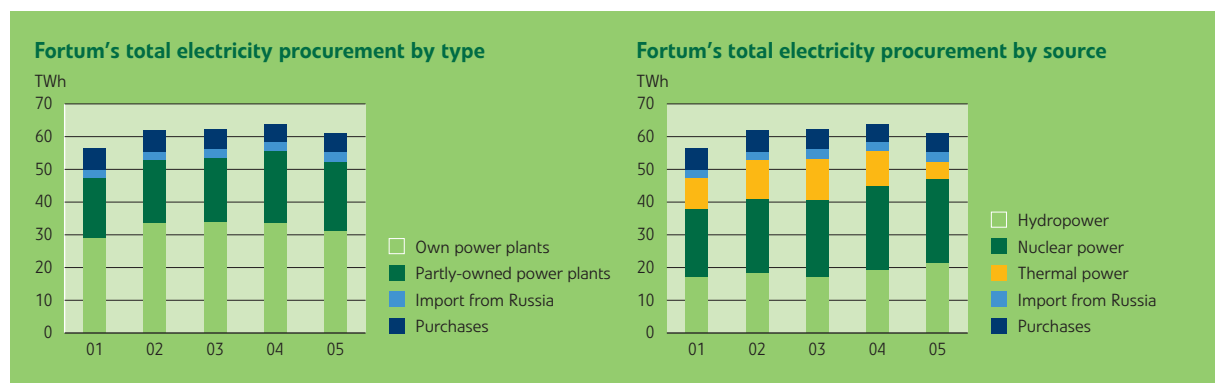
At the Finnish Haapavesi peat-fired plant, a project is in place to change all burners to low-NO_x burners in order to meet tightening NO_x emission limits. Half of the burners were changed in 2005, and the remaining burners will be changed during 2006.

About 4 TWh, 19%, of Fortum's annual hydro production has been certified by Finnish and Swedish societies for nature conservation. Furthermore, Fortum has obtained Guarantees of Origin in the European energy certificate system to be sold to the European market.

Fortum to continue investment activities

In 2006, Fortum will continue investments in power generation. Operational improvements include power generation optimisation and further development of core processes in power generation business.

In the beginning of February 2006, the Nordic water reservoirs were about 4 TWh or 6% above the average and 0.4 TWh above the 2005 level. At the same time, the market price for emission allowances for 2006 was around EUR 28 per tonne of CO₂ and the market price for coal for the rest of 2006 was around EUR 50 per tonne. Forward quotations give reason believe that price levels for oil and gas will remain relatively high. The electricity price in the Nordic forward market for the rest of 2006 was in the range of EUR 40–44 per MWh.



Continued growth

Heat's presence in the Baltic Rim area was strengthened through acquisitions. Capacity was also increased in the Nordic countries as a new waste fuel-based CHP plant was inaugurated in Sweden.

Biofuel use on the increase

Heat concentrates on district heating and cooling, industrial steam and waste-to-energy production, and on energy outsourcing services to industry. It owns and operates 23 (24) combined heat and power plants (CHP)

and several hundred heat plants in the Nordic countries, the Baltic countries and Poland. The segment consists of two business units, Heat and Värme. In the latter, the City of Stockholm has a 50% economic interest.

The goal is to become the benchmark for the heat industry in the Nordic countries and the Baltic Rim area. Today Heat is the leading heat provider in the Nordic countries and it is the main district heat provider for the city of Stockholm in Sweden. Heat is the competence centre for CHP production and waste incineration as well as for district heating and outsourced energy services for local communities and industries.

During the past few years, Heat has successfully established growth platforms in the Baltic countries and Poland. In the Nordic countries it seeks both organic and consolidation-driven growth. Also the market potential in north-west Russia is being evaluated.

Fortum's heat sales totalled 21.7 (21.8) TWh, with Sweden and Finland accounting for 9.5 (9.6) TWh and 9.8 (10.5) TWh, respectively. In other countries, total heat sales

Key figures

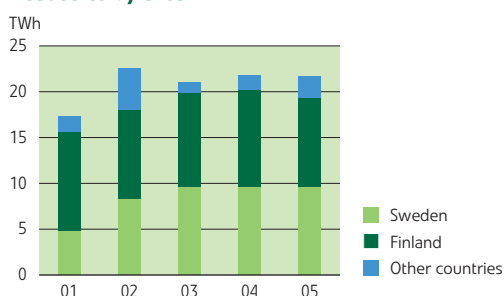
EUR million	2004	2005	Change %
Net sales	1,025	1,063	+4
heat sales	779	834	+7
power sales	159	145	-9
other sales	87	84	-3
Operating profit	218	269	+23
Comparable operating profit	207	253	+22
Net assets (at end of period)	2,440	2,551	+5
Return on net assets, %	9.8	11.6	+18
Comparable return on net assets, %	9.3	11.0	+18
Investments	175	212	+21
Average number of employees	1,605	2,186	+36

amounted to 2.4 (1.7) TWh. In the Nordic countries, industrial steam accounted for 5.1 (5.7) TWh and district heating for 14.3 (14.4) TWh. Power generation at CHP plants was 4.0 (4.6) TWh.

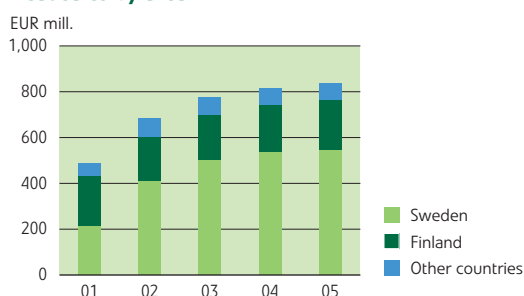
Acquisitions strengthen Baltic Rim operations

The privatisation of the Polish heat market offers potential for growth. Fortum acquired two new heat companies in Poland during the year. In October, Fortum signed an agreement to purchase a majority share of MPEC Wroclaw, a district heating company based in Poland's fourth biggest city, Wroclaw, with annual net sales of EUR 70 million and heat sales of 2,100 gigawatt-hours. In December, Fortum acquired a district heating company in the city of Plock. The annual net sales of the company totals approximately EUR 13 million, with heat sales amounting to 500 GWh. As a result of these acquisitions,

Heat sales by area



Heat sales by area





The co-operation between Fortum and Outokumpu includes, amongst other things, the supply of electricity in Sweden, electricity supply and emissions trading in Finland, electricity distribution to the Degerfors factory, as well as the delivery of heat to the Avesta plant.

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Fortum has four heat companies in Poland with aggregate net sales of EUR 130 million and annual heat sales of 3,900 GWh.

In April, Heat acquired UAB Suomijos Energija, a Lithuanian district heating company with annual heat sales of 60 GWh and fuel sales of 62 GWh. The acquisition of this company creates a growth platform for Fortum in the Lithuanian heat market.

In Finland, Fortum acquired E.ON Finland. An agreement was signed with the city of Espoo over its share in E.ON Finland in December and, on 2 February 2006, an agreement was signed regarding E.ON Nordic's stake in the company. The acquisition will increase Fortum's combined heat and power generation capacity by approximately 2.5 TWh.

Fortum has shareholdings in gas companies in Finland, Sweden and Estonia. As part of the company's continued restructuring of gas assets, Fortum sold its 50% stake in North Transgas Oy to OAO Gazprom in May.

In Sweden, the new waste fuel-based CHP plant in Högdalen, Stockholm, was inaugurated in October. Fortum also began preparations for building a new biofuel-based CHP plant in Värtan, Stockholm, designed to meet 25% of the district heating demand and 10% of the electricity needs in the Stockholm area. During the year, Fortum took part in a number of waste-to-energy tenders in Finland. The company will continue to promote the utilisation of waste-to-energy production also in the future.

Effective energy utilisation

Fortum has committed to acquiring environmental certificates for its heat operations in the Baltic Rim area by the end of 2006.

Effective energy usage in heat production was enhanced by investing in a flue gas scrubber in Tartu, Estonia, and by making energy savings analyses at the biggest CHP plants located in Naantali and Rauhalampi in Finland.

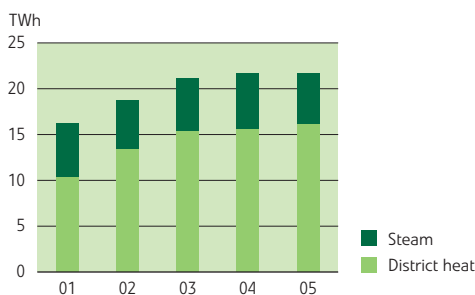
Heat is continuously enhancing the use of biofuels in its plants. New plants are designed to utilise biofuels and waste, and technical modifications have been made to those already in use.

2004 had been an exceptionally good year in terms of biofuel usage in Fortum's heat production. In 2005, however, the amount was somewhat lower due to the lock-out in the Finnish paper industry that lasted over two months. The amount of heat produced with biofuels and thus meeting the "Nordic Seal Recommends" criteria, was 2,031 GWh, which exceeds the licence requirements by 1,245 GWh.

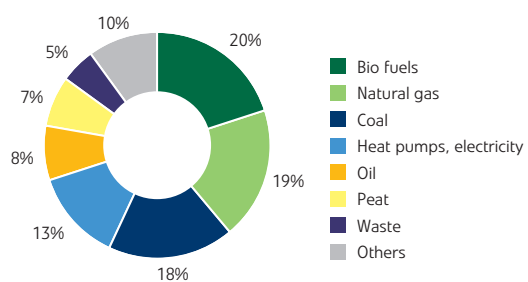
Further utilisation of growth platforms

Profitable business growth continues to be one of the focal points of Fortum's heat business. Emphasis will be put on integrating and further developing the acquired businesses. Heat will continue to look for new opportunities for both organic and consolidation-driven growth in the Nordic countries and around the Baltic Rim. The segment will also continue to utilise opportunities arising from the privatisation of the Russian energy sector in north-west Russia.

District heat and steam sales



Heat production 25.1 TWh in 2005



Fortum's heat production capacity 10,007 MW

Investing in reliability

Fortum launched an additional EUR 200 million investment programme to further improve the reliability of its electricity distribution networks. A project to develop meter reading management allowing customers to be billed according to actual electricity consumption was also started.

*Committed
to customer
service*

Distribution is responsible for a reliable and secure electricity supply. Fortum owns and operates distribution and regional networks in Sweden, Finland, Norway and Estonia and distributes electricity to a

total of 1.4 million customers.

By ensuring a continuous electricity supply and providing high-quality customer service in all conditions, Distribution plays a central role in helping Fortum to achieve its strategic goal of becoming the benchmark power and heat company.

The market share of electricity distribution, based upon the volume transmitted in distribution networks, was 14% (14) in Finland, 14% (14) in Sweden, 3% (3) in Norway and 3% (3) in Estonia.

Upgrading grid reliability

Distribution is committed to continuous improvement of its network reliability. The Fortum Reliability Programme launched in September 2005 aims at further improving the security of supply. The first scheduled phase of the programme will last three years, after which further detailed planning will be implemented. Fortum's current grid availability is 99.9%. The Reliability Programme's aim is to halve the average yearly outage time. During the coming five years, a total of EUR 700 million will be invested in the Nordic networks. Of this amount, EUR 200 million is to be used in the Reliability Programme.

Number of electricity distribution customers by area, 31 December 2005

1,000	2004	2005
Sweden	860	860
Finland	405	410
Norway	93	97
Estonia	22	23
Total	1,380	1,390

Key figures

EUR million	2004	2005	Change %
Net sales	707	707	-
distribution network transmission	593	592	-
regional network transmission	83	82	-1
other sales	31	33	+6
Operating profit	234	251	+7
Comparable operating profit	240	244	+2
Net assets (at end of period)	3,091	3,021	-2
Return on net assets, %	8.1	8.8	+9
Comparable return on net assets, %	8.3	8.6	+4
Investments	106	115	+8
Average number of employees	995	1,008	+1

In Estonia, Fortum's reliability of supply has improved steadily. The network's quality is approximately twice as good as the country average. Another long-term aim of Distribution in Estonia is to minimise energy losses in the distribution network.

In March 2005, the centralisation of Fortum's Swedish grid supervision was finalised. The Swedish control centre and all connected activities are now located in Karlstad. In Norway, Fortum's Elsikkerhet AS subsidiary was sold in September 2005 to Hafslund Elsikkerhet AS.

New regulatory challenges

Electricity distribution is considered and accepted as a strictly regulated business, and is therefore supervised by national energy authorities. Models and principles for supervision differ from country to country. Considerations as to whether the tariffs applied are reasonable can be made either before

Volume of distributed electricity in distribution networks

TWh	2004	2005
Sweden	14.2	14.4
Finland	6.2	6.3
Norway	2.1	2.2
Estonia	0.2	0.2
Total	22.7	23.1

implementation (ex-ante), or afterwards (ex-post). The EU directive states that regulation should move towards ex-ante where this is not yet the case.

In Sweden, the Energy Authority (EMI) has made several decisions about claimed overpricing during 2003 in various distribution areas across the country. Fortum owns one of these areas itself and one through an associated company. Two other Fortum areas are being investigated by EMI. For 2004, EMI has initiated supervision of 55 areas including five owned by Fortum and one owned via an associated company.

Furthermore, following the severe storms that hit the country in January 2005, the Swedish government has imposed a new law covering security of the network supply. The law includes a functional demand on the networks, according to which from 2011 onwards no outage shall exceed 24 hours. The January 2005 storms affected Fortum's grid areas in Sweden and Norway, leaving tens of thousands of customers without electricity and parts of the grid damaged. The total costs to Fortum amounted to EUR 11 million.

As from 1 July 2005, grid prices in Finland have been identical throughout all Fortum network areas. This is in

accordance with the Electricity Market Act, which requires grid companies to have harmonious grid prices in their geographically integrated network areas. As a final step in this price integration, the fixed fee rose for 65,000 customers in southern Finland. For the majority, the rise was 2 EUR/month.

In Finland, the Electricity Market Authority has applied a new rate of return model for the period 2005–2007. A longer supervisory period of 3–4 years will make investment planning more feasible. However, the industry thinks the model still needs to be further improved because of the lack of investment incentives. Some 70 companies, including Fortum, have appealed the ex-ante methodology decision made by the Energy Market Authority to the Market Court.

In Norway, the regulator has proposed a new model effective from 2007 based on a maximum limit for revenues. This will depend upon the actual costs of the company as well as best practice costs. The model includes some investment and quality incentives.

In Estonia, ex-ante price regulation is valid with the rate of return as the basis. Starting from 2005, the Energy Market Inspectorate has introduced 3-year regulation periods with



CPI-x regulation where the prices are allowed to increase by inflation less an assumed productivity improvement. The new law stipulates new standards on reliability of supply.

Improved services to customers and other stakeholders

Distribution is constantly working to improve its services to customers and other stakeholders, such as the media and authorities, during outage situations. This includes, for example, a new nation-wide fault information telephone number in Finland, and a real-time internet service on the outage and maintenance situation in Sweden and Finland.

During 2005, Fortum launched a project aimed at providing an Automatic Meter Management system to all its distribution customers, enabling them to be billed based on their actual electricity consumption. The system will be implemented in phases starting in 2006. The target is to have all customers in Sweden within the system by 2009.

Working for a better environment

Distribution's practices support Fortum's sustainable development policy. For example, as a part of Distribution's Nordic environment programme, contaminated soil in old pole impregnation facilities will be cleaned up by the end of 2006, and substations situated in groundwater areas are equipped with leakage tanks.

In Paimio, south-west Finland, Distribution cleaned up the contaminated soil from an impregnation facility that had been unused since the mid-sixties. A total of 250 m³ of contaminated soil was removed from the area and taken care of by appropriate waste management facilities.

Distribution's overall principle is to avoid the use of the greenhouse gas, Sulphur Hexafluoride (SF₆) as an insulation material in switchgear, and use alternative solutions instead. Additionally, maintenance of distribution transformers and active reuse of demolished materials are considered a sustainable and efficient alternative to building new facilities.

Fortum's distribution business consists of:

- the distribution and regional transmission of electricity and network asset management in Finland, Sweden, Norway and Estonia.
- the distribution network: 136,400 km, 0.4–20 kV cables, overhead lines and 51,900 distribution transformers.
- the regional network: 7,600 km, 20–220 kV cables and overhead lines.

A special feature of the Finnish electricity market is that one single player is allowed a maximum 25% share of the electricity distributed in the 0.4 kV network across the country. At the end of 2005, Fortum's share stood at 15% .

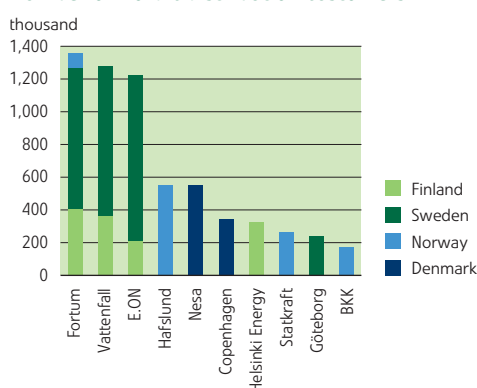
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Distribution has also stepped up its activities to improve occupational safety and awareness of environmental affairs internally. As part of this development work, the majority of Fortum Distribution employees in Finland and Sweden took part in environmental training during 2005. Safety and environmental training continues in 2006.

Focus on network reliability continues in 2006

In 2006 Fortum will support a harmonised Nordic approach to regulation, based on the principles set forth in the EU directive on common rules for the European internal electricity market. The ongoing investment programmes will continue in 2006 with the aim of further securing network reliability and building a system for automatic meter reading.

Number of Nordic distribution customers



Efforts to meet customer expectations continued

During 2005, Markets implemented numerous concrete actions to develop its offerings and to provide customers with the best overall experience on the market. The efforts were successful and Markets secured a positive inflow of customers.

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Service backed by customer guarantee

Markets is responsible for offering energy solutions for its customers in Finland, Sweden and Norway. The segment buys its electricity from the Nordic power exchange Nord Pool and sells it further to household and

business customers as well as to other electricity retailers in the Nordic countries. In addition to the actual sale of electricity, Markets provides comprehensive risk and portfolio management solutions to its business customers.

Markets' ambition is to become the supplier of choice within the Nordic market. In order to achieve this goal, the segment focuses on providing customers with a superior level of service, and managing costs and risks efficiently.

In 2005, the margins remained low and the competition for electricity customers continued to be tough. Nevertheless, Markets was successful in securing a positive inflow of both private and business customers in every country of operation. The segment sold electricity to a total of 1.2 (1.1) million customers in the Nordic countries. However, electricity sales in 2005 were some 7.6% lower than in 2004 and amounted to 40.2 (43.5) TWh, mainly due to the termination of some large customer contracts at the end of 2004.

Price fluctuations and increased competition

Retail price levels fluctuated throughout the year. During the first half of 2005, both current prices and offers for new fixed price contracts averaged lower than in 2004. During the second half of the year, however, retail prices increased due to the increase in future wholesale prices.

At the same time, customer activity to change suppliers continued to increase both in Sweden and Finland. This activity is expected to further increase in 2006. It is estimated that approximately 15% of consumers have changed suppliers since market deregulation in Finland. In Sweden this figure is in the region of 35%. The number of customers in Norway switching from one supplier to another has decreased, but with some

50,000 consumers changing suppliers each quarter, the level remains fairly high. Conversely, the number of customers not buying electricity from the local supplier in Norway has remained stable at about 25% for almost two years.

Wide product range and flexible service

The different needs of various private and business customer segments guide the development of Markets' offerings. Private customers can choose, for example, between an easy and environmentally friendly current-priced contract, a safe fixed-price contract, or a contract based on pricing directly from the Nordic power exchange. For business customers, the focus is more on various solutions aimed at securing both electricity procurement and price, in accordance with the customer's own risk profile. Such solutions range from easy mechanisms to divide the procurement, to professional risk management services.

Both private and business customers are offered a number of advanced online solutions. These include the possibility to sign electricity contracts, monitor consumption, review invoices and to obtain electricity market information via the Internet. The importance of online solutions to customers is clearly growing, and Markets' efforts to improve its digital interface towards customers have increased the use of its online services.

In 2005, Markets introduced a new partnership concept for companies and associations in Finland and Sweden. In the partnership programme, both parties receive added value;

Key figures

EUR million	2004	2005	Change %
Net sales	1,387	1,365	-2
Operating profit	34	32	-6
Comparable operating profit	23	30	+30
Net assets (at end of period)	194	228	+18
Return on net assets, %	25.3	17.4	-31
Comparable return on net assets, %	17.1	16.4	-4
Investments	6	10	+67
Average number of employees	682	745	+9

We expect our partners to have the capability to act in a flexible and customer oriented way in the Nordic area.

Mikko Rintamäki, Outokumpu

Outokumpu has worked in partnership with Fortum since 1933.

Kari Vessonen, Fortum (right)



the employees and customers of the partner are offered attractive electricity products, and correspondingly, Fortum's Nordic customers receive valuable offerings from the partner.

Customer guarantee

Markets' goal is to have the most satisfied and loyal customers, and consequently customer satisfaction is regularly monitored. Feedback is obtained from various channels and a Nordic customer satisfaction survey is conducted annually. Compared with the previous year, satisfaction in particular among business customers improved in 2005.

Fortum's retail electricity customers are served by Markets' sales representatives as well as by the staff of Fortum's shared customer service unit. This unit manages Fortum's Customer Centre, provides billing and back office services, meter reading management and technical customer service. The consumers' interest is looked after by the Customer Ombudsman, function that is independent and reports directly to corporate management. The Ombudsmen in Finland, Sweden and Norway follow-up customer service issues and help individual customers if they are not satisfied with the company's normal service and feedback processes.

The company's promise of customer service quality is expressed in the Customer Guarantee. It includes financial compensation if the service is not up to standard. Services covered include meter readings, billing, change of suppliers and overall customer service. To further improve customer services, Markets actively works together with industry

organisations to simplify and speed up communications between the customer and supplier.

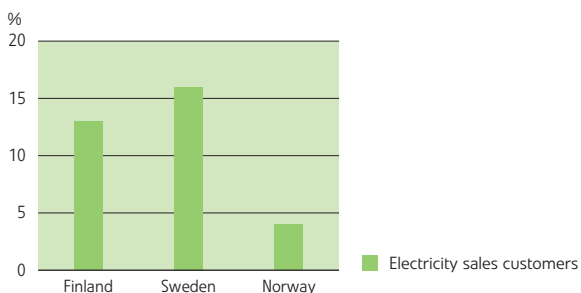
A big supplier of eco-labelled electricity

An increasing number of consumers and businesses buy ecologically sound electricity. In 2005, Markets promoted via its core offerings eco-labelled electricity certified by national societies for nature conservation. Markets also governs a Nordic-wide environmental fund. The fund's capital is based on the sale of electricity with Bra Miljöval eco-label in Sweden. In 2005, the fund financed two ongoing projects in Sweden to mitigate the impacts of hydropower generation, while new Nordic projects are currently under review.

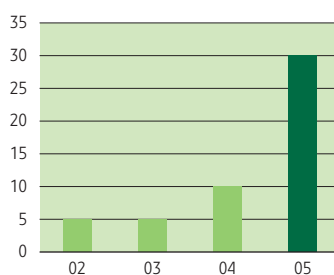
Increasing competition in the Nordic retail market

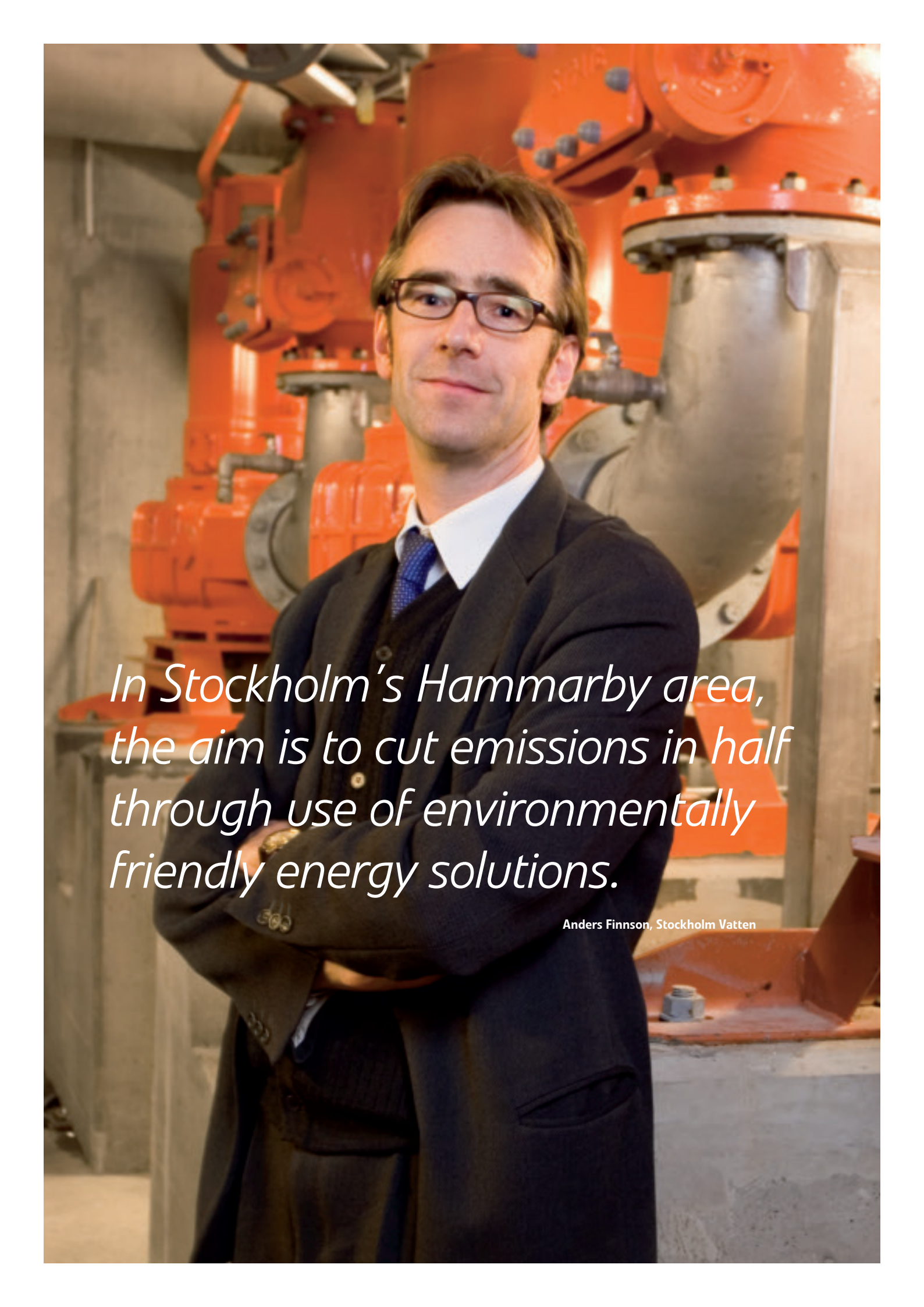
Markets continues to develop its operations and improve the service quality. The development work is guided by regular customer satisfaction surveys and interviews as well as the testing of new products and services by customer boards. Competition on the Nordic electricity retail market seems to be intensifying as customers compare electricity suppliers to an increasing degree. Markets' response to the intensifying competition is to develop competitive and customer friendly offerings and electricity procurement solutions that are promoted through effective sales and service channels.

Market share by Nordic country



Number of new offerings



A man with glasses, wearing a dark suit, white shirt, and blue patterned tie, stands with his arms crossed in front of large, orange industrial machinery. The machinery consists of various pipes, valves, and large cylindrical components. The background is a concrete wall. The lighting is warm, highlighting the man and the machinery.

*In Stockholm's Hammarby area,
the aim is to cut emissions in half
through use of environmentally
friendly energy solutions.*

Anders Finsson, Stockholm Vatten

Good for business, good for societies

Fortum is committed to sustainable development and believes that it gives the company a competitive edge in the market.

Good corporate citizenship

In an era of rising fuel prices and volatile costs of CO₂ emissions, efficient production processes utilising low-carbon energy sources form a sound basis for business. Good environmental and social performance, together with a reputation as a reliable business partner and good corporate citizen, help in achieving Fortum's strategic goal to become the energy supplier of choice. It also strengthens the corporate image as a desired employer, capable of attracting talented individuals to ensure the continued success of the business into the future.

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Policy guides our actions

Fortum has adopted a Sustainable Development Policy to be applied throughout the entire Group.

The policy is based on our core purpose:

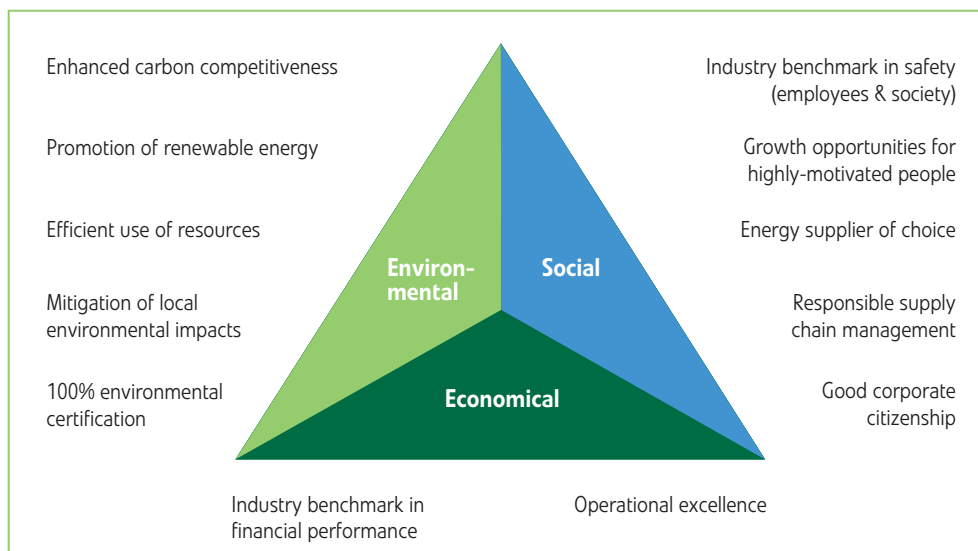
Our energy improves life for present and future generations.

To live up to this aim, we

- contribute to the responsible use of natural resources and the abatement of climate change
- actively engage with our employees and stakeholders to continuously improve our environmental, social and safety performance
- share high standards of business ethics and integrity, care for the environment and respect human rights with our business partners, wherever we operate

We strictly comply with legal and regulatory requirements in all our operations. Our commitment to sustainable development is further elaborated in our guiding principles. We turn the principles into action by setting development targets on Fortum's Sustainable Development Agenda.

Sustainable Development Agenda



A responsible environmental approach

Fortum takes its environmental responsibility seriously and constantly strives to improve its performance in accordance with the environmental objectives in its Sustainable Development Agenda.

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Power and heat production inevitably creates various impacts on the environment. Sustainable development calls for proper control of these impacts to ensure good living conditions today and for future generations.

Objective 1 – Enhanced carbon competitiveness

Fortum formulates its goal with regard to climate change as “enhanced carbon competitiveness.” The aim is to outperform competitors in greenhouse gas management in order to gain a competitive edge in the company’s core business. One of the cornerstones of this strategy is the focus on renewable and low-carbon energy sources. In 2005, 93% of the electricity was generated without carbon dioxide emissions, the highest share of carbon-free generation in the last five years. CO₂ emissions from Fortum’s own power plants in 2005 totalled 6.5 million tonnes, some 45% lower than the previous year. The specific CO₂ emissions of the company’s total electricity generation, including wholly and partly-owned power generation, dropped to 38 g/kWh, which is among the lowest of all major European power companies.

Fortum was an early mover in applying Kyoto mechanisms, having invested USD 6 (EUR 5.12) million in the World Bank’s Prototype Carbon Fund (PCF) during 2000 and 2002. By the end of 2005, Fortum’s PCF investments had yielded verified emission reductions of ca. 20,000 tonnes of CO₂ equivalent. During the Kyoto target period 2008–2012, the emission reduction credits are expected to rise to nearly 200,000 tonnes of CO₂ annually.

Objective 2 – Promotion of renewable energy

Future energy sustainability implies an increasing use of renewable energy sources. Fortum’s goals are to continuously develop hydropower generation and to increase the use of biomass and waste-derived fuels whenever technically and economically viable. In 2005, hydropower and biomass fuels accounted for 43% of Fortum’s electricity generation. Biomass fuels and heat pumps accounted for 39% of Fortum’s total

heat generation. The total use of biomass rose to 7.4 TWh, representing an increase of 2.3 % from the previous year.

Objective 3 – Efficient use of resources

The responsible use of natural resources is fundamental to sustainable development. Fortum promotes resource efficiency through systematic identification and implementation of measures to improve energy efficiency. The company also promotes the re-use and recycling of by-products and waste materials, as well as the use of waste-derived fuels in power and heat generation. CHP and heat plants with high energy efficiency accounted for 98% of the total fuel usage in 2005, while overall efficiency in fuel use improved slightly because of the decreased use of condensing power plants. The utilisation of gypsum from flue gas desulphurisation remained at a high level, whereas the utilisation of ash dropped clearly. The use of waste-derived fuels rose by 11% to 1,500 GWh, representing 4.9% of Fortum’s total fuel use.

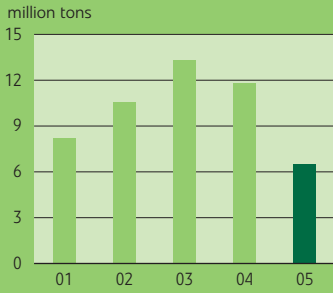
Objective 4 – Mitigation of local environmental impacts

Through the use of proven technology as well as advanced operating and maintenance procedures, Fortum strives to mitigate the local impact on the environment when building and operating its power plants. All of the company’s major power plants are equipped with technologies to reduce sulphur dioxide, nitrogen oxides and particulate emissions into the environment. In hydropower generation, restoration projects are implemented in river systems to improve habitats for endangered species and to support the recreational use of waterways.

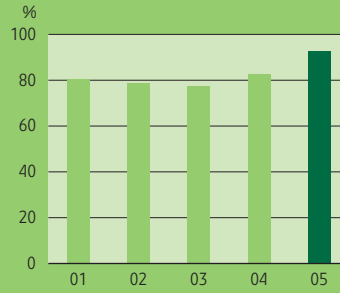
Objective 5 – 100% environmental certification

All business units have developed and certified their environmental management systems in accordance with the ISO 14001 standard. Today this covers more than 90% of Fortum’s business volume. The newly acquired businesses will develop readiness for certification within two years of their acquisition.

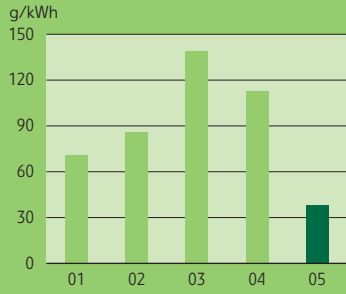
Carbon dioxide emissions



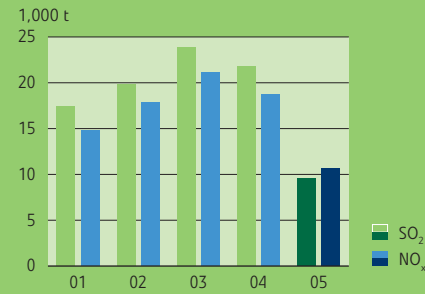
Share of carbon-free energy sources in power generation at own and partly-owned power plants



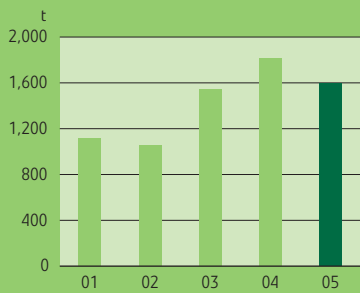
CO₂ emissions from Power generation at own and partly-owned power plants



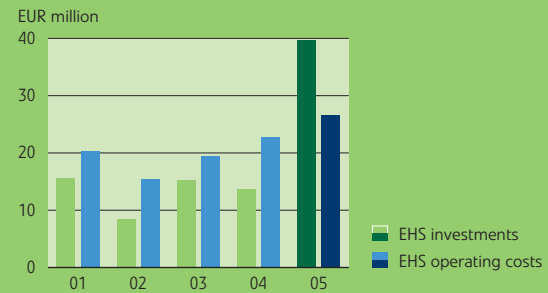
Sulphur and nitrogen emissions



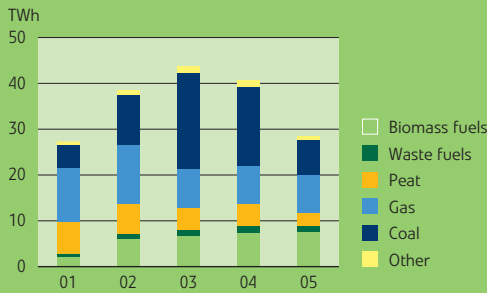
Particulate emissions



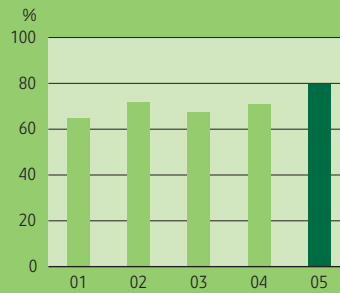
EHS investments and operating costs



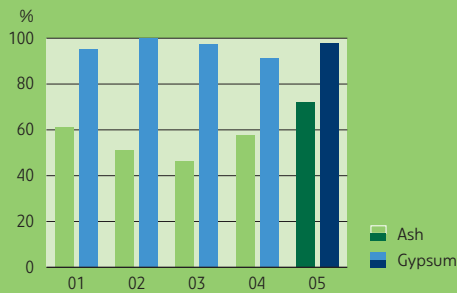
Fuel use



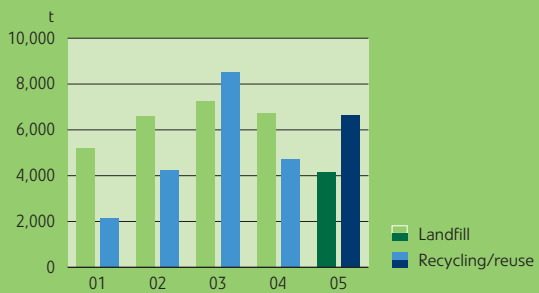
Fuel use efficiency



Utilisation of by-products



Conventional waste



Environmental indicators for 2005 are unverified and may change a bit during a later assurance process. Compared to 2004, the figures for 2005 do not include Kohtlajärve power plant, which was sold in 2005. On the other hand, the figures cover Fortum Czestochowa, which was acquired at the end of 2004. More information is available at www.fortum.com/environment.

Investing in the environment

In 2005, Fortum invested a total of EUR 40 (14) million in improving environmental and safety performance. These investments mainly relate to air-pollution control, dam safety and radioactive waste management. EHS-related operating costs amounted to EUR 27 million.

Environmental liabilities under control

Fortum strives to systematically identify environmental and safety risks. An internal EHS assessment procedure is applied to all significant acquisitions and other projects. Fortum has evaluated the liabilities relating to past operations and made the necessary provisions for any future remedial costs concerning environmental damage. Fortum's management is not aware of any cases that might have a material impact on the company's financial position. Of the provisions for liabilities and charges included in the financial statements for 2005, EUR 21 million is for environmental liabilities. Such liabilities primarily relate to contaminated soil cleanup projects.

In accordance with the Finnish Nuclear Energy Act, Fortum has made provisions for future costs relating to nuclear waste management. Fortum's holding in the State Nuclear Waste Management Fund covers the costs in full.

In 2005, Fortum recorded only one case of non-compliance with environmental regulations. This case did not incur any significant liabilities to Fortum.

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Shops and offices throughout the Hammarby area utilise district cooling. Cold water, taken from the effluent of the heat plant's production process, is channelled to the district cooling system.

Competent people are key to competitive performance

Making people management and development processes an integral part of business is a key success factor in reaching Fortum's strategic goals.

Special areas of development include efficient human resource planning, developing a benchmark employer image, leadership development and building a strong performance culture. All these activities are guided by Fortum's shared values.

Close monitoring of Fortum's employer image

The image of Fortum as an employer is very important for attracting new people to and retaining competent employees in the company and for maintaining a high level of job satisfaction. Increasing focus is given to developing the company's employer image from both an internal and external viewpoint. The image is monitored continuously through internal job satisfaction surveys, the results of which are used to direct actions towards a pleasant working atmosphere.

The employee response rate in the annual internal job satisfaction survey was an excellent 82% (76% in 2004), and the results showed improvement in many areas. The areas showing the most improvement included encouraging a supportive climate for new ideas as well as social responsibility. Fortum employees would also, more often than before, recommend Fortum as an employer to a friend.

Key figures

	2004	2005	Change %
Average number of employees	8,592	8,939	4.0
Number of employees at 31 Dec.	8,891	8,955	0.7
of whom permanently employed	8,664	8,769	1.2
Female, %	25	22	
Women in management positions, %	20	20	
Training days per person	3.0	3.7	23.3
Training expenditure, EUR mill.	7.0	10.8	54.3
Health care expenditure*, EUR per person	425	452	6.4
Expenditure on recreation and leisure activities* % of salaries paid on working time	0.4	0.4	
Lost workday injury frequency (number of injuries resulting in absence of more than one day per million hours worked)	5.9	4.8	-18.6
Fatalities	2	2	

* Finland

Note: Figures for 2004 are excluding oil businesses.

An identified area for improvement is the quality of Performance and Development Discussions. Improvement plans based on the survey results are done and monitored thoroughly also at the corporate level. Further improvement in utilising of the survey results is a key target in 2006.

Internal job rotation plays a key role in vitalising the organisation and offering Fortum's employees new challenges. In 2005, internal recruitment had 229 (305) vacancies, and there were some 176 (120) transfers between units. Approximately 9,000 applications were received via Fortum's recruitment pages on the internet. Some 6,300 applications were for summer trainee positions. During the year, Fortum participated in 11 recruitment events.

Continuous focus on people development

The development of people continues to be a priority in safeguarding Fortum's competitiveness. Fortum Leader Profile, a development tool to improve leadership skills, will be gradually extended to include all superiors. It provides feedback on individual leadership behaviour to enable self-improvement.

Fortum Challenger, a middle-management development programme concentrating on business strategy, profitability and renewal, and Fortum Manager, a programme focused on the development of basic leadership and management skills, were both continued in 2005. Fortum Manager was held in Finnish, English, and in 2005 for the first time also in Swedish. A two-day meeting, Fortum Summit, was held for the second year for senior management to discuss and evaluate past achievements, and to build a common understanding concerning future challenges. A total of 335 Fortum employees participated in these programmes.

To facilitate a smooth induction for new employees, an eLearning programme, Fortum Passport, was introduced in 2004. The programme has been well-received and was used by 300 new employees and trainees in 2005.

Within the business units, the focus during 2005 was on communication and interaction skills, and on safety training. Altogether, investments in people development during 2005

In Hammarby, Fortum works together with the City of Stockholm and property owners to develop new energy technology. This work is benefitting local communities in developing energy solutions to meet a growing and imminent demand.

Fortum Project Manager Kristin Ekblom



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amounted to EUR 10.8 (7.0) million. Each Fortum employee spent an average of 3.7 (3.0) days in training.

Benchmark people management

Since 2000, Fortum has run an internally established evaluation and development process for key personnel known as Management Review. In 2005, a benchmark study was carried out amongst a group of leading Nordic and other European listed companies. Fortum scored very high in most assessment areas. The main strengths were strong top management commitment and participation, standardised tools and systematic processes, and an emphasis on discussion rather than formal procedures.

To support the targeted benchmark-level people management, a new HR IT-system was taken into use at the end of 2005. The full implementation of this project will be realised in the beginning of 2007.

A compensation model rewarding excellent performance

The majority of Fortum employees are covered by an annual performance bonus system aimed at strengthening the performance culture. The annual bonus is based on the financial result of the Fortum Group, each business unit as well as the performance of the individual employee or a team. Performance targets are mutually agreed between each employee and superior in an annual performance discussion. Due to the strong link between the financial results of the Fortum Group, each unit and the individual or team

performance, the average bonus payments in 2004 (paid in 2005) varied between units and individuals. Approximately 3–10% of the annual salary of an average Fortum employee was paid in 2005.

In the spring of 2005, the Fortum Personnel Fund paid a total of EUR 8.7 million in shared profit to its 7,061 members (figure includes oil business employees), based on the financial result of 2004.

Separation of oil businesses changed the organisation

In 2005, Fortum employed an average of 8,939 (8,592) persons. At the end of the year, the number of personnel was 8,955 (8,891), of which 8,769 (8,664) were permanently employed. Women represented 22% (25%) of the total workforce, while women accounted for 20% (20%) of corporate and business unit management. The average age of Fortum employees was 45 (46) years. As a result of separating the oil businesses, more than half, 61%, of employees are now located outside Finland. Sweden is home to the second largest number of employees after Finland. Recent acquisitions in the Baltic Rim area have brought more diversity into the organisation as well.

Emphasising safety culture

The promotion of a strong safety culture in Fortum continued in 2005 with the aim of reducing the number of occupational accidents towards zero. A comprehensive safety development programme has been implemented to help achieve this aim.

Number of employees by segment, 31 Dec 2005

	2004	2005	Change %
Power Generation	4,377	4,330	-1.1
Heat	2,146	2,393	11.5
Distribution	1,076	946	-12.1
Markets	709	769	8.5
Other operations	583	517	-11.3
Total	8,891	8,955	0.7

Number of employees by country, 31 Dec 2005

	2004	2005	Change %
Finland	3,605	3,476	-3.6
Sweden	3,412	3,463	1.5
Poland	924	1,187	28.5
Estonia	427	300	-29.7
Norway	286	268	-6.3
Other countries	237	261	10.1
Total	8,891	8,955	0.7

Note: Figures for 2004 are excluding oil businesses.

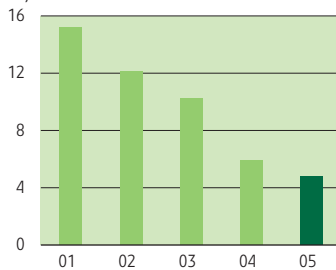
In Fortum, the line organisation is responsible and accountable for safety management and is supported by safety experts and organisations. To highlight the line management's responsibility and accountability, safety is being introduced as a standard issue on the management team meeting agenda, throughout the organisation. Safety matters are to be integrated as part of everyday team work as well.

A safety handbook has been developed specifying corporate-level requirements and procedures in safety management. Additionally, 11 corporate-level development groups prepared more detailed guidelines for safety management, risk assessment, incident investigation, and other vital issues. Procedures defined in these guidelines will be implemented throughout the company during 2006 and safety training given to all employees. 1,100 managers participated in 2–3 days of safety training and one day of training was given to 1,500 employees in Finland and Sweden during 2005; the aim is to train all Fortum employees during 2006. Safety observation tours were also introduced at Fortum sites in 2005. All company management, including the President and CEO, take regular observation tours. Approximately 1,500 such tours were completed at various levels of the organisation during the year.

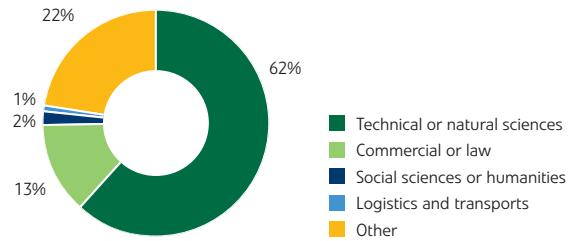
In 2005, there were 68 occupational accidents leading to an absence of more than one working day. This means 4.8 injuries per one million working hours or 18.6 % fewer than in 2004 and below our target value of 5 for 2005. The target for 2006 is less than 4 injuries per million working hours. Although the injury frequency decreased, two fatal accidents occurred in 2005. A Fortum employee died in a boiler explosion in Estonia, and a contractor's employee died while emptying an ash storage silo in Finland. Improving risk assessment practises and adherence to given instructions are key challenges in meeting the zero accidents goal.

Lost workday injury frequency

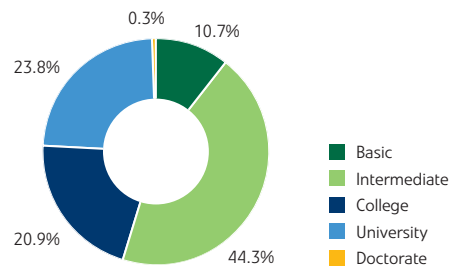
injuries/mill. hours worked



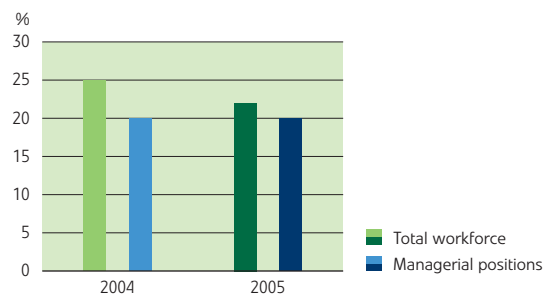
Field of education, 31 Dec 2005



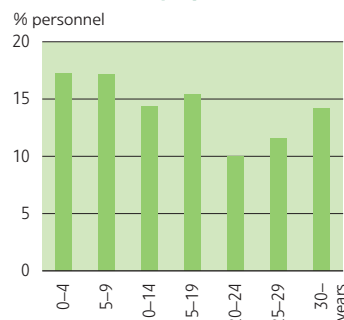
Level of education, 31 Dec 2005



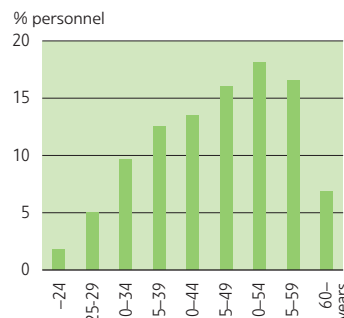
Share of women



Duration of employment, 31 Dec 2005



Age distribution, 31 Dec 2005



The economic impacts

The impacts that Fortum businesses have on the welfare of societies can be measured by monetary flows between the company and its stakeholders.

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Such monetary flows include sales revenues from customers, payments to suppliers, salaries and remunerations to the employees, dividends to shareholders, and investments in the future growth of the industry.

Direct monetary flows generate various indirect economic impacts which, whilst equally important from society's point of view, are nonetheless difficult to measure. Fortum's indirect impacts are related to the businesses of its customers and suppliers, the use of natural resources, the development of know-how and competencies, and new innovations.

Serving 1.4 million customers

Fortum serves more than 1.4 million customers in its market area. The company provides direct end-customers with electricity, heating and cooling and related services. In Stockholm, Fortum also provides town gas. Income from customers from continuing operations in 2005 amounted to EUR 3,983 (4,087) million. Electricity sales in Finland

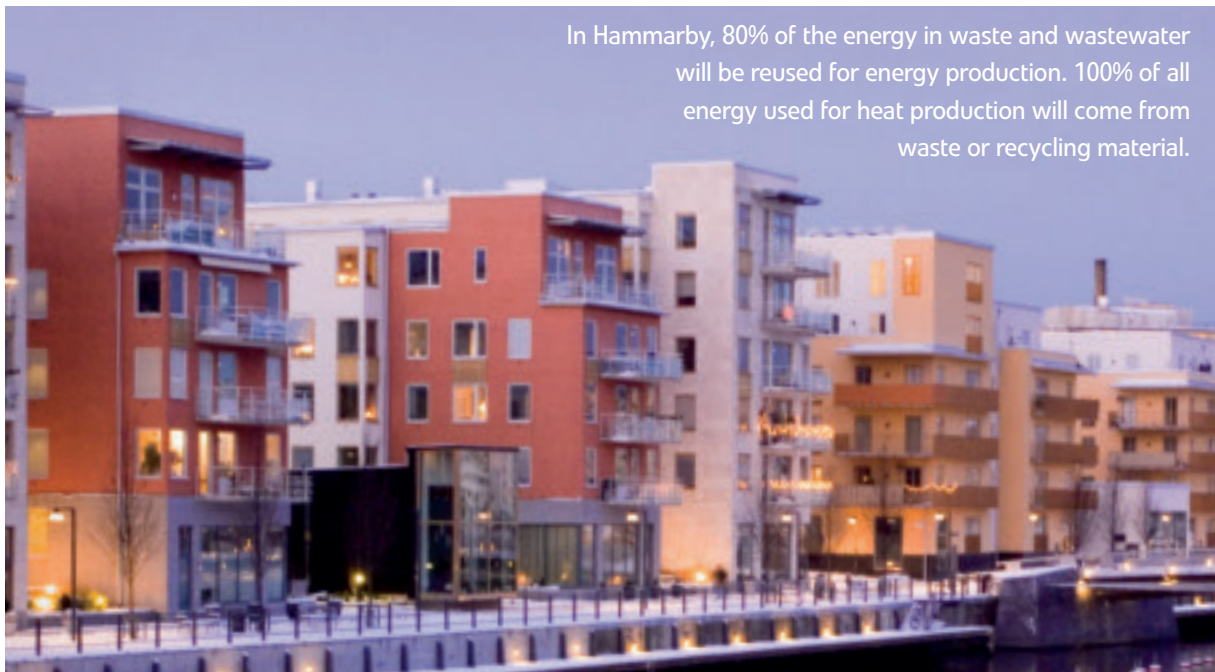
represented 31% (36%) of the national consumption, while in Sweden the corresponding figure was 21% (19%). The percentage was considerably lower in all other markets served.

Managing a global network of suppliers

Fortum's business is primarily the refining of natural energy sources into electricity and heat. Of the income from customers figure, 42% is paid to suppliers of goods and services, the majority being payments to fuel suppliers. Fortum has thousands of suppliers of goods and services. In 2005, cash payments to suppliers totaled EUR 1,672 (1,923) million were purchased.

Share value increased in 2005

The number of employees in 2005 averaged 8,939 (8,592) in 12 countries. The total value of wages, salaries, remunerations and indirect employee costs paid by Fortum to its employees was EUR 481 (462) million.



In Hammarby, 80% of the energy in waste and wastewater will be reused for energy production. 100% of all energy used for heat production will come from waste or recycling material.

Fortum's economic impact

Division of the economic impact between various stakeholders

EUR million	2004	2005
Continuing operations		
Customers	4,087	3,983
Income from customers on the basis of products and services sold, and financial income		
Suppliers	-1,923	-1,672
Cash payments to suppliers of raw materials, goods and services		
Employee compensation	-462	-481
Wages, salaries, remunerations and other indirect employee costs		
Funders compensation	-667	-767
Dividends, interest and financial expenses paid to investors		
Taxes	-160	-298
Income taxes paid by Fortum		
Usage of assets	-325	-291
Investments in fixed assets		
Surplus cash, continuing operations	550	474



Cash from divesting activities	75	56
Income from divestment of business activities or plants		
Future growth investments	-189	-182
Investments made to expand business operations		
Return to funders	-737	-1,022
Payments of liabilities to funder		
Cash flow from discontinued operations	13	1,317
Net change in cash	-288	643

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Fortum had more than 50,000 shareholders at the end of 2005. The Finnish State owned 51.5% (59.3%), while international shareholders held 33.2% (25.2%). A proposal was made to the Annual General Meeting that Fortum should pay a total dividend of EUR 980 (506) million, or EUR 1.12 (0.42) per share to the shareholders for the financial year 2005. During the year, the price of Fortum's shares on the Helsinki Stock Exchange increased by 48%.

Tax income to the community

Through legislation, rules and regulations, licensing processes and taxation, the community forms an important framework for business. In so doing it becomes an important stakeholder for companies. In 2005, Fortum paid EUR 298 (160) million in taxes from continuing operations. State and municipal governments also benefit from the income taxes paid by Fortum employees on their salaries. Furthermore, in Finland and Sweden, Fortum paid a total of EUR 63 (76) million in environmental taxes and charges relating to its fuel use and emissions.

New acquisitions in Russia and the Baltic Rim

In 2005, Fortum acquired majority holdings in two Polish

and one Lithuanian district heat companies. In Russia, the company increased its share in OAO Lenenergo and acquired an approximately 25% share in Kolenergo. Fortum's future growth investments totalled EUR -182 (-189) million, and cash from divesting activities amounted to EUR 56 (75) million.

Support for research, education, culture and sports

The Fortum Foundation distributed a total of EUR 537,000 to support energy sector research and development work. Also, during the year Fortum continued its co-operation with a number of schools and universities.

In Finland, Fortum made donations totaling approximately EUR 250,000 to various charitable causes. These included those aiding children and young people, environmental projects and culture.

Fortum was also the main partner of WWF's Children's Environmental programme in Finland.

The three biggest sponsorship projects within sports were the Athletics World Championships, the Swedish Ice Hockey association and Skiföreningen in Norway.

Fortum's cultural support included Folkoperan in Stockholm and the Finnish Chamber Orchestra in Finland.

Corporate citizenship

Fortum wants to be a good corporate citizen and is committed to building a sustainable energy future in close co-operation with its stakeholders.

The chart illustrates some of the ways Fortum keeps up the dialogue with its stakeholders.

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Stakeholder	Means of interaction	
Customers	<ul style="list-style-type: none"> - Customer contact centre - Customer feedback teams and Customer Ombudsmen to handle deviations and develop services - Customer satisfaction surveys - Online services 	
Customers B2B	<ul style="list-style-type: none"> - Face-to-face with nominated contact person - Face-to-face with nominated Portfolio Manager to handle e.g. risk management issues - EnergyExtra extranet service channel - External stakeholder magazine 3–4 issues per year 	
Personnel	<ul style="list-style-type: none"> - Annual performance and development discussions - Annual job satisfaction survey and related discussions in units - <i>Fortum European Council</i> - European Works Councils twice a year, national workers' co-operation bodies in Nordic Countries twice a year - Fortum Team personnel magazine 4 times per year - Open discussion channel in intranet - Info meetings and management letters on topical issues 	
Investors (shareholders, bankers)	<ul style="list-style-type: none"> - Investors channel in internet - Capital Markets Day and quarterly road shows for institutional investors - Annual General Meeting - Investor exhibition and events for private investors - Annual Report and external stakeholder magazine 3–4 issues per year 	
Suppliers of fuels, goods and services	<ul style="list-style-type: none"> - Performance reviews with most important suppliers - Auditing and evaluating meetings with potential new supplier 	
Research organisations	<ul style="list-style-type: none"> - Joint R&D efforts and co-operation with e.g. VTT, Technical Research Centre of Finland, Elforsk in Sweden and EU Commission's energy research initiatives - Promotion of research, education and development in the energy industry through Fortum Foundation Award 	
Non-governmental organisations	<ul style="list-style-type: none"> - Local co-operation with e.g. fishery collectives regarding hydro generation's ecological impacts - Co-operation with Finnish and Swedish national nature conservation associations regarding eco-labelled electricity products - Fortum Värme's co-operation with WWF Global Forest and Trade Network (GFTN) regarding sustainable fuel procurement 	
Local communities and general public	<ul style="list-style-type: none"> - Media meetings and media channel on internet - Open House days at power plants - Co-operation and joint communication with municipalities and regional authorities, e.g. environmental administration, regarding local environmental impacts - Support for education, culture and sports through the Fortum sponsorship programme 	
Energy industry and related sectors	National and international branch organisations <ul style="list-style-type: none"> - Finnish Energy Industries - Swedenergy - EBL, Norwegian Electricity Industry Association - Nordenergi - Eurelectric 	Other organisations <ul style="list-style-type: none"> - Nordic power exchange Nord Pool - Nordel - Nordic TSO co-operation organisation - Nordic energy regulators - Nordic Council of Ministers - energy ministers - Baltrel - Baltic Ring electricity co-operation committee
	Issues <ul style="list-style-type: none"> - Nordic electricity market harmonisation and integration - Equal treatment of market actors - Development of Nordic retail market - EU electricity market integration - Harmonised approach to climate change abatement and renewables - Russian co-operation - Baltic adaptation to the EU 	

Risk management

During 2005, the risk profile of the Fortum Group was altered as a result of the separation of the oil businesses. Risk exposure is now concentrated on the power and heat industry.

Focus on operational risks

For Fortum, the weather in the Nordic region, the development of the global commodity markets, and regulation and taxation within local, regional and European electricity markets are the main risk factors.

Fortum has continued to develop risk management practices during the past year, specifically regarding operational risks. An initiative was undertaken to systematically identify and assess these risks in the Group. The corporate risk management framework has, as a result, been extended to include relevant operational risks in addition to financial risks.

Fortum's Risk Management Framework

Objective

The objective of risk management in Fortum is to support the achievement of agreed targets while avoiding unwanted operational and financial events.

Policies

Fortum's Board of Directors approves the Corporate Risk Policy, which sets the objectives, principles, responsibilities and processes for risk management activities within the Group. The policy sets guidelines for identifying, assessing, responding to, controlling and reporting risks. Each business and service unit submits a risk policy, which adheres to the Corporate Risk Policy, to the CEO for approval.

Organisation

Generally, risks are managed at the source, i.e. within the business or service unit where they originate. An exception is Group Treasury, which is responsible for managing the Group's currency, interest rate and refinancing risk as well as for managing insurable operational risks within the Group. Counterpart risks and certain IT-related risks are also managed at the Group level.

Corporate Risk Management is headed by the Chief Risk Officer and is organized within the Corporate Finance unit. Risk control functions at the business and service unit level are responsible for reporting risks to the Corporate Risk Management function, where Group-wide consolidation and analysis is performed. The Chief Financial Officer reports the Group's consolidated risk exposure to the CEO and the Board of Directors.

Process

Fortum steers the Group through business and service units which are responsible for their own results and for achieving internally agreed targets. Each unit is responsible for identifying, assessing, responding to, controlling and reporting the risks to which they are exposed. Corporate Risk Management assesses and reports the Group's consolidated exposure to Group Management.

Financial risks

Financial risk management is a core element of Fortum's business operations, and has continued to be improved during the past year. The focus has been on harmonising market risk quantification models across different products and units. The main principle is that risks are quantified as accurately as possible and monitored against approved limits in relation to agreed targets. A number of different methods,



such as Value-at-Risk and Profit-at-Risk, are used throughout the Group to support this principle. In addition, stress-testing is carried out in order to assess the effects of extreme price movements on Fortum's earnings.

Electricity price and volume risks

The main short-term factor influencing electricity prices and volumes is the weather and its effect on the hydrological balance in the Nordic market. During the past year, fuel prices and the price of CO₂ allowances have also had a notable effect on electricity prices.

Fortum manages electricity price and volume risks in the generation business separately from customer sales. Price

risks in electricity generation are primarily managed by entering into electricity forwards and futures contracts in order to hedge the cash flows generated by production assets. The objective of hedging is to reduce the effect of electricity price volatility on Fortum's earnings, and to secure the achievement of defined targets. Strategies for achieving these targets are defined for several years, and are continuously evaluated as market prices for electricity and CO₂ allowances, the hydrological balance and other relevant parameters change.

Fortum Markets manages both the electricity price and temperature-related volume risks in its sales business through an active portfolio management combined with market price



All waste produced in the Hammarby area is recycled through pipes to fuel local energy production.



based pricing of contracts. Cash flows generated from customer sales contracts are subject to uncertainty, mainly due to variations in customer consumption profiles and volatility of market prices. The objective of hedging is to secure defined targets and lower the uncertainty in profit margins.

The effects of potential changes in electricity prices and volumes on Fortum's earnings are monitored on a continuous basis. The hedge ratio on 31 December 2005 was approximately 70% for the year 2006. Assuming no changes in generation volumes, hedge ratio or cost structure, a EUR 1/MWh change in the market price of electricity would affect Fortum's 2006 pre-tax earnings by approximately EUR 15 million.

CO₂ allowances and commodity price risks

The CO₂ emissions trading scheme enhances the integration of the Nordic market with Europe. The main factor influencing the prices of CO₂ allowances is the supply and demand balance determined by the allocation plans in relation to the demand from the sectors covered by the trading scheme. Allowances were granted based on historical emission levels, and surpluses or deficits of allowances can be sold or bought on the market. The effects of potential changes in CO₂ emissions on Fortum's earnings are monitored on a continuous basis in order to ensure that Fortum always has allowances to cover the requirements under the trading scheme.

In addition to having an effect on CO₂ allowances and electricity prices, commodity prices, such as coal, gas and oil prices, also have a direct effect on variable heat and power production costs. These price risks are primarily managed through fixed price purchases which cover the forecasted consumption levels. Fixed price purchases can be either for physical deliveries or in the form of financial hedges.

Liquidity and refinancing risks

Financing and liquidity management within the Group is centralised to the parent company through Group Treasury. The operating companies are primarily financed via internal

loans, and excess cash positions are centralised to the parent company either through internal cash-pool arrangements or by internal deposits.

Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. The total amount of these facilities covers forecasted financing requirements, and should ensure that the Group has sufficient reserves to meet unexpected increases in financing needs. As per 31 December 2005, cash and marketable securities amounted to EUR 788 million and the amount of committed credit facilities was EUR 1,314 million, all of which was unused.

In order to further reduce refinancing risks, Fortum strives to have a diversified financing structure in terms of debt maturity profile, debt instruments and geographical markets.

Currency and interest rate risks

Fortum has cash flows and investments in currencies other than euros. Changes in exchange rates therefore affect Fortum's earnings. The largest exposures are in SEK which arise largely from the Group's activities in Sweden. Fortum's target for currency risk management is to minimise fluctuations in earnings and cash flow due to changes in currency rates.

Fortum's debt portfolio consists of loans and bond issues with differing maturity profiles. Fortum's interest-bearing debt as per 31 December 2005 was EUR 3,946 million with an average duration of 1.3 years. Fortum can affect the duration of the debt portfolio by entering into different types of interest rate contracts. Strategies for the optimal structure of the debt portfolio are continually evaluated and developed in order to achieve the Group's targets.

Counterpart risks

A counterpart risk arises when there are contractual obligations between Fortum and an external counterpart. The objective of counterpart risk management in Fortum is to minimise this risk in relation to the business at hand.

Counterpart risk is quantified as the maximum expected loss to Fortum in the event that a counterpart to Fortum defaults on its obligations. Corporate Credit Control sets a Group-wide limit for the maximum allowed level of counterpart risk with any single counterpart. Limits are based on the credit-worthiness of the counterpart, which is monitored to ensure that action can be taken if changes occur. Corporate Credit Control also monitors and reports counterpart exposures against the approved limits.

Counterpart risk that arises in conjunction with derivatives contracts is especially important since the exposures are often volatile. The majority of commodity derivatives are traded through exchanges such as Nord Pool for electricity derivatives, but there are a number of contracts that are entered into directly with external counterparts. Derivatives transactions are limited to high-credit-quality counterparts active on the financial or commodity markets. Counterpart risk in the retail and wholesale business is well diversified over a large number of private individuals and industrial companies.

Operational risks

Large-scale energy business involves many types of operational risks. During 2004 and 2005, a systematic identification and assessment of the major operational risks to which Fortum is exposed was carried out. This was accomplished through self-assessment workshops conducted with all business and service units within the Fortum Group.

Operational risks are difficult to assess, and they often occur as a result of inadequate processes or procedures, incorrect use of systems or models, or unclear management practices. By clearly documenting and automating processes, and by ensuring a strict separation of duties between decision-making and controlling functions, many unwanted operational events can be avoided. Quality and environmental management systems are a tool for achieving this objective, and Fortum has several certifications including ISO 9001 and ISO 14001.

A Group Insurance Policy has been established to govern the management of insurable operational risks within the Group. The objective of insurance management is to optimise loss prevention activities, self retentions and insurance coverage in a long-term, cost-efficient manner. Fortum has established Group-wide insurance programmes for risks related to property damages, business interruption, liability exposures and business travel. Fortum Insurance Ltd, a captive company established in 1988, participates in Fortum's property and business interruption programmes in which industrial plants are covered on a replacement cost basis. The competitiveness of insurance costs is secured through economies of scale and direct access to the international

insurance market. Event risks, such as sudden and unexpected environmental damages, are covered world-wide by the Group liability insurance.

Nuclear risks

Fortum owns the Loviisa nuclear power plant and has minority interests in one Finnish and two Swedish companies with nuclear plants. In Finland and Sweden, third-party liability relating to nuclear accidents is strictly the plant operator's responsibility and must be covered by insurance. As the operator of the Loviisa power plant, Fortum has a statutory insurance policy of some EUR 250 million per nuclear incident, which is the upper liability limit for Fortum under the provisions of the Finnish Nuclear Liability Act. Similar insurance policies are in place for the operators where Fortum has a minority interest.

Risks at production facilities

Continuous maintenance and condition monitoring are the key methods in minimising operational risks in production facilities. At the Loviisa power plant, assessment and improvement of nuclear safety is a continuous process performed under the supervision of the Radiation and Nuclear Safety Authority of Finland (STUK). For hydro generation assets, the long-term programme for improving the surveillance of the condition of dams and for securing the discharge capacity in extreme flooding situations continued during 2005.

Storms and other unexpected events may result in electricity outages that create costs in the form of repairs and customer compensation. Outages are typically short, but it is not possible to totally prevent long outages. There is a procedure in place to minimise the length and consequences of outages in exceptional circumstances.

Environmental, health and safety risks

Environmental and safety risks are regularly evaluated through internal and external audits and risk assessments, and corrective and preventive action is enacted when necessary. All major production and distribution activities are covered by certified environmental management systems (ISO 14001).

The development of a strong safety culture in Fortum continued in 2005. Training sessions have been held as part of a comprehensive development programme and the results can be seen in the improvement of safety performance.

Environmental, health and safety risks arising through investments are systematically evaluated in accordance with Fortum's Investment Evaluation and Approval Procedure. The EHS Assessment Guidelines have been updated for this purpose during 2005. EHS-related responsibilities and liabilities

are defined in the contract documents for acquisitions and divestments. Environmental risks and liabilities in relation to past actions have been assessed and necessary provisions made for any future remedial costs.

Climate change will be the biggest environmental challenge for energy companies. Developing EU-wide and national climate strategies implies stricter control of greenhouse gas emissions such as CO₂. The main policy instrument is the emissions trading scheme, which covers approximately 95% of Fortum's CO₂ emissions. The first phase of the EU emissions trading scheme started at the beginning of 2005 and will run through 2007. From a risk management point of view, Fortum's position is strong as approximately 80–90% of its annual power generation is based on CO₂-free energy sources. In order to raise the level of know-how in applying the Kyoto mechanism, Fortum has invested in the Prototype Carbon Fund (PCF) of the World Bank.

Other risks

IT and information security risks

Group common IT and information security risks are managed centrally within the Corporate IT function. Risks in business-specific IT applications are managed within the business and service units. Corporate policies define guidelines and set procedures for minimising the risk of losses or costs caused by breakdowns in IT-related processes or breaches in security. The main objectives are to mitigate IT-related risks and

to increase reliability and security by consolidating IT infrastructure and common applications.

Political and regulatory risks

Development of the political and regulatory environment has a major impact on the energy industry and on the conditions of its business operations. To manage these risks and to proactively participate in the development of the political and regulatory framework, including energy taxation, Fortum maintains an active and ongoing dialogue with the bodies involved in the development of laws and regulations. Specifically, this includes close co-operation with national industry organisations and Eurelectric at the EU level.

Fortum's investments and business operations in Russia are currently rather limited. However, there are new possibilities emerging due to the ongoing restructuring of the power and heat industry in Russia, and Fortum continuously monitors and assesses these developments. The timetable and targets for the restructuring process are set, but are subject to political decisions, which make them difficult to predict.

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In Hammarby, 100% of the biogas is produced from waste water. For example the kitchens in the region have gas stoves which utilize biogas.

Corporate governance

Fortum’s headquarters are in Espoo, Finland where it is listed on the Helsinki Stock Exchange. Corporate governance at Fortum is based on the laws of Finland and on the company’s Articles of Association.

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Enhancing a culture of transparency

Furthermore, the company complies with the Corporate Governance Recommendation for Listed Companies in Finland with the exception that Fortum’s Board of Directors’ Nomination and Compensation Committee does not assist the Annual General Meeting in the nomination process of members to the Board of Directors. To do this, the Annual General Meeting has established a Shareholders’ Nomination Committee.

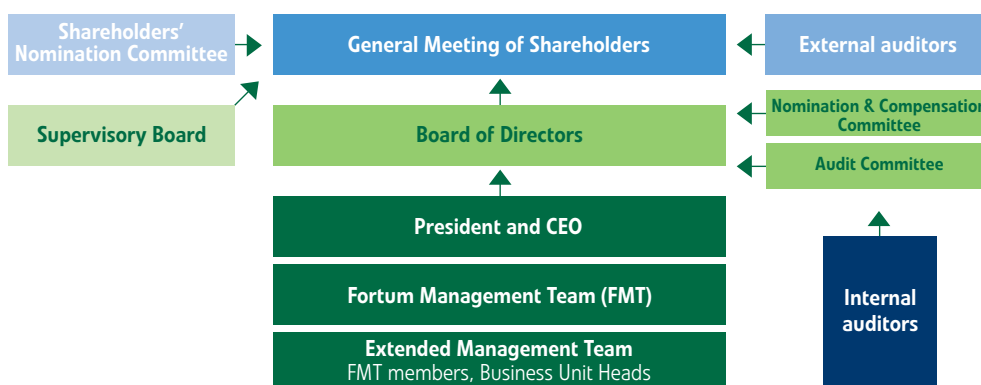
Fortum prepares annual financial statements and interim reports conforming to Finnish legislation. They are published in Finnish, Swedish and English. The International Financial Reporting Standards (IFRS) were adopted in 2005.

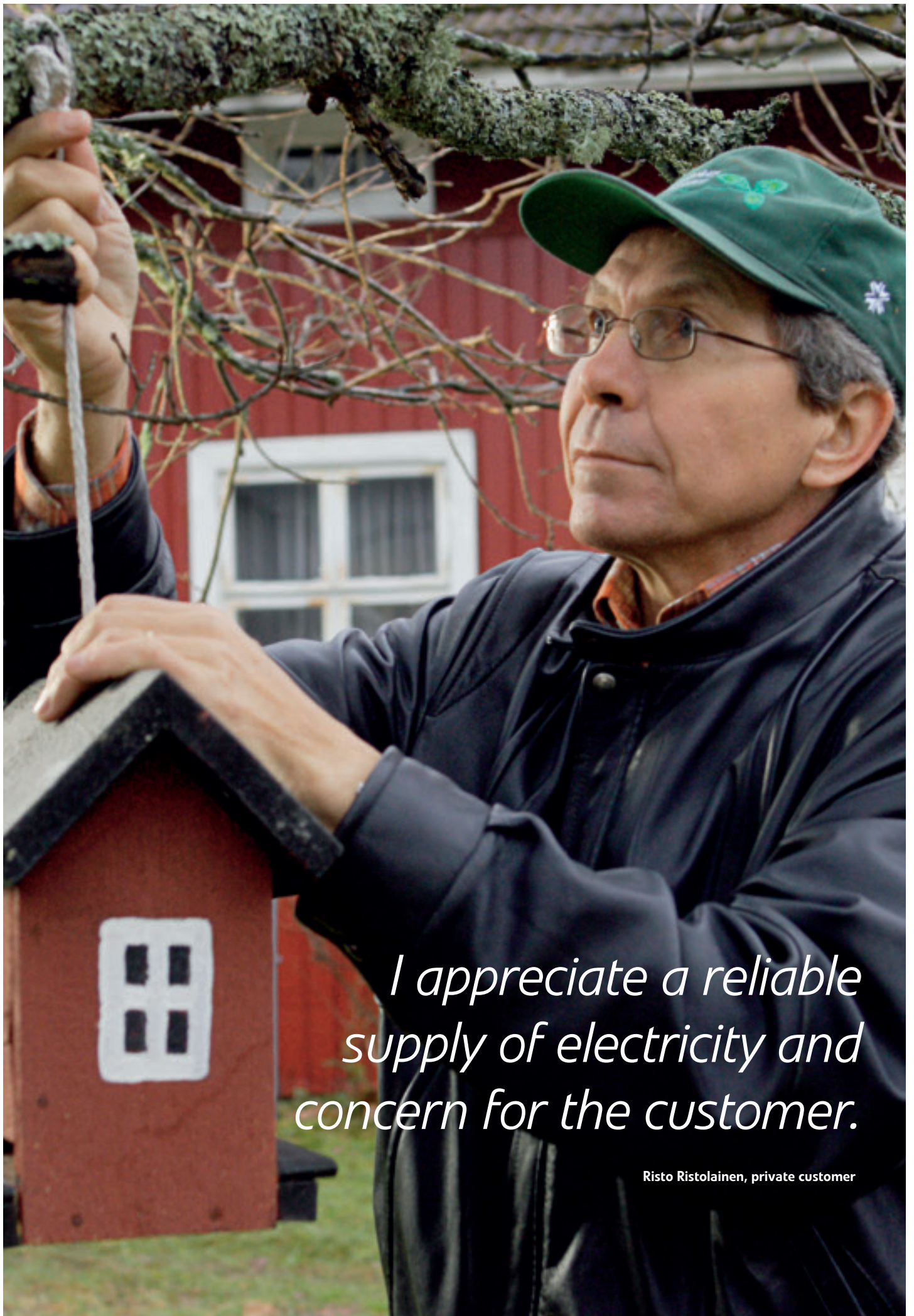
Governing bodies

The decision-making bodies running the Group’s administration and operations are the Annual General Meeting of Shareholders, the Supervisory Board, the Board of Directors with its two Committees, and the President and Chief Executive Officer assisted by the Fortum Management Team. The Board of Directors supervises the performance of the company, its management and organisation on behalf of the shareholders. The Supervisory Board, the Board of Directors and the Fortum Management Team are separate bodies, and no one serves as a member of more than one of them.

Day-to-day operational responsibility at the Group level rests with the President and CEO assisted by the Fortum Management Team, and at business unit level with each unit’s President assisted by a management team (see organisation structure on page 3).

Fortum’s organisation is characterised by decentralisation and delegation of a substantial degree of authority and responsibility to the business units. Each business unit has its own staff and other resources.





I appreciate a reliable supply of electricity and concern for the customer.

Risto Ristolainen, private customer

General Meeting of Shareholders

The right of shareholders to make decisions over company matters is exercised at an appropriately convened General Meeting of Shareholders by those shareholders present, or by their authorised representatives.

In accordance with the Articles of Association, a notice to convene the General Meeting of Shareholders is issued by the Board of Directors. The notice is delivered no more than two months and no less than 17 days before the General Meeting of Shareholders by publishing the notice in two newspapers chosen by the Board of Directors. The Annual General Meeting is held once a year, at the latest in June. An Extraordinary General Meeting of Shareholders shall be held whenever the Board of Directors finds cause for such a meeting, or when provisions of the law rule that such a meeting must be held.

The shareholders who are registered with the register of shareholders of the company, which is maintained by the Finnish Central Securities Depository Ltd, are entitled to attend the General Meeting of Shareholders. Shareholders who hold their shares under the name of a nominee can be temporarily registered with the register of shareholders of the company to allow attendance at the General Meeting of Shareholders.

To be entitled to take part in the General Meeting of Shareholders, the shareholder shall register with the company at the latest by the date mentioned in the notice convening the meeting, and which may be no more than ten days before the meeting. If a shareholder wishes to bring up a matter for consideration by the General Meeting of Shareholders, he/she shall present the matter in writing to the Board of Directors early enough for the matter to be included in the notice convening the meeting.

The duties of the Annual General Meeting are, amongst other things, to approve the parent company and consolidated income statement and balance sheet, agree on the amount of dividends to be paid, agree on the number of members on the Supervisory Board and the Board of Directors, appoint the members of the Supervisory Board and the Board of Directors, elect the auditor, and decide on the compensation of the members of the Supervisory Board and the Board of Directors and the remuneration for the auditors.

A dividend is paid to shareholders who, on the date of record for dividend payment, are registered with the register of shareholders of the company, which is maintained by the Finnish Central Securities Depository Ltd.

Shareholders' Nomination Committee assists the Annual General Meeting of Shareholders

By decision of Fortum's Annual General Meeting in 2005, a Shareholders' Nomination Committee was appointed to assist the Annual General Meeting. The Committee's duty is to prepare proposals concerning Board members and their

compensation for the following Annual General Meeting. The Committee consists of the representatives of the three largest shareholders, with the Chairman of the Board of Directors as an expert member. Those three shareholders, whose share of the total votes of all shares in the company is the largest as of 1 December preceding the Annual General Meeting, are entitled to appoint the members representing the shareholders on the Committee. In 2005, the following persons were appointed to the Shareholders' Nomination Committee: **Markku Tapio** (Chairman), Director General, Ministry of Trade and Industry; **Kari Puro**, President and CEO, Ilmarinen Mutual Pension Insurance Company; and **Jorma Huhtanen**, Director General, Social Insurance Institution.

The Shareholders' Nomination Committee shall be convened for the first time by the Chairman of the Board of Directors and the Committee shall select a chairman from amongst themselves. The Committee must give its proposal to the Board of Directors no later than 1 February preceding the Annual General Meeting.

Supervisory Board

The Supervisory Board is responsible for overseeing that the shareholders' interests are safeguarded. The main tasks of the Supervisory Board are to supervise the administration of the company, to submit its statement on the financial statements and the audit report to the Annual General Meeting, and to discuss proposals on matters that involve a substantial downsizing or expansion of the business or a material modification to the organisation.

The members of the Supervisory Board, its Chairman and Deputy Chairman are elected at the Annual General Meeting for a one-year term of office. A person who has reached the age of 68 years may not be elected as a member of the Supervisory Board.

The Supervisory Board comprises a minimum of six and a maximum of 12 members; in February 2006 there were 12 members. The Supervisory Board meetings are also attended by three employee representatives who are not members of the Supervisory Board. More than half of its members must be present to constitute a quorum. In 2005, the Supervisory Board met five times. Average attendance at these meetings was 93%.

At the 2005 Annual General Meeting, the following persons were elected to the Supervisory Board for a one-year term of office: Members of the Parliament of Finland **Mr Timo Kalli** (b. 1951), Chairman of the Supervisory Board **Mr Jouni Backman** (b. 1959), Deputy Chairman **Mr Lasse Hautala** (b. 1963), **Ms Rakel Hiltunen** (b. 1940), **Mr Mikko Immonen** (b. 1950), **Mr Kimmo Kiljunen** (b. 1951), **Mr Jari Koskinen** (b. 1960), **Mr Oras Tynkkynen** (b. 1977), **Mr Ben Zyskowitz** (b. 1954); Second Vice Chairman of the City

Council of Kurikka Mr Martti Alakoski (b. 1953), Director General Mr Jorma Huuhtanen (b. 1945), and Industrial Councillor Mr Kimmo Kalela (b. 1941). The employee representatives on Fortum's Supervisory Board were Ms Satu Laiterä, Mr Jouni Koskinen and Mr Tapio Lamminen.

Shares held by members of the Supervisory Board on 31 December 2005

	Shares	Change
Rakel Hiltunen	200	+200
Kimmo Kalela	3,200	0

Compensation for Supervisory Board service

Each Supervisory Board member receives a fixed monthly fee and a meeting fee. The employee representatives receive only a meeting fee. All members are entitled to travel expense compensation against receipts in accordance with the company's travel policy. Members of the Supervisory Board are not offered stock options, warrants or participation in other incentive schemes, nor do they have a pension plan at Fortum.

On 31 March 2005, the Annual General Meeting confirmed the following remuneration for Supervisory Board service:

EUR/month	2004	2005
Chairman	1,000	1,000
Deputy Chairman	600	600
Members	500	500
Meeting fee	200	200

Total compensation for Supervisory Board paid by Fortum

EUR, total compensation	2003	2004	2005
Chairman	4,400*	10,200	12,800
Deputy Chairman	8,200	8,600	8,000
Other members	67,300	66,900	67,800

*) 4 months

Board of Directors

The Board of Directors is responsible for the administration of the Group and for ensuring that the business complies with the relevant rules and regulations, Fortum's Articles of Association, and the instructions given by the General Meeting of Shareholders and the Supervisory Board.

The Board of Directors is responsible for the company's strategic development and for supervising and steering the business. It also decides on the Group's key operating principles, confirms the company's annual operating plan, annual financial statements and interim reports, decides on major investments, confirms the company's shared values and operating principles and oversees their implementation,



Fortum has ombudsmen who oversee consumer rights. Here, the cause of the sudden increase in electricity consumption was found to be a defective meter.

Ombudsman Gustaf Sandström (left) with Risto Ristolainen.

appoints the President and CEO of the company, appoints deputies and the immediate subordinates to the President and CEO and decides on their remuneration, confirms the Fortum Management Team and the Group's organisational and operating structure at senior management level, and defines the company's dividend policy.

The Board of Directors comprises five to seven members who are elected at the Annual General Meeting for a one-year term of office, which expires at the end of the first Annual General Meeting following the election. More than half of the members must be present to constitute a quorum. A person aged 68 or over cannot be elected to the Board of Directors.

At the 2005 Annual General Meeting, the following persons were elected to the Board of Directors: Mr Peter Fagernäs (b. 1952), Chairman, Ms Birgitta Kantola (b. 1948), Deputy Chairman, Ms Birgitta Johansson-Hedberg (b. 1947), Mr Lasse Kurkilahti (b. 1948), Mr Matti Lehti (b. 1947), Ms Marianne Lie (b. 1962) and Mr Erkki Virtanen (b. 1950). For more information on the Directors, please refer to pages 56–57.

In 2005, the Board of Directors met 15 times, of which seven were teleconferences. Average director attendance at all Board meetings was 90%. The main item during the year was the separation of the oil businesses and revising Fortum's

strategy accordingly. The Board also addressed issues relating to people development, management evaluation and succession planning.

The members of the Board of Directors are all external and independent with the exception of Mr Virtanen who represents the Finnish State, the majority shareholder. "Independent" means that such a member of the Board does not have a material relationship with Fortum apart from his/her Board membership, or that the member is independent of a significant shareholder of the company.

Shares held by members of the Board of Directors on 31 December 2005

	Shares	Change
Peter Fagernäs	30,591	+30,000

The President and CEO, the Chief Financial Officer and the General Counsel regularly attend Board meetings. Other Fortum Management Team members attend as required to provide information to the Board, or upon invitation by the Board.

The Chairman of the Board, together with the President and CEO, prepares the items for discussion at the Board of Directors' meetings.

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It means a lot to me that Fortum is consistently working towards environmentally friendly production. In 2005, 93% of Fortum's power generation was entirely free of CO₂ emissions.

The Board Committees

The Board of Directors appoints an Audit Committee as well as a Nomination and Compensation Committee, both of which have three members. A quorum is two members. The members of these committees are all members of the Board of Directors. Members are appointed for a one-year term of office, which expires at the end of the first Annual General Meeting following the election.

The Audit Committee assists the Board of Directors in fulfilling its supervisory responsibilities. The Committee oversees the financial reporting process, the systems of accounting and financial controls, the management of financial risks, prepares the selection of external auditors and monitors the independence and performance of the external auditors.

In 2005, the Audit Committee was chaired by Birgitta Kantola and its members were Birgitta Johansson-Hedberg and Matti Lehti. The Committee met four times in 2005. The main items during the year included the review of the Audit Committee's charter, the IFRS transition preparations, the internal audit plan and reports, the auditor's plan and discussion of findings, review of the company's risk management and preparation for the recommendation of the election of an external auditor.

The Nomination and Compensation Committee discusses, assesses and makes proposals on the pay structures, bonus and incentive systems for the Group and its management, and contributes to the Group's nomination issues.

In 2005, the Nomination and Compensation Committee was chaired by Peter Fagernäs and its members were Marianne Lie and Lasse Kurkilahti. The Committee met three times during 2005. The main items included management performance evaluations and compensation issues, as well as long-term incentive programmes in Fortum.

Assessment of the Board of Directors

At Fortum, the Board of Directors conducts an annual self-assessment in order to further develop the work of the Board. The assessment process analyses the efficiency of the work, the size and composition of the Board, the preparation of the agenda, and the level and openness of discussions, as well as the members' ability to contribute to an independent judgement.

Compensation for Board service

The Annual General Meeting confirmed the following compensation for Board service:

EUR/year/meeting	2004	2005
Chairman	49,500	55,000
Deputy Chairman	38,500	42,000
Members	27,500	30,000
Meeting fee	500	500

In addition, a meeting fee of EUR 500 is paid for the Board Committee meetings. The members are entitled to travel expense compensation in accordance with the company's travel policy.

Board members are not offered stock options, warrants or participation in other incentive schemes. There is no pension plan for non-executive directors.

Total compensation for Board of Directors paid by Fortum

EUR, total compensation	2003	2004	2005
Chairman	*	56,100	60,925
Deputy Chairman	36,004	44,200	48,725
Other members of the Board	129,417	156,525	179,875

*) Executive Chairman

President and CEO

The role of the President and CEO is to manage the Group's business and administration in accordance with the Finnish Companies Act and related legislation, and the instructions from the Board of Directors. The President and CEO is supported by the Fortum Management Team.

The performance of the President and CEO is evaluated annually. The evaluation is based upon objective criteria that include the performance of the company and the achievement of goals previously set for the President and CEO by the Board's Nomination and Compensation Committee. The evaluation is used by the Committee to determine the level of the President and CEO's compensation to be recommended to the Board of Directors for approval.

In the event that Fortum decides to give notice of termination to the President and CEO, he is entitled to compensation equalling 24 months' salary.

Fortum Management Team

The Fortum Management Team (formerly Corporate Executive Committee) consists of seven members, including the President and CEO to whom the members of the Management Team report. The General Counsel acts as the Secretary to the Management Team. The Management Team meets regularly on a monthly basis. In addition there are meetings dealing with strategy and business planning, as well as performance reviews.

The Fortum Management Team's tasks and responsibilities include the preparation of strategic guidelines, the review of annual business plans, follow-up of results, investment planning and follow-up, the planning and control of mergers, acquisitions and divestments, the review of key day-to-day operations and operational decisions.

For Fortum Management Team members and their individual responsibilities, please refer to pages 58–59.

Shareholding, Fortum Management Team

Name	31 Dec 2004	31 Dec 2005	Change
Frisk Mikael		14,900	+14,900
Karttinen Timo	18,870	18,870	0
Kuula Tapio	20,050	50,050	+30,000
Laaksonen Juha	20,000	20,000	0
Lilius Mikael	150,050	150,050	0
Lundberg Christian	20,000	20,000	0
Teir-Lehtinen Carola	16,970	17,970	+1,000

Remuneration policy

Fortum offers a competitive compensation package for senior executives and other management. Compensation for each executive is determined according to the Group's remuneration policy. The policy takes into account the company's performance, the sector in which the Group operates, and external market data from independent sources, in particular, salary levels for similar positions in comparable companies.

The compensation package consists of base salary, including fringe benefits, and an annual individual performance bonus. In addition, long-term benefits, such as share options or shares according to the performance share arrangement can be granted. The remuneration principles are determined by the Board of Directors.

Annual bonus system

The annual bonus system in Fortum exists to support the Group's values, the achievement of financial targets and structural changes, as well as to secure an alignment between the performance targets of the individual employee and the targets of his/her business unit and the Corporation. The majority of Fortum employees are covered by an annual

performance bonus system.

The criteria used in determining the size of the bonus for senior management are decided annually by the Board of Directors on the recommendation of the Board's Nomination and Compensation Committee. The President and CEO as well as the Fortum Management Team are paid annual performance bonuses in addition to their salary and fringe benefits. The size of each senior executive's annual bonus is dependent on the Group's financial performance, as well as on their own success in reaching their individual goals. The target bonus for each senior executive is 25% and the maximum bonus level is 40% (50% in 2005) of the person's annual salary including fringe benefits. For executives with business unit responsibilities, the scheme is structured to reflect also the performance of their business unit as well as that of the Group. The criteria for evaluating an executive's personal performance are mutually agreed between the executive and his/her superior in an annual performance discussion at the beginning of each year.

The annual performance bonuses paid to Fortum's Management Team, including the President and CEO in 2005 amounted to EUR 1,074,477, which is 0.32% of the total salaries and remuneration paid in the Group.

For more information about the annual bonus system, please refer to Human Resources on page 35.

Long-term incentives

Fortum's share option schemes for key employees (2001 and 2002) and the Performance Share Arrangement for key personnel launched in 2003 all support the achievement of the Group's long-term goals by attracting and retaining identified key personnel. The subscription period of the last

Compensation for the President and CEO and the Management Team paid by Fortum

EUR	Salaries and fringe benefits 2003	Salaries and fringe benefits 2004	Salaries and fringe benefits 2005	Performance bonuses 2003	Performance bonuses 2004	Performance bonuses 2005	Total 2003	Total 2004	Total 2005
President and CEO	673,728	732,312	769,164	179,130	336,864	365,700	852,858	1,069,176	1,134,864
Total compensation of other									
Management Team members	1,514,773	1,521,137	1,460,323	303,660	561,031	708,777	1,818,433	2,082,169	2,169,100

Share options held by the Fortum Management Team on 31 December 2005

Name	2001A received	2001A remaining 31 Dec 2005	2001B received and remaining	2002A received	2002A remaining 31 Dec 2005	2002B received and remaining
Frisk Mikael	100,000	0	100,000	150,000	0	150,000
Karttinen Timo	50,000	50,000	75,000	90,000	0	120,000
Kuula Tapio	100,000	0	100,000	200,000	0	200,000
Laaksonen Juha	100,000	0	100,000	250,000	0	175,000
Lilius Mikael	200,000	0	200,000	340,000	0	340,000
Lundberg Christian				150,000	0	175,000
Teir-Lehtinen Carola	100,000	0	100,000	150,000	0	150,000



Fortum's internet service is available for access at all times. www.fortum.com can be visited when bills need to be paid or if invoices need to be checked. Meter information, consumption statistics, change of address notification, and making electricity agreements are also services available on the internet.

stock option scheme (2002B) starts on 1 October 2006. The Performance Share Arrangement replaces other possible long-term incentive schemes in Fortum. For more information about the stock option programmes, please refer to the Consolidated Financial Statements.

The Fortum Performance Share Arrangement is a performance-base, long-term incentive (LTI) arrangement intended for the top management and key personnel of the Fortum Group. At present, approximately 130 managers, all of whom have been elected by the Board of Directors, are participants. A new performance share plan under the arrangement starts annually if approved by the Board of Directors and runs for a six-year period. The newest LTI for 2006–2011 is for non-share option holders only.

Each share plan begins with a three-year earning period, followed by a three-year restriction period, at the end of which a participant receives a pre-determined number of Fortum shares. The individual number of share rights granted after the three-year earning period is based on Fortum's achievement of annual corporate bonus targets defined by the Board of Directors as well as each participant's achievement of his/her individual annual bonus targets. Before delivering the shares to the participant, the company deducts all taxes and other charges payable by the participant, and the participant receives the remaining portion (in Finland currently approx 40–50%) of the value in Fortum shares.

The maximum value in share rights a participant can be granted after the three-year earning period cannot exceed the participant's one year's salary. The number of share rights granted under each annual share plan is adjusted during the restriction period by potential dividends paid up until the share delivery, which takes place at the end of the restriction period.

The first annual share plan began in 2003 (based on 2002 results). In spring 2005, at the end of the earning period, share rights belonging to the first plan were granted to the participants. The shares, based on these share rights, will be delivered to the participants in spring 2008. The approximate net number of shares with adjustment for 2005 dividend and

after taxes (assumed tax deduction of 56%) that the CEO and President and other members of the Fortum Management Team will receive in 2008 are as follows:

Name	Net number of shares
Frisk Mikael	8,409
Karttinen Timo	7,009
Kuula Tapio	11,719
Laaksonen Juha	9,969
Lilius Mikael	30,510
Lundberg Christian	10,103
Teir-Lehtinen Carola	6,519

Pension

Fortum's Finnish executives participate in the Finnish TEL pension system, which provides for a retirement benefit based on years of service and earnings according to the prescribed statutory system. Under the Finnish TEL pension system, base pay, incentives and other taxable fringe benefits are included in the definition of earnings, although gains realised from stock options are not. Finnish pension legislation now offers a flexible retirement from age 63 to age 68 without any full pension limits.

For the President and the CEO and the members of the Fortum Management Team, the retirement age is 60 and the pension paid is 66% or 60% of the remuneration. In the first case, the pensions are insured and paid by Fortum's pension fund, and in the latter, pensions are insured by an insurance company.

Pension foundation

Fortum has one pension foundation, the Imatran Voima Pension Fund, which was closed in 1991. The fund offers certain supplementary pension benefits to people within the sphere of its operations. The most important of these are the overall pension of 66% (statutory 60%) and the reduced retirement age of 60 for women and some men.

With respect to supplementary pensions, the foundation was closed in 1991. Employees who have joined the company after the closing are not within the sphere of the foundation's

operations. At the end of 2005, the number of employees covered by the foundation was 1,385.

Fortum Personnel Fund

The Fortum Personnel Fund (for Finnish employees only) has been in operation since 2000. Persons included in the Group's Performance Share Arrangement are not eligible to be members of this fund. The Board of Directors determines the criteria for the fund's annual profit-sharing bonus. Members of the personnel fund are the permanent and fixed-term employees of the Group. The membership of employees joining the company starts at the beginning of the next month after the employment relationship has been ongoing for six months. Fund membership terminates when the member has received his share of the fund in full.

The profit-sharing received by the fund is distributed between the members in an equal proportion. Each employee's share is divided into a tied amount and an amount available for withdrawal. Employees can decide whether to withdraw their share of the profit in cash or in Fortum shares. It is possible to transfer a maximum of 15% of capital from the tied amount to the amount available for withdrawal each year, once the employee has been a member for five years.

The amount available for withdrawal is decided each year and it is paid to members who want to exercise their

withdrawal rights. Since 2005, employees have had the choice of having the amount paid in Fortum shares acquired by the personnel fund.

Risk management

The objective of risk management in Fortum is to support the achievement of agreed targets while avoiding unwanted operational and financial events.

Fortum's Board of Directors approves the Corporate Risk Policy, which sets the objectives, principles, responsibilities and processes for risk management activities within the Group. The policy sets guidelines for identifying, assessing, responding to, controlling and reporting risks. Each business and service unit submits a risk policy, which adheres to the Corporate Risk Policy, to the CEO for approval.

Corporate risk management is headed by the Chief Risk Officer and is organised within the Corporate Finance unit. Risk control functions at the business and service unit level are responsible for reporting risks to the Corporate Risk Management function where Group-wide consolidation and analysis is performed. The Chief Financial Officer reports the Group's consolidated risk exposure to the President and CEO and the Board of Directors. For more details on risk management, please refer to page 41.



Insider guidelines

Fortum observes the Guidelines for Insiders issued by the Helsinki Stock Exchange. Fortum's own internal insider guidelines are regularly updated and made available to all permanent insiders, as well as to all employees of Fortum. The company arranges training on insider rules.

Fortum maintains a public insider register of persons obliged to declare insider holdings, as required under the Securities Markets Act, and a non-public company-specific insider register of such parties who receive inside information.

Permanent insiders registered in the public insider register are members of the Supervisory Board (including personnel representatives), members of the Board of Directors, the President and CEO, the auditor and employee of the audit organisation who has the main responsibility for the audit of the company, as well as members of the Fortum Extended Management Team (consisting of the members of the Fortum Management Team and business unit heads) as well as certain other executives. In accordance with the Securities Markets Act, also the securities holdings of the insiders' related persons are public at Fortum as of 1 January 2006. The shareholdings of Fortum's insiders registered in the public insider register may be reviewed by using the NetSire service of the Finnish Central Securities Depository.

Permanent insiders registered in Fortum's company-specific register are persons who, by virtue of their position or duties, may regularly receive inside information on the company. The company-specific register also contains information on such persons who obtain inside information by, for example, working for the company under a separate consulting contract.

The public register is kept in the insider register system of the Finnish Central Securities Depository Ltd. Address: Finnish Central Securities Depository Ltd, P.O.Box 1110, FI-00101 Helsinki, FINLAND. Visiting address: Urho Kekkosen katu 5 C, Helsinki. Tel: + 358 20 770 6000, fax: + 358 20 770 6658, email: info@apk.fi, web: www.apk.fi.

All permanent insiders shall time the trading of shares and related securities issued by the company so that the trading does not undermine confidence in the securities markets. It is recommended that the permanent insiders acquire shares and related securities issued by the company as long-term investments. The permanent insiders may not trade in shares and related securities issued by the company within 30 days prior to the publication of interim reports and financial statements. When the publication of the interim report or the financial statements takes place more than 30 days after the end of the financial period, the closed window for trading begins at the end of the financial period.

The company regularly monitors the trading of permanent insiders based on the information held in the

register of the Finnish Central Securities Depository. The company may, on a case-by-case basis, supervise the trading of shares and related securities of its permanent insiders more thoroughly, for example, if a permanent insider trades in large volumes of shares and related securities or the trading of shares and related securities is continuous. In addition, the company supervises compliance with insider rules by asking the permanent insiders to check the accuracy of the information given by them each year.

The co-ordination and control of insider affairs are included in the responsibilities of Fortum's General Counsel. The executive of each function or unit monitors the insider affairs in his/her own organisation.

Internal and external auditing

The Corporate Internal Audit function evaluates the effectiveness and efficiency of the various businesses and processes and the adequacy of risk management, the accuracy and correctness of the financial and management reporting as well as compliance with laws, regulations and internal instructions. The Standards for the Professional Practice of Internal Audit and The Institute of Internal Auditors' Code of Ethics form the basis for its work.

Corporate Internal Audit is independent of business and other units in Fortum. It reports to the Audit Committee of the Board of Directors and administratively to the CFO.

The purpose, authority and responsibility of Corporate Internal Audit is formally defined in its charter. The charter and the annual action plan are approved by the Board of Directors' Audit Committee.

The company has one auditor, which shall be an audit firm certified by the Central Chamber of Commerce. The auditor is elected by the Annual General Meeting for a term of office that expires at the end of the first Annual General Meeting following the election.

Fortum Corporation's Annual General Meeting on 31 March 2005 re-elected Authorised Public Accountant PricewaterhouseCoopers Oy as auditor, with Authorised Public Accountant Juha Tuomala having the principal responsibility.

The fees invoiced and expected to be invoiced by the independent auditors for professional services rendered for the audit of Fortum's 2004 annual financial statements and other services through 31 December 2005, were as follows:

Total compensation for external auditing paid by Fortum

EUR 1,000	2003	2004	2005
Audit fees	1,413	1,346	1,065
IFRS assignments	1,686	713	237
Tax assignments	313	426	287
Other	522	546	389
Total	3,934	3,031	1,978

Board of Directors

Members of the Board of Directors on 31 December 2005

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PETER FAGERNÄS

Chairman of the Board of Directors, Born 1952, Master of Laws
Chairman of the Nomination and Compensation Committee

Main occupation:

Chairman of the Board of Oy Hermitage Ab and
Managing Partner of Hermitage Co. Ltd.

Primary work experience:

Chairman of the Board of Pohjola Group plc.
Chairman of the Board of Conventum Plc.
CEO of Conventum Plc.

Member of the Board of Merita Bank
CEO of Prospectus Oy
Various positions at Kansallis-Osake-Pankki

Simultaneous positions of trust:

Member of the Board of Directors Finlines plc.
Member of the Board of Directors Winpak Ltd (Canada)

Independent member of Fortum's Board of Directors since 2004.



BIRGITTA JOHANSSON-HEDBERG

Born 1947, Bachelor of Art, Master of Psychology
Member of the Audit Committee

Main occupation:

President and CEO of Lantmännen

Primary work experience:

President and CEO of Foreningssparbanken
Resident Director for Scandinavia in the Dutch listed company
Wolters Kluwer

Simultaneous positions of trust:

Member of the Board of Directors of Skandia
Member of the Board of Directors of Sveaskog
Chairman of the Board of University of Umeå
Member of Aktiemarknadsnämnden

Independent member of Fortum's Board of Directors since 2004.



BIRGITTA KANTOLA

Deputy Chairman, Born 1948, Master of Laws
Chairman of the Audit Committee

Main occupation:

Director

Primary work experience:

Executive Vice President (Finance) of Nordic Investment Bank
Vice President and CFO of International Finance Corporation,
Washington D.C.

Simultaneous positions of trust:

Member of the Board of Directors of Vasakronan AB,
Akademiska Hus AB, Nordea Bank AB, StoraEnso Oyj,
Varma Mutual Pension Insurance Company and Åbo Akademi

Independent member of Fortum's Board of Directors since 2001.



LASSE KURKILAHTI

Born 1948, BSc (Econ)
Member of the Nomination and Compensation Committee

Main occupation:

President and CEO of Kemira Oyj

Primary work experience:

President and CEO of Elcoteq Network Corporation
President and CEO of Raisio plc.
President and CEO of Nokian Tyres plc.

Simultaneous positions of trust:

Member of the Board of Directors of Lassila & Tikanoja plc.
Member of the Board of Directors of Elisa Corporation

Independent member of Fortum's Board of Directors since 2002.



MATTI LEHTI

Born 1947, PhD (Econ)
Member of the Audit Committee

Main occupation:

President and CEO and member of the Board of Directors of TietoEnator Corporation. (Chairman of the Board beginning 1.1.2006)

Primary work experience:

President and CEO and member of the Board of Directors of Tietotehdas Oy and TietoGroup
Deputy Managing Director of Rautakirja Oy

Simultaneous positions of trust:

Chairman of Foundation for Economic Education
Vice Chairman of Helsinki School of Economics Foundation
Member of the Board of Directors of Jaakko Pöyry Group and the Confederation of Finnish Industries EK
Chancellor of Helsinki School of Economics

Independent member of Fortum's Board of Directors since 2005.



MARIANNE LIE

Born 1962, Law and Political Science studies at the University of Oslo (UiO), Member of the Nomination and Compensation Committee

Main occupation: Director General, Norwegian Shipowners Association (NSA)

Primary work experience: Managing Director, Helsevakten Telemed AS, a company within the Umoe-Group. Managing Director, Vattenfall Norge AS. Director, Department of Information and Industrial Policy, NSA. Director, Department of Industrial Policy, NSA

Simultaneous positions of trust:

Chairman of the Board of Directors, GalleriF15
Member of the Board of Directors of Kverneland ASA, Green Award, Nordmanns-Forbundet Arendals Fossekompagni and Sykehuset Østfold HF
Member of the Corporate Assembly of Orkla ASA

Independent member of Fortum's Board of Directors since 2004.

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ERKKI VIRTANEN

Born 1950, MSc (Social Sciences)

Main occupation:

Permanent Secretary at the Ministry of Trade and Industry of Finland

Primary work experience:

Budget Chief at the Ministry of Finance

Simultaneous positions of trust:

Deputy Chairman of the Board of Sitra, the Finnish National Fund for Research and Development

Non-independent member of Fortum's Board of Directors since 1999.

Fortum's Supervisory Board:

Timo Kalli, Chairman

Jouni Backman, Deputy Chairman

Martti Alakoski

Lasse Hautala

Rakel Hiltunen

Jorma Huuhtanen

Mikko Immonen

Kimmo Kalela

Kimmo Kiljunen

Jari Koskinen

Oras Tynkkynen

Ben Zyskowicz

Employee representative:

Jouni Koskinen

Satu Laiterä

Tapio Lamminen

Group Management

Fortum Management Team on 31 December 2005

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MIKAEL LILIUS

President and CEO since 2000.
Born 1949. BSc (Econ).
Employed by Fortum since 2000.

Previous positions:

President and CEO of Gambro AB, Stockholm, 1998
President and CEO of Incentive AB, Stockholm, 1991
President and CEO of KF Industri AB (Nordico), Stockholm 1989
President of the Packing Division of Huhtamäki Oy, Helsinki, 1986

Simultaneous key positions of trust:

Huhtamäki Oy, Chairman of the Board
Sanitec Oy, Chairman of the Board
Association of Finnish Energy Industries, Chairman of the Board
OAO Lenenergo, Vice Chairman of the Board
Hafslund ASA, Member of the Board



TIMO KARTTINEN

Senior Vice President, Corporate Development since 2004.
Born 1965. MSc (Eng).
Member of the Management Team since 2004.
Employed by Fortum since 1991.

Previous positions:

Business Unit Head, Portfolio Management and Trading, Fortum Power and Heat Oy, 2000
Vice President, Electricity Procurement and Trading, Fortum Power and Heat Oy, 1999
Vice President, Electricity Procurement, Imatran Voima Oy, 1997
Design Engineer, Energy Business Unit, Imatran Voima Oy, 1991

Simultaneous key positions of trust:

Fingrid Oy, Member of the Board
OAO Lenenergo, Member of the Board
Confederation of Finnish Industries, Trade Policy Committee, Member



MIKAEL FRISK

Senior Vice President, Corporate Human Resources, since 2001.
Born 1961. MSc (Econ).
Member of the Management Team since 2001.
Employed by Fortum since 2001.

Previous positions:

Vice President, HR Global Functions, Nokia Mobile Phones, 1998
Vice President, HR, Nokia-Maillefer, Lausanne, Switzerland, 1993
HR Development Manager, Nokia NCM Division, 1992
HR Development Manager, Oy Huber Ab, 1990



TAPIO KUULA

Senior Vice President since 2005. Born 1957. MSc (Eng), MSc (Econ).
Member of the Management Team since 1997.
Employed by Fortum since 1996.

Previous positions:

President, Fortum Power and Heat Oy, 2000–. President, Power and Heat Sector, Fortum Corporation, 2000. Executive Vice President, Fortum Power and Heat Oy, 1999. Executive Vice President, Member of the Board, Member of the Management Team, Imatran Voima Oy, 1997

Simultaneous key positions of trust:

Kemijoki Oy, Chairman of the Board; Fingrid Oy, Vice Chairman of the Board; Teollisuuden Voima Oy, Vice Chairman of the Board; OKG Aktiebolag, Vice Chairman of the Board; OAO TGC-1, Vice Chairman of the Board; OAO Lenenergo and OAO TGC-9, Member of the Board; Varma Mutual Pension Insurance Company, Member of the Supervisory Board; Gasum Oy, Member of the Supervisory Board; National Board of Economic Defense, Member; Confederation of Finnish Industries, Energy Committee, Member



JUHA LAAKSONEN

Chief Financial Officer since 2000.
Born 1952. BSc (Econ).
Member of the Management Team since 2000.
Employed by Fortum since 1979.

Previous positions:

Corporate Vice President, M&A, Fortum Corporation, 2000
Executive Vice President, Finance & Planning,
Fortum Oil & Gas Oy, 1999
CFO, Neste Oyj, 1998
Corporate Controller, Neste Oyj, 1997

Simultaneous key positions of trust:

Teollisuuden Voima Oy, Member of the Board
Neste Oil Oy, Member of the Board
Kemijoki Oy, Member of the Supervisory Board
Tapiola General, Member of the Supervisory Board



CAROLA TEIR-LEHTINEN

Senior Vice President, Corporate Communications, since 2000.
Born 1952. MSc (Chem).
Member of the Management Team since 2000.
Employed by Fortum since 1986.

Previous positions:

Corporate Executive Vice President, Environment and Product Safety,
Fortum Corporation, 1998
Corporate Vice President, Environment and Product Safety,
Neste Oy, 1992
Environmental Protection Manager, Neste Oy, 1986

Simultaneous key positions of trust:

Aktia Savings Bank Plc, Member of the Board
Stockmann Plc, Member of the Board

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CHRISTIAN LUNDBERG

Senior Vice President since 2005.
Born 1956.
Member of the Management Team since 2003.
Employed by Fortum since 2003.

Previous positions:

President, Fortum Markets, 2003
Regional Director Nordic/Baltic Services Microsoft, 2001
Regional Director MS Nordic/Baltic Microsoft, 2000
General Manager MS Sweden Microsoft, 1997

Simultaneous key positions of trust:

Svensk Energi, Member of the Board
EnergiFöretagens Arbetsgivareförening, Vice Chairman

Extended Management Team on 31 Dec 2005

The Fortum Extended Management Team consists of the directors on the Fortum Management Team and the heads of Fortum's business units.

Business unit heads

Distribution, **Håkan Grefberg**
Generation, **Pekka Päätiläinen**
Heat, **Risto Riekkö**
Markets, **Erkki Kari-Koskinen**
Portfolio Management and Trading, **Per Langer**
Service, **Kim Kronstedt**
Värme, **Åke Pettersson**

Corporate staff

Communications, **Carola Teir-Lehtinen**
Corporate Development, **Timo Karttinen**
Environment, Health and Safety, **Arja Koski**
Finance, **Juha Laaksonen**
Human Resources, **Mikael Frisk**
Information Technology, **Jouni Keronen**
Internal Audit, **Kaj Lindström**
Investor Relations, **Mika Paloranta**
Legal Affairs, Secretary to the Board of Directors and Fortum Management Team, **Harri Pynnä**

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