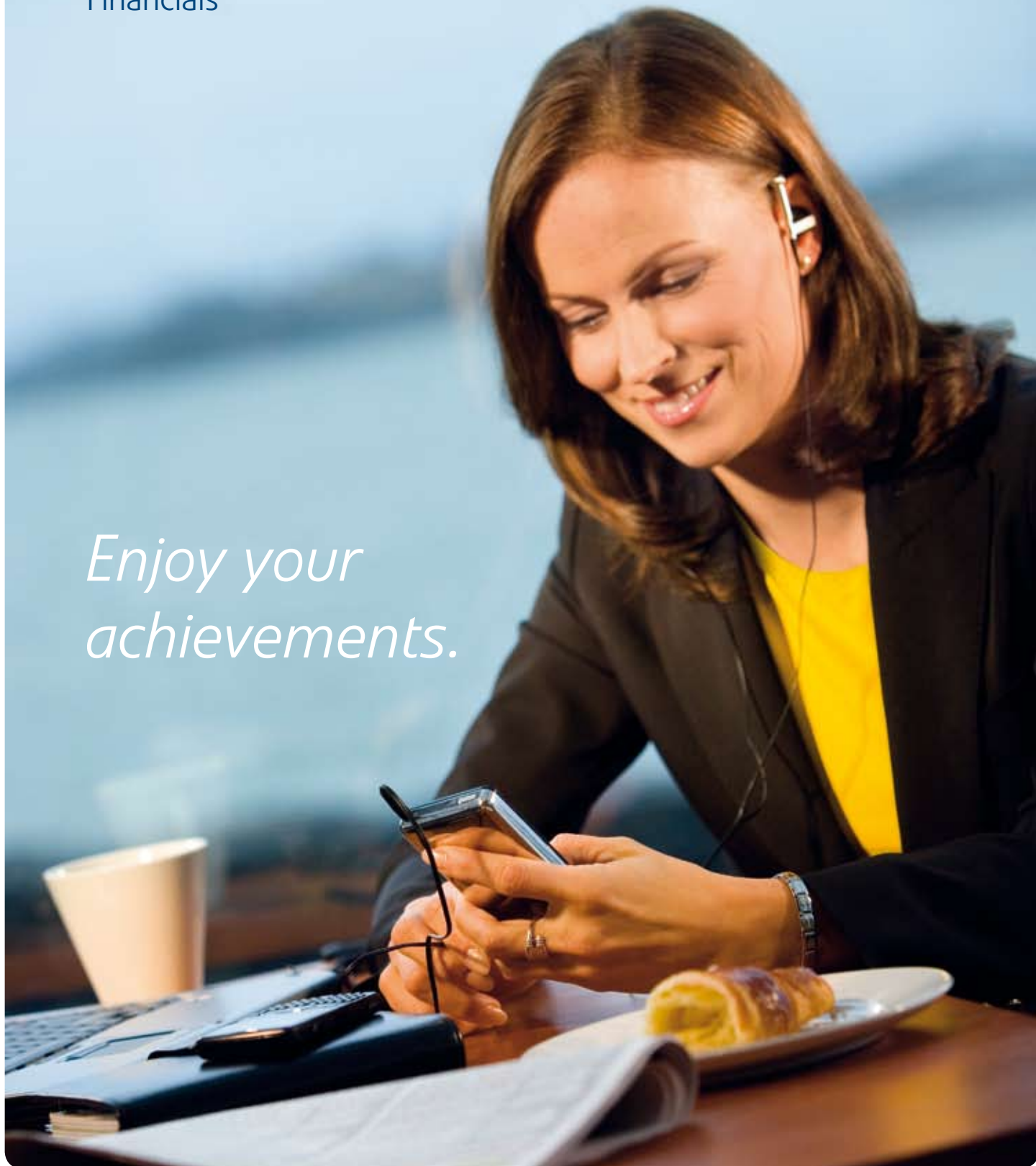


# Annual Report 2006

Financials

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# Investor Information

## Annual General Meeting

The Annual General Meeting (AGM) of Fortum Corporation will be held on Wednesday, 28 March 2007, at 3.00 pm, at the Cable Factory in Merikaapelihalli. The address of the venue is Tammasaarenlaituri, Entrance J, 00180 Helsinki.

Registration of shareholders who have notified the Company of their attendance will begin at 2.00 pm.

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 internet pages at [www.fortum.com/agm](http://www.fortum.com/agm), by telephone on +358(0)10 452 9460, by fax on +358(0)10 262 2727 or by mail to Fortum Corporation, Corporate Legal Affairs/AGM, POB 1, FI-00048 FORTUM, Finland. The notice and any powers of attorney must arrive by 4.00 pm (Finnish time), 21 March 2007.

## Payment of dividends

The Board of Directors will propose to the AGM that a dividend of EUR 1.26 per share be paid for the financial period 2006. Of this total dividend, EUR 0.73 per share is in accordance with the Group's dividend policy. An additional dividend of EUR 0.53 per share is proposed in order to steer Fortum's capital structure towards the agreed target. The record date for dividend payment is 2 April 2007, and the proposed dividend payment date is 11 April 2007.

## Publication of results

- Interim report on January–March will be published on 24 April 2007
- Interim report on January–June will be published on 18 July 2007
- Interim report on January–September will be published on 18 October 2007

The Annual Report and interim reports are available in Finnish, Swedish and English and can also be read on Fortum's Internet home pages at [www.fortum.fi](http://www.fortum.fi), [www.fortum.se](http://www.fortum.se) and [www.fortum.com](http://www.fortum.com).

Fortum management serves analysts and the media with regular press conferences, which are web cast to the company's home pages. Management also gives 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. Fortum observes a silent period of 30 days prior to publishing its results. Additional information about shares and shareholders is presented in Note 45 in the Consolidated Financial Statements in the Financials.

## Fortum share basics

- Listed at the OMX Helsinki
- Trading ticker FUM1V
- Number of shares, 30 Jan. 2007: 888,179,650
- Sector: Utilities

## Investor relations at Fortum:

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## Ordering financial information

Financial documents can be obtained from Fortum Corporation, Mail Room, POB 1, FI-00048 FORTUM, Finland, tel. +358 (0) 10 452 9151, e-mail: [juha.ahonen@fortum.com](mailto:juha.ahonen@fortum.com)

Investor information is available online at [www.fortum.com/investors](http://www.fortum.com/investors)

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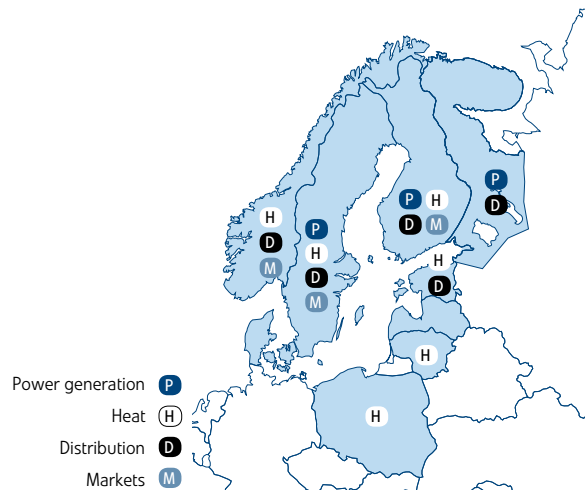
Fortum's Annual report 2006 consists of two separate volumes: the Review of Operations and the Financials. Sustainable development is reported in the Review of Operations.



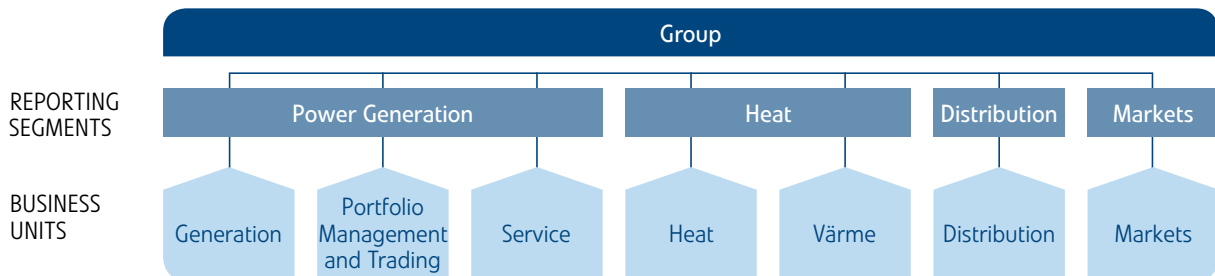
# Fortum in Brief

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 as well as the operation and maintenance of power plants. We make sure that sustainable energy services are available today and tomorrow.

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.



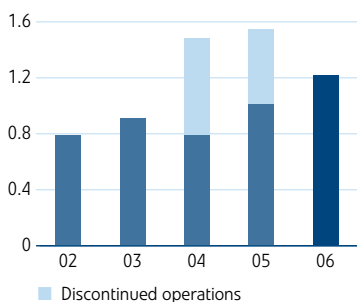
## Group structure



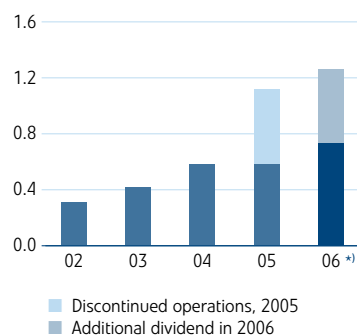
Fortum Corporation is listed on the Helsinki Stock Exchange. Fortum prepares annual financial statements and interim reports conforming to Finnish legislation. They are published in Finnish, Swedish and English. The International

Financial Reporting Standards (IFRS) were adopted in 2005. At 31 December 2006 market capitalisation was EUR 19,132 million.

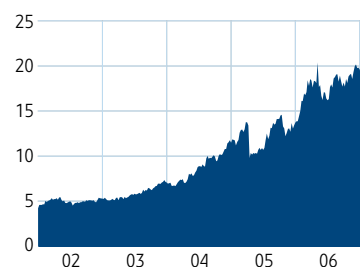
Earnings per share, EUR



Dividend per share, EUR



Market capitalisation, EUR 1,000 million



\* Board of Directors' proposal for the Annual General Meeting in March 2007. 2004, 2005 and 2006 under IFRS. Years 2002–2003 presented according to Finnish Accounting Standards (FAS). Share information is presented in Note 45 in the Consolidated Financial Statements on pages 84–85.

## Good results in 2006 despite lower hydro and nuclear volumes

- Comparable operating profit EUR 1,437 (1,334) million, +8%
- Profit before taxes EUR 1,421 (1,267) million, +12%
- Earnings per share EUR 1.22 (1.01), +21%
- Progress in Russia and Poland
- Proposed total dividend EUR 1.26 per share

## Group financial targets, continuing operations

	Target	2006	2005
ROCE, %	12%	13.4	13.5
ROE, %	14%	14.4	13.5
Capital structure: Net debt/EBITDA	3.0–3.5x	2.3	1.8

In 2005 oil operations were separated through share dividend distribution and sale of shares. Oil operations have been presented as discontinued operations in the Fortum Group Financials.

## Financial summary, continuing operations

(excluding oil operations in 2004 and 2005)

	2006	2005	2004
Sales, MEUR	4,491	3,877	3,835
EBITDA, MEUR	1,884	1,754	1,583
Operating profit, MEUR	1,455	1,347	1,195
Comparable operating profit, MEUR	1,437	1,334	1,148
Profit for the period attributable to equity holders, MEUR	1,071	884	670
Capital employed, MEUR	12,663	11,357	10,739
Interest-bearing net debt, MEUR	4,345	3,158	5,095
Net debt/EBITDA	2.3	1.8	N/A
Capital expenditure and gross investments in shares, MEUR	1,395	479	514
Net cash from operating activities, MEUR	1,151	1,271	1,232

Key ratios and their definitions are presented on pages 84, 86–87 and 96–97 respectively in the Consolidated Financial Statements.

## Quarterly sales by segments, continuing operations

EUR million	Q1/2006	Q2/2006	Q3/2006	Q4/2006	2006	Q1/2005	Q2/2005	Q3/2005	Q4/2005	2005
Power Generation	643	560	569	667	2,439	534	476	450	598	2,058
Heat	480	229	178	381	1,268	385	206	147	325	1,063
Distribution	219	162	162	210	753	202	160	149	196	707
Markets	547	400	436	529	1,912	392	298	284	391	1,365
Other	20	20	19	19	78	23	22	26	20	91
Eliminations	-566	-423	-418	-552	-1,959	-403	-304	-282	-418	-1,407
Total	1,343	948	946	1,254	4,491	1,133	858	774	1,112	3,877

## Quarterly comparable operating profit by segments, continuing operations

EUR million	Q1/2006	Q2/2006	Q3/2006	Q4/2006	2006	Q1/2005	Q2/2005	Q3/2005	Q4/2005	2005
Power Generation	293	208	195	289	985	224	172	161	297	854
Heat	126	35	-3	95	253	107	37	12	97	253
Distribution	81	53	39	77	250	66	55	47	76	244
Markets	0	2	2	-8	-4	7	8	7	8	30
Other	-14	-12	-8	-13	-47	-11	-11	-7	-18	-47
Total	486	286	225	440	1,437	393	261	220	460	1,334

Quarterly information is available on Fortum's website [www.fortum.com/investors/financial-information](http://www.fortum.com/investors/financial-information)

# Operating and Financial Review 2006

The year 2006 was characterised by improving results, progress in strategic positions in Russia and Poland and acceleration of new power and heat generation capacity initiatives. In short, 2006 was a good year for Fortum. The company's operating results improved and its financial

position remained strong. The key financial targets, ROCE 12% and the new target for ROE, 14%, were exceeded. Fortum's net debt to EBITDA stood at 2.3 at the year end. Net cash from operating activities decreased slightly to EUR 1,151 (1,271) million.

Key financial figures, continuing operations	2006	2005	2004
Sales, EUR million	4,491	3,877	3,835
Operating profit, EUR million	1,455	1,347	1,195
Operating profit, % of sales, %	32.4	34.7	31.2
Comparable operating profit, EUR million	1,437	1,334	1,148
Profit before taxes, EUR million	1,421	1,267	962
Profit for the period attributable to equity holders, EUR million	1,071	884	670
Earnings per share, EUR	1.22	1.01	0.79
Net cash from operating activities, EUR million	1,151	1,271	1,232
Shareholders' equity per share, EUR	8.91	8.17	8.65
Capital employed, EUR million	12,663	11,357	10,739
Interest-bearing net debt, EUR million	4,345	3,158	5,095
Average number of shares, 1,000s	881,194	872,613	852,625

Key financial ratios, continuing operations	2006	2005	2004
Return on capital employed, %	13.4	13.5	11.4
Return on shareholders' equity, % <sup>*)</sup>	14.4	13.5	–
Net debt/EBITDA	2.3	1.8	–

<sup>\*)</sup> 2005 return on equity for continuing operations is calculated based on profit for the period from continuing operations divided by total equity at the end of the period. Profit for the period from discontinued operations has been subtracted from total equity as at 31 December 2005.

Financial ratios, total Fortum	2006	2005 <sup>*)</sup>	2004 <sup>*)</sup>
Sales, EUR million	4,491	5,918	11,659
Operating profit, EUR million	1,455	1,864	1,916
Operating profit, % of sales, %	32.4	31.5	16.4
Earnings per share, EUR	1.22	1.55	1.48
Return on capital employed, %	13.4	16.6	15.8
Return on shareholders' equity, %	14.4	18.7	18.2
Equity to assets ratio, %	48	49	44

<sup>\*)</sup> 2004 and 2005 Fortum's oil operations have been disclosed as discontinued operations until March 31, 2005, when the Annual General Meeting of Fortum decided to distribute approximately 85% of the share in Neste Oil as dividend. The remaining shares were sold in April.

Fortum's Power Generation segment's achieved Nordic power price was EUR 37.1 (31.2), up by 19% from 2005. The average spot price of electricity in Nord Pool, the Nordic power exchange, was EUR 48.6 (29.3) per megawatt-hour (MWh), which was approximately 66% higher than in 2005.

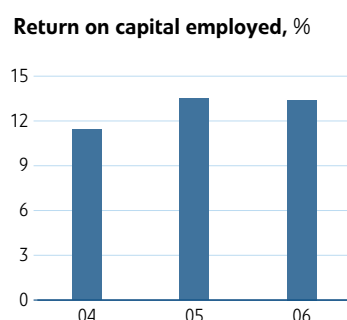
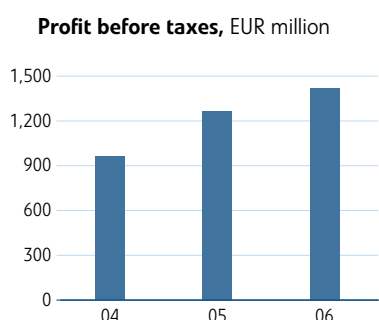
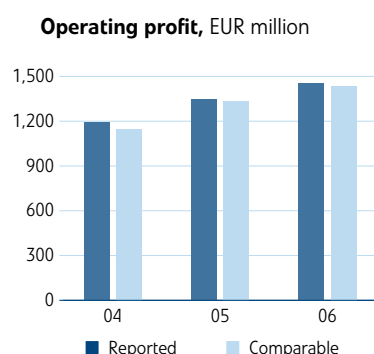
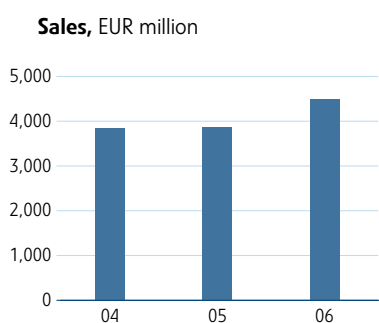
During 2006, Fortum initiated several new capacity expansion projects. Ongoing or planned investments in new generation capacity include the Olkiluoto 3 nuclear reactor in Finland, capacity upgrades in Swedish nuclear reactors, two combined heat and power plants (Suomenoja, Finland and Värtan, Sweden) as well as a new

gas turbine plant (Inkoo, Finland). The programme will increase the power generation capacity by approximately 1,500 megawatts mainly by 2010. The total value of Fortum's capacity investment programme, including investments through associated companies, is approximately EUR 2.8 billion.

E.ON Finland (renamed Fortum Espoo) was acquired and subsequently de-listed. Fortum Espoo has been fully consolidated from the end of the second quarter 2006, and all Fortum Espoo's business functions have been integrated into Fortum's business unit structure.

During 2006, Fortum strengthened its position in the Russian market and increased its ownership to slightly over 25% in the regional power generating company of north-west Russia, Territorial Generating Company No. 1 (TGC-1).

Fortum continued to expand its district heating business in Poland. In December Fortum announced that it is building a new combined heat and power plant in Częstochowa, Poland.



## Market conditions

According to preliminary statistics, the Nordic countries consumed 392 (392) terawatt-hours (TWh) of electricity in 2006. The last half of 2006 was clearly warmer than normal leading to lower than normal consumption. The last quarter's consumption was 102 (108) TWh, 6% less than the year before.

The year 2006 started with a 7-TWh surplus in the Nordic water reservoirs compared to the long-term average. The hydrological situation weakened during the year until the autumn. In August, the deficit was at its largest at 30 TWh. Warm weather and low consumption combined with high precipitation helped to fill the water reservoirs towards the end of the year. At the end of December, the Nordic water reservoirs were only 2 TWh below the long-term average and 9 TWh below the corresponding level in 2005.

During the fourth quarter, the average spot price for power in Nord Pool was EUR 44.6 (32.3) per MWh or 38%

higher than in the corresponding period in 2005 and 25% lower than in the previous quarter. During the fourth quarter, the hydrological situation strengthened rapidly and the availability of the Swedish nuclear plants improved. At the same time, power consumption was lower, driven by clearly warmer than usual weather. Both the spot price and the financial market (forwards) turned to a steep decline driven by this dramatic shift in market fundamentals.

During 2006, the average spot price for power in Nord Pool was EUR 48.6 (29.3) per megawatt-hour, or 66% higher than in 2005. The spot price was higher during 2006 due to the dry hydrological situation and the unplanned nuclear shut-downs in Sweden.

In Germany, the average spot price for 2006 was slightly higher than in the Nordic area and resulted in a net export from the Nordic area to Germany.

During 2006, the average market price for 2007 CO<sub>2</sub> emissions was EUR 18.5 (17.9) per tonne, or 3% higher

than during the previous year. During the fourth quarter, the average market price for 2007 CO<sub>2</sub> emissions was EUR 9.7 (22.1) per tonne CO<sub>2</sub>, or 56% lower than during the corresponding period in 2005. During the fourth quarter, the price declined from EUR 12-13 to EUR 6-7 per tonne CO<sub>2</sub>. However, at the end of 2006 the prices of the Kyoto period CO<sub>2</sub> emissions (years 2008-2012) were significantly above the 2007 prices. For example, the 2008 price was about EUR 17-18 EUR per tonne CO<sub>2</sub>.

## Total power and heat generation figures

Fortum's total power generation during 2006 was 54.4 (52.3) TWh, of which 53.2 (51.2) TWh was in the Nordic countries. This corresponds to 14% (13%) of the total Nordic electricity consumption.

At year end, Fortum's total power generating capacity

was 10,913 (11,281) MW, of which 10,768 (11,136) MW was in the Nordic countries. Changes are mainly due to the divestment of thermal power plants in Finland and Sweden. The Fortum Espoo integration increased Fortum's combined heat and power production capacity.

The share of CO<sub>2</sub>-free power generation was 84% (93%) of Fortum's power generation in 2006. A preliminary estimate for CO<sub>2</sub> emissions from Fortum's own power plants in 2006 totals 11.0 million tonnes, 4.5 million tonnes higher than in the previous year. The emissions subject to EU's emissions trading scheme rose to about 10.4 million tonnes. The average volume of emission allowances allocated to Fortum's installations in various countries totals approximately 9 million tonnes per year during 2005-2007.

Fortum's total power and heat generation figures are presented below. In addition, the segment reviews include the respective figures by segment.

Fortum's total power and heat generation, TWh	2006	2005	2004
Power generation	54.4	52.3	55.5
Heat generation	25.8	25.1	25.4
<b>Fortum's own power generation by source, TWh, total in the Nordic countries</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Hydropower	19.8	21.2	19.1
Nuclear power	24.4	25.8	25.8
Thermal power	9.0	4.2	9.5
Total	53.2	51.2	54.4
<b>Fortum's own power generation by source, %, total in the Nordic countries</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Hydropower	37	42	35
Nuclear power	46	50	47
Thermal power	17	8	18
Total	100	100	100

## Total power and heat sales figures

Fortum's total power sales were 61.6 (59.7) TWh, of which 60.2 (58.2) TWh were in the Nordic countries. This represented approximately 15% (15%) of the region's total

consumption. Heat sales in the Nordic countries amounted to 20.1 (19.4) TWh and in other countries to 6.7 (4.4) TWh.

Fortum's total electricity <sup>*)</sup> and heat sales, EUR million	2006	2005	2004
Electricity sales	2,437	2,002	2,017
Heat sales	1,014	867	809
<b>Fortum's total electricity sales<sup>*)</sup> by area, TWh</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Sweden	28.5	30.4	27.6
Finland	29.6	26.0	31.1
Other countries	3.5	3.3	3.6
Total	61.6	59.7	62.3
<b>Fortum's total heat sales by area, TWh</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Sweden	9.3	9.5	9.6
Finland	10.7	9.8	10.5
Other countries <sup>**)</sup>	6.8	4.5	3.7
Total	26.8	23.8	23.8

<sup>\*)</sup> Nord Pool transactions are calculated as a net amount of hourly sales and purchases at the Group level.

<sup>\*\*)</sup> Including the UK, which is reported in the Power Generation segment, other sales.



## Financial results, continuing operations

### Sales from continuing operations by segment

EUR million	2006	2005	2004
Power Generation	2,439	2,058	2,084
Heat	1,268	1,063	1,025
Distribution	753	707	707
Markets	1,912	1,365	1,387
Other	78	91	90
Eliminations	-1,959	-1,407	-1,458
Total	4,491	3,877	3,835

### Comparable operating profit from continuing operations by segment

EUR million	2006	2005	2004
Power Generation	985	854	730
Heat	253	253	207
Distribution	250	244	240
Markets	-4	30	23
Other	-47	-47	-52
Total	1,437	1,334	1,148

### Operating profit from continuing operations by segment

EUR million	2006	2005	2004
Power Generation	980	825	763
Heat	264	269	218
Distribution	252	251	234
Markets	-6	32	34
Other	-35	-30	-54
Total	1,455	1,347	1,195

Group sales stood at EUR 4,491 million (EUR 3,877 million in 2005).

Group reported operating profit totalled EUR 1,455 (1,347) million. The comparable operating profit stood at EUR 1,437 (1,334) million.

In January-December, the average Nord Pool spot price was EUR 48.6 (29.3) per megawatt-hour, or 66% higher than in 2005. The achieved Nordic Generation power price was EUR 37.1 (31.2), up by 19% from 2005.

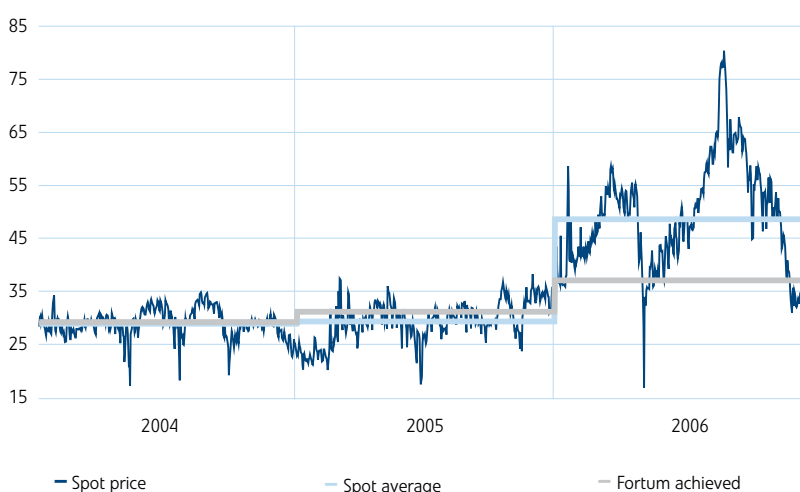
The total power generation volume in the Power Generation segment was higher than last year. Nuclear power

generation was lower due to unplanned shut-downs in Swedish nuclear power plants. The lost volume due to these was approximately 1.6 TWh. Hydro generation was 1.4 TWh lower than last year, driven by a weaker hydrological situation.

The comparable operating profit of the Power Generation segment was EUR 131 million higher than last year despite the negative effect from increased taxes on nuclear capacity and hydro property. Compared to the previous year, the effect of increased taxes was approximately EUR -65 million in 2006.

### Nord Pool power price 2004–2006, EUR/MWh

Annual average spot price and Fortum's achieved Nordic Generation price



The Heat segment's sales were EUR 205 million higher than last year, mainly due to increased volumes from new businesses and higher power prices. The Heat segment's comparable operating profit was at the same level as last year. The negative impact of increased fuel prices was partly offset by the use of more waste fuel in Sweden.

The Distribution segment's sales were EUR 753 million. This was EUR 46 million higher than last year, mainly due to the Fortum Espoo integration. The segment's comparable operating profit of EUR 250 million was EUR 6 million higher than last year, mainly due to the Fortum Espoo integration.

The sales of the Markets segment in 2006 were higher than in 2005 mainly due to the Fortum Espoo integration. Due to the challenging market situation, Markets recorded an operating loss in 2006 while year 2005 was profitable. Procurement costs continued to be high and the intense retail price competition, especially in Finland, pressed sales margins.

The costs and provisions related to the implementation of a new customer and billing system affected the operating results of the Markets and Distribution segments in Sweden.

Profit before taxes was EUR 1,421 (1,267) million.

The Group's net financial expenses amounted to EUR 103 (135) million. The decrease is mainly attributable to lower interest rates. Net financial expenses include fair value gains on financial instruments of EUR 30 (40) million.

The share of profit of associates and joint ventures was EUR 69 (55) million. The biggest contributor was Hafslund ASA in Norway. Hafslund ASA is showing the fair value change in the Renewable Energy Corporation ASA (REC) shareholding through the income statement, while Fortum is showing the fair value change in equity. The fair value change during 2006 booked in Fortum's equity and based on the number of shares reported by Hafslund, was approximately EUR 440 million at the end of December 2006.

Minority interests accounted for EUR 49 (52) million. The minority interests are mainly attributable to Fortum Värme Holding, in which the City of Stockholm has a 50% economic interest.

Taxes for the financial year totalled EUR 301 (331) million. The tax rate according to the income statement was 21.2% (26.1%).

The profit for the financial year was EUR 1,120 (936) million. Fortum's earnings per share were EUR 1.22 (1.01). Return on capital employed was 13.4% (13.5%), and return on shareholders' equity was 14.4% (13.5%).

## Segment reviews

### Power Generation

The business area comprises power generation and sales in the Nordic countries and the provision of operation and maintenance services in the Nordic area and selected international markets. The Power Generation segment sells

its production to Nord Pool. The segment includes the business units Generation, Portfolio Management and Trading (PMT), and Service.

EUR million	2006	2005	2004
Sales	2,439	2,058	2,084
– power sales	2,059	1,682	1,695
– other sales	380	376	389
Operating profit	980	825	763
Comparable operating profit	985	854	730
Net assets	6,734	5,954	6,218
Return on net assets, %	16.1	14.0	12.1
Comparable return on net assets, %	16.1	14.5	11.5

In 2006, the segment's power generation in the Nordic countries was 48.3 (47.2) TWh, of which about 19.8 (21.2) TWh or 41% (45%) was hydropower-based, 24.4 (25.8) TWh or 51% (55%) nuclear power-based, and 4.1 (0.2) TWh or 8% (0%) thermal power-based. The decrease in hydro power generation was due to a weakened hydrological situation. The decrease in nuclear generation was caused by unplanned shut-downs in the Swedish nuclear power

plants. Thermal power generation increased due to low hydro and nuclear volumes and high spot prices.

At year end, the segment's power generation capacity totalled 9,540 (10,003) MW, of which 9,400 (9,863) MW was in the Nordic countries and 140 (140) MW in other countries. Changes are mainly due to thermal power plant divestments in Finland and Sweden.

Power generation by area, TWh	2006	2005	2004
Sweden	27.1	28.4	25.8
Finland	21.1	18.8	24.0
Other countries	1.2	1.1	1.1
Total	49.4	48.3	50.9
Nordic sales volume, TWh	53.9	52.6	55.7
of which pass-through sales	4.5	4.5	4.7
Sales price, EUR/MWh	2006	2005	2004
Generation Nordic power price <sup>*)</sup>	37.1	31.2	29.2

<sup>\*)</sup> For the Power Generation segment in the Nordic area, excluding pass-through sales.

During 2006, Fortum Generation's achieved Nordic power price was 19% higher than a year ago at EUR 37.1 per MWh, while the average spot price in Nord Pool was 66% higher than a year ago at EUR 48.6 per MWh. The related sales volume was 49.4 (48.1) TWh.

During 2006 Fortum has strengthened its position in Russia in the regional power generation company of north-west Russia, Territorial Generating Company No. 1 (TGC-1).

In October, Fortum acquired a 12.5% share of St. Petersburg Generating Company. This ownership combined with Fortum's previous stake in St. Petersburg Generating Company entitled Fortum to a slightly over 25% share of TGC-1. In November 2006, the merger of the regional generation companies was finalised and TGC-1 was registered as a legal company. After converting the shares of the regional generation companies into shares of TGC-1, the largest owners are RAO UES with approximately 56%, Fortum with slightly over 25% and Interros with approximately 7%.

At the end of October, Fortum also participated in the IPO of the Russian WGC-5, Wholesale Generating Company No. 5 (WGC-5), which has four production sites around Russia. In the IPO, Fortum obtained less than 1% of WGC-5.

The unplanned shut-downs in the Swedish nuclear power plants Forsmark and Oskarshamn caused a production loss in nuclear power generation of approximately 1.6 TWh to Fortum by the end of December.

Fortum is participating in the fifth Finnish nuclear power unit (Olkiluoto 3) with a share of approximately

25 per cent. The supplier (Consortium AREVA-Siemens) has reported to TVO, the company that is building and owns the new unit, that the unit will be completed at the turn of 2010–2011.

In October, Fortum completed the sale of its industrial maintenance business. Some 900 employees transferred in connection with the deal.

In November, Fortum signed a four-year contract on the operation and maintenance of a waste-to-energy plant under construction in the UK, near London's Heathrow Airport. The plant will be ready in summer 2008.

In November, Fortum applied for an additional 20-year operating licence for the Loviisa power plant. In December, Fortum made a long-term agreement to purchase nuclear fuel from Russian TVEL Corporation to Loviisa.

In November, Fortum sold its 154-MW peat-fired power plant in Haapavesi, Finland. Fortum sold the equivalent of 1 TWh/a of constant generation capacity in the Finnish area from November 2006 to the end of March 2011. Fortum leased its 308-MW share of the Meri-Pori power plant from January 2007 to the end of June 2010. These transactions were required by the Finnish competition authority for the realisation of the Fortum Espoo acquisition.

In December, Fortum announced a plan to build a new gas turbine power plant in Inkoo, Finland. According to the plan, the power plant will be in commercial use in 2009. The fuel of the power plant will be light fuel oil, and the power generation output will be about 250 to 300 MW.

## Heat

The business area comprises heat generation and sales in the Nordic countries and other parts of the Baltic Rim. Fortum is a leading heat producer in the Nordic region. The segment also generates power in the combined heat and

power plants (CHP) and sells it to end-customers mainly by long-term contracts as well as to Nord Pool. The segment includes the business units Heat and Värme.

EUR million	2006	2005	2004
Sales	1,268	1,063	1,025
– heat sales	976	834	779
– power sales	198	145	159
– other sales	94	84	87
Operating profit	264	269	218
Comparable operating profit	253	253	207
Net assets	3,407	2,551	2,440
Return on net assets, %	9.6	11.6	9.8
Comparable return on net assets, %	9.2	11.0	9.3

The segment's heat sales during 2006 amounted to 24.7 (21.7) TWh. The volume increase was mainly due to the acquisitions in Poland and Fortum Espoo.

Power generation at combined heat and power plants (CHP) was 5.0 (4.1) TWh during 2006. The increase was mainly due to new volumes from the Fortum Espoo integration.

Heat sales by area, TWh	2006	2005	2004
Sweden	9.3	9.5	9.6
Finland	10.7	9.8	10.5
Other countries	4.7	2.4	1.7
Total	24.7	21.7	21.8

Power sales, TWh	2006	2005	2004
Total	5.0	4.1	4.8

In May, Fortum started a project to connect the southern and central parts of the district heating systems in Stockholm. This will lead to more efficient use of heat production capacity in Stockholm. The project will be ready by May 2007 and the size of the investment is around EUR 20 million.

In May, Fortum Värme applied for an environmental permit for a new bio-fuel based CHP plant in Värtan. The new plant is planned to be in operation at the earliest by late 2009.

Fortum is planning to build a new CHP plant in connection with the current power plant in Suomenoja, Espoo. The value of the investment is estimated to be approximately EUR 200 million. The power plant is planned to be ready for production by the end of 2009. The new power plant will be fuelled by natural gas. The electricity production capacity will be approximately 260–300 megawatts (MW) and the district heating capacity approximately 200–240 MW.

In September, Fortum signed an agreement to sell its CHP plant in Hämeenlinna, Finland, to Vattenfall. The ownership was transferred to Vattenfall on 24 October. The sale was required as one of the conditions set by the Finnish competition authority for the realisation of the Fortum Espoo acquisition.

In December, Fortum announced an investment in a new CHP plant in Częstochowa, Poland. The value of the investment is around EUR 95 million. The power plant is planned to be ready for production by the end of 2009.

Fortum signed an agreement to purchase the heat operations of Vattenfall in Estonia and Latvia.

During the year, Fortum divested the shares of Sölvensborgs Fjärrvärme AB, Bromölla Fjärrvärme AB and Karskär Energi AB in Sweden.

Net assets increased mainly due to the consolidation of Fortum Espoo.

## Distribution

Fortum owns and operates distribution and regional networks and distributes electricity to a total of 1.6 million customers in Sweden, Finland, Norway and Estonia.

EUR million	2006	2005	2004
Sales	753	707	707
– distribution network transmission	636	592	593
– regional network transmission	80	82	83
– other sales	37	33	31
Operating profit	252	251	234
Comparable operating profit	250	244	240
Net assets	3,412	3,021	3,091
Return on net assets, %	8.4	8.8	8.1
Comparable return on net assets, %	8.3	8.6	8.3

For 2006, the volume of distribution and regional network transmissions totalled 24.6 (23.1) TWh and 18.1 (18.0) TWh, respectively. Electricity transmissions via the regional distri-

bution network totalled 15.0 (14.8) TWh in Sweden and 3.1 (3.2) TWh in Finland.

Volume of distributed electricity in distribution network, TWh	2006	2005	2004
Sweden	14.4	14.4	14.2
Finland	7.7	6.3	6.2
Norway	2.3	2.2	2.1
Estonia	0.2	0.2	0.2
Total	24.6	23.1	22.7

Number of electricity distribution customers by area, thousands	31 Dec 2006	31 Dec 2005	31 Dec 2004
Sweden	865	860	860
Finland	580	410	405
Norway	97	97	93
Estonia	23	23	22
Total	1,565	1,390	1,380

The Swedish supervision model (NNM), used by the Energy Markets Inspectorate (EMI) to calculate network prices, is contested by the industry. All decisions made by EMI have been appealed.

The supervision of 2003 distribution tariffs for Fortum (two areas and a minor subsidiary) is ongoing, and final decisions for Fortum are still pending. Concerning the supervision of 2004 tariffs (four areas and a minor subsidiary), there is no communication yet from the authority. In December, EMI informed that its 2005 tariff supervision will include two of Fortum's distribution areas and a minor subsidiary.

The development and implementation of a new customer and billing system in Sweden continued to cause additional costs and quality deviations in customer service for Distribution.

During 2006, the segment made investments to reduce average customer outage time. This programme was initiated in 2005 and is expected to be finished by 2011. By 2011, Fortum will invest EUR 700 million in the Nordic networks. As part of this, the EUR 200 million Reliability Investment Programme that was launched in 2005 continued according to plan during 2006.

Another important ongoing project is automatic meter management (AMM) in Sweden. All customers in Sweden will get automatic meters. The roll out of meters will start in 2007 and the installation will be finalised by the end of 2008. The total value of the AMM project in Sweden is estimated at EUR 240 million.

## Markets

Markets is responsible for retail sales of electricity to a total of 1.3 million private and business customers as well as to

other electricity retailers in Sweden, Finland and Norway. Markets buys its electricity through Nord Pool.

EUR million	2006	2005	2004
Sales	1,912	1,365	1,387
Operating profit/loss	-6	32	34
Comparable operating profit/loss	-4	30	23
Net assets	176	228	194
Return on net assets, %	-1.6	17.4	25.3
Comparable return on net assets, %	-0.8	16.4	17.1

During 2006, Markets electricity sales totalled 42,1 (40,2) TWh. The sales in the fourth quarter were higher than the year before despite the expiring of large sales contracts in the third quarter of 2005. The increase in sales is mainly due to the integration of Fortum Espoo and the higher number of both private and business customers.

In the fourth quarter, Nordic retail electricity prices were higher than during the second and third quarters. The retail prices in Sweden and Norway rapidly follow the forward market prices in Nord Pool, whereas the retail prices in Finland did not fully follow the forward market price fluctuation.

During the fourth quarter, the sales activities of Fortum Espoo were successfully integrated to Fortum Markets.

Markets' customer flow continued to develop positively during 2006.

The development and implementation of the new customer and billing system in Sweden continued to cause additional costs and quality deviations in customer service for Markets.

## Capital expenditures, investments and divestments of shares

Capital expenditures and investments in shares in 2006 totalled EUR 1,395 (479) million. Investments excluding acquisitions were EUR 485 (346) million.

In January, Fortum's ownership of Polish Fortum Wroclaw's share capital reached 90.2 per cent and 94.4 per cent of the voting rights. Fortum de-listed Fortum Wroclaw S.A. from the Warsaw Stock Exchange as of 29 April 2006. Fortum Wroclaw is a district heat distribution company, whose sales amounted to approximately EUR 71 million and heat sales to approximately 2.1 TWh in 2005.

During 2006, Fortum concluded the acquisition of Fortum Espoo amounting to EUR 766 million. Fortum Espoo was de-listed on 13 September. Fortum Espoo has been fully consolidated from the end of the second quarter, and it is included in the appropriate segment figures. The main effects of the consolidation are on the Heat, Distribution and Markets segments. During the third quarter, all Fortum Espoo business functions were integrated into Fortum's business unit structure. Fortum expects the integration of Fortum Espoo to bring gradual annual synergies of around EUR 15-20 million starting in 2007.

Fortum has fulfilled the conditions set by the Competition Authority for the realisation of Fortum Espoo acquisition. In October, Fortum finalised the sale of its combined heat and power plant in Hämeenlinna, Finland, to Vattenfall. In November, Fortum sold its 154-MW peat-fired power plant in Haapavesi, Finland, to Kanteleen Voima Oy, which is owned by a group of regional energy companies. Fortum has also sold the equivalent of 1 TWh/a of constant generation capacity in the Finnish area from November 2006 to the end of March 2011. Fortum has leased its 308-MW share of the Meri-Pori power plant from January 2007 to the end of June 2010.

Fortum sold its approximately 40% holding in Enprima Oy to the Swedish ÅF Group. The deal was completed on 24 April 2006.

In September, Fortum announced its intention to sell its industrial maintenance services business. Some 900 employees were transferred in connection with the deal. The agreement was signed on 21 September 2006 and closed on 31 October 2006.

In October, Fortum finalised the purchase of approximately 12.5 per cent of St. Petersburg Generating Company. The purchase price was approximately EUR 120 million. With the acquisition, Fortum's share in the Russian Territorial Generating Company No. 1 increased to slightly over 25 per cent.

At the end of October, Fortum participated in the IPO of the Russian WGC-5, Wholesale Generating Company number 5, which has four production branches around Russia. In the IPO, Fortum obtained less than 1% of WGC-5.

## Financing

At year end, Fortum's interest-bearing net debt stood at EUR 4,345 million (EUR 3,158 million), resulting in a total increase in net debt of EUR 1,187 million for the year. The increase in net debt is primarily linked to the dividend pay-

ment in March and the Fortum Espoo acquisition in June. Net debt to EBITDA was 2.3 (1.8).

The Group's net financial expenses for 2006 were EUR 103 (135) million. The decrease is mainly attributable to lower interest rates. Net financial expenses include fair value gains on financial instruments of EUR 30 (40) million.

At year end, the average interest rate of Fortum's interest-bearing loans was approximately 4.6% per annum.

Group liquidity remained good. Year-end cash and marketable securities totalled EUR 157 million. In addition, the Group had a total of EUR 1,314 million available for drawings under committed credit facilities, such as the EUR 1,200 million Syndicated Revolving Credit Facility and bilateral overdraft facilities.

In June, Fortum issued a EUR 750-million 10-year Eurobond under its EMTN (Euro Medium Term Note) programme. The bonds are listed on the Luxembourg Stock Exchange. The proceeds of the offering were used for general corporate and refinancing purposes.

Fortum's long-term credit rating from Moody's and Standard and Poor's was A2 (stable) and A- (stable), respectively.

## Risks and Risk management

### Risk Management

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

Involvement in large scale energy businesses exposes Fortum to various types of risks. Electricity prices affected by the weather in the Nordic region and the development of the global commodity markets as well as regulation and taxation within local, regional and European electricity markets are the main risk factors.

Several projects aimed at further enhancing risk management were carried out in 2006. Commodity market risk modelling was developed to cope with changing market conditions and a harmonised framework for operational risk management was introduced throughout the Group. Fortum will continue to develop its risk management capabilities as the business operations and markets evolve.

### Strategic risks

Fortum seeks growth both by leveraging organic growth opportunities and actively participating in further Nordic consolidation. Fortum's aim is to grow profitably in chosen market areas: the Nordic countries, Russia, Poland and the Baltic countries. The growth possibilities are in part subject to regulatory supervision and political decisions.

Nordic/EU Policy harmonisation, infrastructure development and integration of the Nordic electricity market towards continental Europe depend partly on the actions of authorities. Changes in the market environment and regulation could endanger the implementation of the market driven development of the electricity market. Fortum promotes market driven development by maintaining an active dialogue with all stakeholders.

## Financial risks

Fortum defines financial risk as the negative effects of market price movements, volume changes, liquidity events or counterpart events. A number of different methods, such as Value-at-Risk and Profit-at-Risk, are used throughout the Group to quantify financial risks. In particular, the potential impact of price and volume risks of electricity, weather, CO<sub>2</sub> and main fuels are assessed taking into account their interdependencies. Stress-testing is carried out in order to assess the effects of extreme electricity price movements on Fortum's earnings.

Financial risk taking in business units aims to capture potential upside by optimising hedging or by trading in the markets. Risk taking is limited by risk mandates. Risk mandates include minimum EBIT levels for the business units that are set by the President and CEO. Volumetric limits, Value-at-Risk limits, Stop-Loss limits and counterpart exposure limits are also in place.

Fortum is exposed to electricity market price movements mainly through its power generation and customer sales businesses. The short-term factors affecting electricity prices on the Nordic market include hydrological conditions, temperature, CO<sub>2</sub> allowance prices, fuel prices, and the import/export situation.

Fortum hedges its electricity price risks by entering into electricity forwards and futures contracts. The Fortum Management Team steers the hedging activities through hedging strategies that are executed by the business units within set mandates. The strategies and their execution are continuously evaluated. The hedge ratio on 31 December 2006 was approximately 65% for the year 2007 and 35% for the year 2008. Assuming no changes in generation volumes, hedge ratios or cost structure, a EUR 1/MWh change in the market price of electricity would affect Fortum's 2007 pre-tax earnings by approximately EUR 18 million.

Fortum is trading electricity forwards, futures, options, and CFD's (contract for differences) mainly on the Nord Pool market and CO<sub>2</sub> allowances on the European market. Specific decision making and reporting procedures are set up to limit potential losses and ensure compliance with predefined risk mandates.

Fortum's business is capital intensive and the Group has a regular need to raise financing. Fortum has a diversified loan portfolio mainly consisting of long-term bond financing but also a variety of other long- and short-term financing facilities. Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. Interest rate risk is managed by adjusting the duration of Group's debt portfolio within approved mandates with different types of financing contracts and interest rate derivative contracts.

Fortum has cash flows, assets and liabilities in currencies other than in euro. Changes in exchange rates can therefore have an effect on Fortum's earnings and balance sheet.

Fortum's policy is to hedge major transaction exposures while translation exposures are hedged selectively.

Fortum's business operations in electricity markets and elsewhere lead to contractual arrangements with

customers and other counterparts. Exposures against limits and counterparts' creditworthiness are monitored to ensure that the risks are at an accepted level.

## Operational risks

Operational risks are defined as the negative effects resulting from inadequate or failed internal processes, people, systems and equipment, or from external events. The main objective of operational risk management is to reduce the risk of unwanted operational events by clearly documenting and automating processes and by ensuring a strict segregation of duties between decision-making and controlling functions. For managing insurable risks, Group-wide insurance programs have been established.

Operational events at power and heat generation and electricity distribution facilities or other external events can lead to physical damages, business interruptions, and third-party liabilities. In Sweden, third-party liabilities from dam failures are strictly the plant owners' responsibility. Together with other hydropower producers, Fortum has a shared dam liability insurance program in place that covers Swedish dam failure liabilities up to SEK 7,000 million. Fortum owns the Loviisa nuclear power plant, and has minority interests in one Finnish and two Swedish companies with nuclear plants. As the operator of Loviisa power plant, Fortum has a statutory insurance policy of approximately EUR 240 million. Similar insurance policies are in place for the operators where Fortum has a minority interest.

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, Fortum maintains an active and on-going dialogue with the bodies involved in the development of laws and regulations.

Fortum's operations are subject to rules and regulations set forth by the competition authorities, exchanges, and other regulatory bodies. Fortum maintains strict internal market conduct rules and has procedures in place to prevent, for example, the use of proprietary information before it is published.

For further details of Fortum's risk management organization, processes and governance, and financial risks see Note 3 Financial Risk Management of the Consolidated Financial Statements. See also pages 51–55 of the Review of Operations in the Annual report.

## Research and development

Fortum increased the activity level in R&D with the launch of several new programmes and with a focus shift towards long-term development initiatives in 2006. Compared with previous years, more programmes are now geared toward attaining competitive edge in the long-term as opposed to mainly securing the competitiveness of current operations.

A central characteristic to Fortum's R&D approach is the forming of well functioning networks and partnerships with research organisations, engineering companies as well as technology vendors. Internal efforts are concentrated on identified key areas in which Fortum strives to achieve a benchmark competence level, such as nuclear safety.

The group's total R&D expenditure in 2006 was EUR 17 million (EUR 14 million in 2005). The increase in expenses is mainly attributable to new programmes and activities initiated in 2006.

Fortum's R&D expenditure amount to 0.4% of sales

	2006	2005	2004
R&D expenditure, EUR million	17	14	13
R&D expenditure, % of sales	0.4	0.4	0.3
R&D expenditure, % of total expenses	0.6	0.6	0.6

For further details of research and development see page 17 of the Review of Operations in the Annual Report.

## Environment and safety issues

Fortum is committed to sustainable development and believes that it gives the company a competitive edge in the market. A balance between economical, environmental and social aspects is a guiding factor for all decision making and activity in the company. 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.

Fortum aims at continuous improvement of its carbon competitiveness and strives to keep the specific greenhouse gas emissions of its power generation among the lowest in the European power industry. This goal was strengthened during 2006 by setting target values for the carbon exposure; annual target of 200 gCO<sub>2</sub>/kWh, and an average five years' target of 120 gCO<sub>2</sub>/kWh.

In 2006, 84% of the electricity generated by Fortum was free of carbon dioxide emissions. A preliminary estimate for CO<sub>2</sub> emissions from Fortum's own power plants in 2006 amounts to 11.0 million tonnes, some 69% higher than the previous year. The clear rise in the emissions was caused by low production of hydro power in the Nordic market area and a consequential increase in use of condensing power plants.

The annual average CO<sub>2</sub> emissions subject to emissions trading have been approximately 8.1 million tonnes during 2005–2006. The average volume of emission allowances allocated to Fortum's installations totals approximately 9 million tonnes per year during 2005–2007.

Fortum received two significant rewards for its environmental and social performance in 2006. In September Fortum secured its place on the Dow Jones Sustainability World Index and in December Storebrand ranked Fortum the most responsible energy company in its global Best in Class report.

In 2006, there were 55 occupational accidents leading to an absence of more than one working day. This means 3.7 injuries per one million working hours, which is below our target value of 4.0 for 2006. The target for 2007 is less than 2 injuries per million working hours.

Although the injury frequency decreased, 2006 saw two fatal accidents. A Fortum employee died in an accident at a customer's manufacturing facility and a contractor's employee died in an accident at a district heat network construction site. These accidents, as all accidents at Fortum, have been thoroughly investigated to help preventing similar accidents in the future.

(0.4% in 2005), and 0.6% (0.6%) of total expenses. Fortum's R&D expenditure are on an average level when compared with the typical reported R&D expenditure of sales in other European power and heat companies.

For further details of environment and safety see pages 31–39 of the Review of Operations in the Annual report.

## Group personnel

In 2006, the Fortum Group employed an average of 8,910 (8,939) people. At year end, the number of employees totalled 8,134 (8,955), of which 7,681 (8,769) were permanent employees. The acquisition of Fortum Espoo increased the total number of employees approximately by 336 persons and the acquisition of two Polish companies late December 2005 increased the total number of employees approximately by 988 persons. The sale of the industrial maintenance business decreased the total number of employees by some 930 employees. The number of employees in the parent company, Fortum Corporation, at year end totalled 566 (550).

	2006	2005	2004
Average number of personnel	8,910	8,939	8,592
Total amount of employee costs, EUR million	508	481	462

For further details of group personnel see Note 14 Management Remuneration and Employee Costs of the Consolidated Financial Statements. See also pages 36–39 of the Review of Operations in the Annual report.

## Shares and share capital

During 2006, a total of 830.8 (900.1) million Fortum shares for a total of EUR 16,936 million were traded. Fortum's market capitalisation, calculated using the closing quotation on the last trading day of the year, was EUR 19,132 million. The highest quotation of Fortum Corporation's shares on the Helsinki Stock Exchange in 2006 was EUR 23.48, the lowest EUR 15.71, and the average quotation EUR 20.39 (13.87). The closing quotation on the last trading day of the year was EUR 21.56 (15.84).

Relating to the 2001A share option scheme, a total of 1.6 million options for a total of EUR 25.7 million were traded during 2006. Relating to the 2001B share option scheme, a total of 5.5 million options for a total of EUR 85.3 million were traded during 2006. Relating to the 2002A share option scheme, a total of 0.5 million options for a total of



EUR 7.2 million were traded during 2006. Relating to the 2002B share option scheme, a total of 5.3 million options for a total of EUR 96.0 million were traded during 2006.

A total of 13,759,621 (8,210,120) shares subscribed on the basis of the above share option schemes were entered into the trade register in 2006. The Board of Directors of Fortum Corporation has cancelled a total of 1,660,000 repurchased Fortum shares (EUR 30,390,150) according to the authorisation given to the Board of Directors in the Annual General Meeting of Shareholders on 16 March 2006. The average price for the repurchased own shares was EUR 18.31, the lowest price EUR 17.55 and the highest price EUR 19.15. At the end of 2006, Fortum Corporation did not own its own shares.

After registrations and the cancellation, Fortum Corporation's share capital is EUR 3,022,782,396 and the total number of registered shares is 887,393,646 (875,294,025) at the end of 2006. Share capital of Fortum Corporation increased by a total of EUR 46,782,711 (27,914,408).

At year end the amount of shares that can still be registered for under the share option schemes is a maximum of 0.8% (6.883.429 shares) of Fortum's 2006 year-end share capital and voting rights.

At year end, the Finnish State's holding in Fortum was 50.8% (51.5%). The proportion of foreign shareholders increased to 35.4% (33.2%).

Currently, the Board of Directors has no unused authorisations from the General Meeting of Shareholders to issue convertible loans or bonds with warrants or to issue new shares. Currently, the Board of Directors has the authorisation from the Annual General Meeting of Shareholders on 16 March 2006 to buy Fortum Corporation's own shares. The authorisation, amounting to EUR 500 million or 35 million shares, is valid one year from the last year AGM.

## Events after the period under review

Storms in January, especially in Sweden, have caused approximately EUR 10 million additional costs for the Distribution segment.

In January, Fortum's subsidiary in Estonia, Fortum Tartu AS announced an investment in a new CHP plant in the City of Tartu. The size of the investment is around EUR 60 million. Fortum owns 60% of the company.

## Outlook

The key market driver influencing Fortum's business performance is the Nordic wholesale price of electricity. Key drivers behind the market price development are the Nordic hydrological situation, CO<sub>2</sub> emissions allowance prices and fuel prices. The Swedish krona exchange rate also affects Fortum's reported result, as results generated by Fortum in Sweden are translated into euros.

According to general market information, electricity consumption in the Nordic countries is predicted to increase by about 1% a year over the next few years.

At the end of January, the Nordic water reservoirs were about 4 TWh above the long-term average and

1 TWh below the corresponding level of 2005. At the end of January, the market price for emissions allowances for 2007 was between EUR 2–3 per tonne of CO<sub>2</sub> and for 2008 between EUR 15–16 per tonne of CO<sub>2</sub>. At the same time, the electricity forward price for 2007 was around EUR 28–29 per MWh and around EUR 40–41 per MWh for 2008.

The first and last quarters of the year are usually the strongest quarters for the power and heat businesses.

Fortum's Power Generation segment's achieved Nordic power price typically depends on e.g. the hedge ratio, hedge price, spot price, utilisation and optimisation of Fortum's flexible production portfolio even on an hourly basis, and currency changes. If Fortum would not hedge any of its production volumes, a 1 EUR/MWh change in the spot price would result in approximately a EUR 50 million change in Fortum's annual operating profit.

At the beginning of January, Fortum had hedged approximately 65% of the Power Generation segment's estimated Nordic sales volume for 2007 at approximately EUR 42 per megawatt-hour. The hedge position for 2007 was lowered to a more neutral level during the fourth quarter of 2006. This was based on Fortum's view on future power prices at the time. At the beginning of January, Fortum had hedged approximately 35% of the Power Generation segment's estimated Nordic sales volume at approximately EUR 42 per megawatt-hour for the calendar year 2008. These hedge ratios may vary significantly depending on Fortum's actions on the electricity derivatives markets. Hedge prices are also influenced by changes in the SEK/EUR exchange rates, as part of the hedges are conducted in SEK.

Despite lower hydro and nuclear generation volumes, Fortum's results in 2006 were good and its financial position is strong. With its flexible and climate-benign production portfolio, Fortum is well positioned also for 2007.

## Dividend distribution proposal

Parent company's distributable equity as of 31 December 2006 amounted to EUR 2,065 million. After the end of the financial period there has been no material changes in the financial position of the Company.

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a cash dividend of EUR 1.26 per share for 2006, totalling EUR 1,119 million based on the number of registered shares as of 30 January 2007. Of this total dividend, EUR 0.73 per share is in accordance with the Group's dividend policy. An additional dividend of EUR 0.53 per share is proposed in order to steer Fortum's capital structure towards the agreed target.

The Annual General Meeting will be held on 28 March at 3:00 pm at the Kaapelitehdas in Helsinki.

Espoo, 30 January 2007

Fortum Corporation Board of Directors

# Consolidated Financial Statements, IFRS

## Consolidated Income Statement

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Consolidated Financial Statements, IFRS

Fortum Group Financials for 2006

EUR million	Note	2006	2005
<b>Continuing operations:</b>			
Sales	4, 5, 10	4,491	3,877
Other income	11	80	101
Materials and services	12	-1,673	-1,325
Employee costs	14	-508	-481
Depreciation, amortisation and impairment charges	4, 15	-429	-407
Other expenses	13	-506	-418
<b>Operating profit</b>	4	1,455	1,347
Share of profit of associates and joint ventures	4	69	55
Interest expense	16	-176	-203
Interest income	16	50	46
Fair value gains and losses on financial instruments	16	30	40
Other financial expenses – net	16	-7	-18
Finance costs-net	16	-103	-135
<b>Profit before income tax</b>		1,421	1,267
Income tax expense	17	-301	-331
<b>Profit for the period from continuing operations</b>		1,120	936
<b>Discontinued operations:</b>			
Profit for the period from discontinued operations	7	-	474
<b>Profit for the period</b>		1,120	1,410
<b>Attributable to:</b>			
Equity holders of the Company		1,071	1,358
Minority interest		49	52
		1,120	1,410
<b>Earnings per share for profit from total Fortum Group attributable to the equity holders of the company during the year (in EUR per share)</b>			
Basic	18	1.22	1.55
Diluted		1.21	1.53
<b>Earnings per share for profit from continuing operations attributable to the equity holders of the company during the year (in EUR per share)</b>			
Basic	18	1.22	1.01
Diluted		1.21	1.00
<b>Earnings per share for profit from discontinued operations attributable to the equity holders of the company during the year (in EUR per share)</b>			
Basic	18	-	0.54
Diluted		-	0.53

# Consolidated Balance Sheet

EUR million	Note	31 Dec 2006	31 Dec 2005
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	21	96	80
Property, plant and equipment	22	11,471	10,176
Investments in associates and joint ventures	23	2,197	1,610
Share in State Nuclear Waste Management Fund	36	450	418
Other long-term investments	24	101	66
Deferred tax assets	30	5	18
Derivative financial instruments	3	103	87
Long-term interest bearing receivables	25	680	620
<b>Total non-current assets</b>		<b>15,103</b>	<b>13,075</b>
<b>Current assets</b>			
Inventories	26	329	256
Derivative financial instruments	3	198	129
Trade and other receivables	27	1,052	882
Cash and cash equivalents	28	157	788
<b>Total current assets</b>		<b>1,736</b>	<b>2,055</b>
<b>Total assets</b>		<b>16,839</b>	<b>15,130</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable the Company's equity holders</b>			
Share capital	29, 30	3,023	2,976
Other equity	29	4,885	4,175
<b>Total</b>		<b>7,908</b>	<b>7,151</b>
Minority interests	31	253	260
<b>Total equity</b>		<b>8,161</b>	<b>7,411</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing liabilities	32	4,060	3,118
Derivative financial instruments	3	134	123
Deferred tax liabilities	33	1,795	1,512
Nuclear provisions	36	450	418
Pension and other provisions	34, 35	186	188
Other liabilities	37	485	312
<b>Total non-current liabilities</b>		<b>7,110</b>	<b>5,671</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	32	442	828
Derivative financial instruments	3	198	235
Current tax liability		84	119
Trade and other liabilities	38	844	866
<b>Total current liabilities</b>		<b>1,568</b>	<b>2,048</b>
<b>Total liabilities</b>		<b>8,678</b>	<b>7,719</b>
<b>Total equity and liabilities</b>		<b>16,839</b>	<b>15,130</b>

# Consolidated Statement of Changes in Total Equity

EUR million	Share capital	Share premium	Other restricted funds	Fair value and other reserves	Treasury shares	Retained earnings	Attributable to the equity holders	Minority	Total
<b>Total equity at 31.12.2005</b>	<b>2,976</b>	<b>70</b>	<b>2</b>	<b>-117</b>	<b>-</b>	<b>4,220</b>	<b>7,151</b>	<b>260</b>	<b>7,411</b>
Other fair value adjustments <sup>1)</sup>	-	-	-	442	-	-	442	-	442
Cash flow hedges	-	-	-	198	-	-	198	-1	197
Translation and other differences	-	-	-	-	-	38	38	6	44
<i>Total gains and losses not recognised in income statement</i>	0	0	0	640	0	38	678	5	683
Profit for the period	-	-	-	-	-	1,071	1,071	49	1,120
Total recognised income for the period	0	0	0	640	0	1,109	1,749	54	1,803
Stock options exercised	47	3	-1	-	-	-	49	-	49
Repurchase of own shares	-	-	-	-	-30	-	-30	-	-30
Cancellation of own shares	-	-	-	-	30	-30	0	-	0
Change in the recognition of performance share arrangement <sup>2)</sup>	-	-	-	-12	-	-12	-24	-	-24
Cash dividend	-	-	-	-	-	-987	-987	-	-987
Change in minority due to business combinations	-	-	-	-	-	-	0	-61	-61
<b>Total equity at 31.12.2006</b>	<b>3,023</b>	<b>73</b>	<b>1</b>	<b>511</b>	<b>-</b>	<b>4,300</b>	<b>7,908</b>	<b>253</b>	<b>8,161</b>
<b>Total equity at 31.12.2004</b>	<b>2,948</b>	<b>62</b>	<b>13</b>	<b>134</b>	<b>-</b>	<b>4,343</b>	<b>7,500</b>	<b>150</b>	<b>7,650</b>
Other fair value adjustments	-	-	-	6	-	-	6	-	6
Cash flow hedges	-	-	-	-257	-	-	-257	3	-254
Translation and other differences	-	-	-	-	-	-55	-55	-7	-62
<i>Total gains and losses not recognised in income statement</i>	0	0	0	-251	0	-55	-306	-4	-310
Profit for the period	-	-	-	-	-	1,358	1,358	52	1,410
Total recognised income for the period	0	0	0	-251	0	1,303	1,052	48	1,100
Stock options exercised	28	8	-11	-	-	-	25	-	25
Cash dividend	-	-	-	-	-	-506	-506	-	-506
Share dividend <sup>3)</sup>	-	-	-	-	-	-920	-920	-	-920
Change in minority due to business combinations	-	-	-	-	-	-	0	62	62
<b>Total equity at 31.12.2005</b>	<b>2,976</b>	<b>70</b>	<b>2</b>	<b>-117</b>	<b>-</b>	<b>4,220</b>	<b>7,151</b>	<b>260</b>	<b>7,411</b>

<sup>1)</sup> Includes the fair value change of Renewable Energy Corporation (REC) shareholding in Hafslund. See Note 23 Investments in Associated Companies and Joint Ventures

<sup>2)</sup> Share performance arrangement has been officially decided to be cash-settled, which has had an impact on the accounting treatment. See Note 30 Employee Bonus and Incentive Schemes.

<sup>3)</sup> The effect of the dividend of approx. 85% of the shares in Neste Oil on Fortum Group equity was EUR 920 million. See Note 7 Discontinued operations.

# Consolidated Cash Flow Statement

EUR million	Note	2006	2005
<b>Cash flow from operating activities</b>			
Net profit for the period from continuing operations		1,120	936
<b>Adjustments:</b>			
Income tax expenses		301	331
Finance costs-net		103	135
Share of profit of associates and joint ventures		-69	-55
Depreciation, amortisation and impairment charges		429	407
<b>Operating profit before depreciations continuing operations</b>		<b>1,884</b>	<b>1,754</b>
Non-cash flow items and divesting activities		-92	15
Interest received		50	51
Interest paid		-193	-261
Dividends received		40	36
Other financial items and realised foreign exchange gains and losses		14	67
Taxes		-374	-298
<b>Funds from operations continuing operations</b>		<b>1,329</b>	<b>1,364</b>
Increase in interest free receivables		-88	-93
Increase in inventories		-51	-20
Decrease/increase in interest free liabilities		-39	20
Change in working capital		-178	-93
<b>Net cash from operating activities continuing operations</b>		<b>1,151</b>	<b>1,271</b>
<b>Net cash from operating activities discontinued operations</b>		<b>-</b>	<b>133</b>
<b>Total net cash from operating activities</b>		<b>1,151</b>	<b>1,404</b>
<b>Cash flow from investing activities</b>			
Capital expenditures	4,21,22	-485	-346
Acquisition of subsidiaries, net of cash acquired	8	-754	-79
Acquisition of associates	23	-124	-47
Acquisition of other long-term investments		-21	-1
Proceeds from sales of fixed assets		83	30
Proceeds from sales of subsidiaries, net of cash disposed	8	11	3
Proceeds from sales of associates	23	30	12
Proceeds from sales of other long-term investments		1	11
Change in interest-bearing receivables		-47	19
<b>Net cash used in investing activities continuing operations</b>		<b>-1,306</b>	<b>-398</b>
<b>Net cash used in investing activities discontinued operations</b>		<b>-</b>	<b>1,155</b>
<b>Total net cash used in investing activities</b>		<b>-1,306</b>	<b>757</b>
<b>Cash flow before financing activities</b>		<b>-155</b>	<b>2,161</b>
<b>Cash flow from financing activities</b>			
Proceeds from long-term liabilities		1,263	28
Payments of long-term liabilities		-803	-706
Change in short-term liabilities		32	-384
Proceeds from stock options exercised	29	49	22
Dividends paid to the Company's equity holders	19	-987	-506
Repurchase of own shares	29	-30	-
Other financing items		0	-1
<b>Net cash used in financing activities continuing operations</b>		<b>-476</b>	<b>-1,547</b>
<b>Net cash used in financing activities discontinued operations</b>		<b>-</b>	<b>29</b>
<b>Total net cash used in financing activities</b>		<b>-476</b>	<b>-1,518</b>
<b>Total net increase (+)/decrease (-) in cash and cash equivalents</b>		<b>-631</b>	<b>643</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>788</b>	<b>145</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>157</b>	<b>788</b>

The principal non-cash transaction in 2005 was the dividend distribution of approximately 85% of Neste Oil shares as part of the Neste Oil separation, which is further discussed in the Note 7 Discontinued operations.

# Notes to the Consolidated Financial Statements

## 1 Accounting Policies

### Principal activities

Fortum Corporation (the Company) is a Finnish public limited liability company with domicile in Espoo, Finland. The Company is listed on the Helsinki Stock Exchange.

Fortum Corporation and its subsidiaries (together the Fortum Group) is a leading energy company in the Nordic countries and other parts of the Baltic Rim. Fortum's activities cover the generation, distribution and the sale of electricity and heat, the operation and maintenance of power plants as well as energy-related services. Neste Oil was included in Fortum Group up until 31 March 2005, when the Annual General Meeting took the final decision to separate the oil operations by distributing approximately 85% of Neste Oil Corporation shares as dividend. The remaining approximately 15% of shares were sold to investors in April 2005. Oil operations have been presented as discontinued operations.

Fortum's competitiveness in the power and heat business is based on a pan-Nordic concept which is characterised by a high level of operational efficiency and a broad customer base.

### Basis of preparation

The consolidated financial statements of Fortum Group are prepared in accordance with International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS) as they are adopted within the EU. (Hereinafter referred to as IFRS, unless referring to a specific standard.)

The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of available-for-sale financial assets, and financial assets and liabilities (including derivative instruments) at fair value through profit and loss statement.

### Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting principles. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2 Critical Accounting Estimates and Judgements.

### Amendments and Interpretations to existing standards effective in 2006

- IAS 19 (Amendment), *Actuarial Gains and Losses, Group Plans and Disclosures* (effective from 1 January 2006) As the Group have not changed the accounting policy adopted for recognition of actuarial gains and losses, this amendment impacts only the format and extent of disclosures presented in the accounts.
- Amendment to IAS 21 *The effect of changes in Foreign Exchange*

*Rates, Net Investment in a Foreign Operation* (effective from 1 January 2006).

- IAS 39 (Amendment) *Financial Instruments: Recognition and Measurement – The Fair Value Option* (effective from 1 January 2006) At present the Group does not apply the fair value option.
- IAS 39 and IFRS 4 *Insurance Contracts (Amendment) Financial Guarantee Contracts* (effective from 1 January 2006)
- IFRIC 10 *Interim Financial Reporting and Impairment* (effective from 1 November 2006)

### Amendments and interpretations to existing standards that have been applied before their effective date

The following amendments and interpretations to existing standards were early adopted from 2004 in Fortum's transition to IFRS in 2005.

- IFRIC 4, *Determining whether an Arrangement contains a Lease* (effective from 1 January 2006)
- IFRIC 5, *Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006)
- IAS 39 (Amendment) *Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from 1 January 2006)

### Standards and interpretations to existing standards effective in 2006 but not relevant

The following standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations.

- IFRS 6 *Exploration and Evaluation of Mineral Resources and amendment* (effective from 1 January 2006 onwards)
- IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* (effective from 1 December 2005)

### Amendments and interpretations to existing standards that are not yet effective

The following new standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on 1 January 2007 or later periods but which the Group has not early adopted:

- IFRS 7 *Financial Instruments: Disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures* (effective for annual periods beginning on or after 1 January 2007) The Group will apply this amendment from 1 January 2007. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments as such.
- IFRS 8 *Operating segments* (effective for annual periods beginning on or after 1 January 2009). Management is in process to assess impacts. The Group will apply this standard at the latest

- beginning 1 January 2009.
- IFRIC 9 *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006).
- IFRIC 11 *IFRS 2 Group and Treasury share transactions* (effective for annual periods beginning on or after 1 March 2007).

### The following interpretations are not relevant to the Group's operations

- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after 1 March 2006)
- IFRIC 8 *Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006)
- IFRIC 12 *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008)

### Classification of current and non-current assets and liabilities

An asset or a liability is classified as a current asset or liability when it is held primarily for commercial purposes or is expected to be realised within twelve months after the balance sheet date. Cash and cash equivalents are classified as current assets.

All other assets and liabilities are classified as non-current assets and liabilities.

## Consolidation

### Subsidiaries

The consolidated financial statements include the parent company Fortum Corporation and all those companies in which Fortum Corporation has the power to govern the financial and operating policies and generally holds, directly or indirectly, more than 50% of the voting rights. The Fortum Group subsidiaries are disclosed in Note 39 Subsidiaries by segment on 31 December 2006.

Fortum Group was formed in 1998 by using the pooling-of-interests method for consolidating Fortum Power and Heat Oy and Fortum Oil and Gas Oy (the latter demerged to Fortum Oil Oy and Fortum Heat and Gas Oy 1 May 2004. In 2005 Fortum Oil Oy was separated from Fortum by distributing 85% of its shares to Fortum's shareholders and by selling the remaining 15%.) This means that the acquisition cost of Fortum Power and Heat Oy and Fortum Heat and Gas Oy has been eliminated against the share capital of the companies. The difference has been entered as a decrease in shareholders' equity.

The financial statements of Fortum Group have been consolidated according to the purchase method. The cost of an acquisition is measured as the aggregate of fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence

of an impairment of the asset transferred. Where necessary, subsidiaries' accounting policies have been changed to ensure consistency with the policies the Group has adopted.

### Associates and joint ventures

Associated companies are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities over which the Group has contractually agreed to share the power to govern the financial and operating policies of that entity with another venturer or venturers. The Group's interests in associated companies and jointly controlled entities are accounted for by the equity method of accounting. Assets acquired and liabilities assumed in the investment in associates or joint ventures are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the associate or joint venture acquired, the difference is recognised directly in the income statement.

The Group's share of its associates' or joint ventures' post-acquisition profits or losses after tax and the expenses related to the adjustments to the fair values of the assets and liabilities assumed is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. The Group's share of post-acquisition adjustments to associates or joint ventures equity that have not been recognised in the associates or joint ventures income statement, is recognised directly in Group's shareholders' equity and against the carrying amount of the investment.

When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates or joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. If the information is not available the share of the profit of certain associated or joint venture companies is included in the consolidated accounts based on the previous quarterly information.

Regarding accounting for Fortum's shareholding in Hafslund ASA and the five Russian shareholdings including TGC-1 and Lenenergo, see Note 23 Investments in Associated Companies and Joint Ventures.

### Segment reporting

Fortum discloses primary segment information based on the organisational and business structure. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Group's businesses are divided into the following primary reporting segments:

- Power Generation - comprises power generation and sales in the Nordic countries as well as operation and maintenance services in the Nordic area and selected international markets.
- Heat - comprises heat generation and sales in the Nordic countries and other parts of the Baltic Rim. The segment also gener-

ates power in the combined heat and power plants (CHP) and sells it to end-customers mainly by long-term contracts as well as to Nord Pool.

- Distribution – owns and operates distribution and regional networks and distributes electricity to customers in Sweden, Finland, Norway and Estonia.
- Markets – focuses on the retail sale of electricity to private and business customers as well as to other electricity retailers in Sweden, Finland and Norway. The Markets segment buys its electricity through Nord Pool.
- Other – includes mainly Group administration.

For further information about the reporting segments, see Note 4 Primary Segment Information Continuing Operations.

In 2005 Fortum reported discontinued operations as a result of the dividend of approximately 85% of the shares in Neste Oil Oyj decided on the Annual General Meeting 31 March 2005. The remaining shares were sold in April 2005. Information on discontinued operations is shown in Note 7 Discontinued Operations and is not included in the segment information.

In Note 5 Geographical Segments, Fortum also discloses some secondary segment information based on the geographical areas in which Fortum operates. The information disclosed is sales based on the country in which the customer is located, assets, capital expenditure and personnel based on where the assets and personnel are located.

## Discontinued operations and assets held for sale

Discontinued operations represent a separate major line of business that either have been disposed of or are classified as held for sale. Assets and liabilities attributable to the discontinued operations must be clearly distinguishable from the other consolidated entities in terms of their operations and cash flows. In addition the reporting entity must not have any significant continuing involvement in the operations classified as a discontinued operation. The post-tax profit for the period attributable to discontinued operations including the gain or loss on the disposal is shown as a separate item in the Income Statement. The discontinued operations effect on cash-flow is either separated in the Cash Flow Statement or disclosed in the notes.

Non-current assets (or disposal groups) classified as held for sale are valued at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These classification criteria do not include non-current assets to be abandoned or those that have been temporarily taken out of use. An impairment loss (or subsequent gain) reduce (or increase) the carrying amount of the non-current assets or disposal groups. The assets are not depreciated or amortised. Interest or other expenses related to these assets are recognised as before the classification as held for sale.

## Foreign currency transactions and translation

### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

### Transactions and balances

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the closing date have been valued using the exchange rate quoted on the closing date. Exchange rate differences have been entered in the income statement. Net conversion differences relating to financing have been entered under financial income or expenses, except when deferred in equity as qualifying cash flow hedges. Translation differences on available-for-sale financial assets are included in the fair value reserve in equity.

### Group companies

The income statements of subsidiaries, whose measurement and reporting currencies are not euros, are translated into the Group reporting currency using the average exchange rates for the year based on the month-end exchange rates, whereas the balance sheets of such subsidiaries are translated using the exchange rates on the balance sheet date. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group deems all cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS, ie 1 January 2004.

Exchange rates used to translate reporting currencies into euros in the Consolidated Financial Statement are disclosed in Note 9 Exchange Rates.

## Revenue recognition

Revenue comprises the fair value consideration received or receivable at the time of delivery of products and or upon fulfillment of services. Revenue is shown, net of rebates, discounts, value-added tax and selective taxes such as electricity tax. Revenue is recognised as follows:

### Sale of electricity, heat, cooling and distribution of electricity

Sale of electricity, heat, cooling and distribution of electricity are recognised at the time of delivery. The sale to industrial and commercial customers and to end-customers is recognised based on the value of the volume supplied, including an estimated value of the volume supplied to customers between the date of their last meter reading and year end.

Physical energy sales and purchase contracts are accounted for on accrual basis as they are contracted with the group's expected purchase, sale or usage requirements.

Electricity tax is levied on electricity delivered to retail customers by domestic utilities in Sweden. The tax is calculated on the basis of a fixed tax rate per kiloWatt-hour. The rate varies between different classes of customers. Sale of electricity in the income statement is shown net of electricity tax.

As from 1 January 2004 Fortum has replaced its physical electricity transactions between the segments with transactions against Nord Pool. The hourly sales and purchases with Nord Pool



are netted on the Group level and posted either as revenue or cost, according to whether Fortum is a net seller or a net buyer during any particular hour.

The prices charged to customers for the sale of distribution of electricity are regulated. The regulatory mechanism differs from country to country. Any over or under income decided by the regulatory body is regarded as regulatory assets or liabilities that do not qualify for balance sheet recognition due to the fact that no contract defining the regulatory aspect has been entered into with a specific customer and thus the receivable is contingent on future delivery. The over or under income is normally credited or charged over a number of years in the future to the customer using the electricity connection at that time. No retroactive credit or charge can be made.

### Connection Fees

Fees paid by the customer when connected to the electricity, heat or cooling network are recognised as income to the extent that the fee does not cover future commitments. If the connection fee is linked to the contractual agreement with the customer, the income is recognised over the period of the agreement with the customer. Fees paid by customers when connected to the electricity network before 2003 are refundable in Finland if the customer would ever disconnect the initial connection. These connection fees have not been recognised in the income statement and are included in other liabilities in the balance sheet.

### Contract revenue

Contract revenue is recognised under the percentage of completion method to determine the appropriate amount to recognise as revenue and expenses in a given period. The stage of completion is measured by reference to the contract costs incurred up to the closing date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'. The Group presents as a liability the amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

### Other income

Revenue from activities outside normal operations is reported in Other income. This includes recurring items such as rental income and non-recurring items such as gains from sales of shares, property, plant and equipment and emission rights etc. Other income includes also the changes in the fair value of any derivative instruments that do not qualify for hedge accounting which are recognised immediately in the income statement.

## Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are deducted from the acquisition cost of the asset and are recognised as income by reducing the depreciation charge of the asset they relate to.

## Emission allowances

Group accounts for emission allowances based on currently valid IFRS standards where purchased emission allowances are accounted for as intangible assets at cost, whereas emission allowances received free of charge are accounted for at nominal value. A provision is recognised to cover the obligation to return emission allowances. To the extent that Group already holds allowances to meet the obligation the provision is measured at the carrying amount of those allowances. Any shortfall of allowances held over the obligation is valued at the current market value of allowances. The cost of the provision is recognised in the income statement within materials and services. Gains from sales of emission rights are reported in other income.

## Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except if they are directly attributable to the construction of an asset that meets the determined criteria. The determined criteria is as follows (a) the costs incurred for the construction of an investment exceed EUR 100 million (b) it will take more than 18 months to get the related asset(s) operational (c) it is an initial Greenfield investment.

## Research and Development costs

Research and development costs are recognised as expense as incurred and included in other expenses in the Income statement, unless it is assured that they will generate future income, in which case they are capitalised as intangible assets and depreciated over the period of the income streams.

## Property, plant and equipment

Property, plant and equipment comprise mainly on power and heat producing buildings and machinery, transmission lines, tunnels, waterfall rights and district heating network. Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses as applicable in the consolidated balance sheet. Historical cost includes expenditure that is directly attributable to the acquisition of an item. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Acquired assets on the acquisition of a new subsidiary are stated at their fair values at the date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is

probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Additionally the cost of an item of property, plant and equipment includes the estimated cost of its dismantlement, removal or restoration.

Land, water areas waterfall rights as well as tunnels are not depreciated since they have indefinite useful life. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Hydro power plant buildings, structures and machinery	40–50 years
Thermal power plant buildings, structures and machinery	25 years
Nuclear power plant buildings, structures and machinery	25 years
CHP power plant buildings, structures and machinery (each CHP-plant has an individual depreciation period)	15–25 years
Substation buildings, structures and machinery	30–40 years
Distribution network	15–40 years
District heating network	30–40 years
Other buildings and structures	20–40 years
Other tangible assets	20–40 years
Other machinery and equipment	3–20 years
Other long-term investments	5–10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each closing date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## Intangible assets

Intangible assets, except goodwill, are stated at the historical cost less accumulated amortisation and impairment losses if applicable and amortised on a straight-line method over their expected useful lives.

### Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to the acquirer and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

### Trademarks and licences

Trademarks and licences are shown at historical cost less accumulated amortisation and impairment losses, as applicable. Amortisa-

tion is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (15–20 years).

### Customer base

Costs in connection with acquisition of customer base are stated at its fair values at the date of the acquisition. Customer base means a portfolio of customers or a market share. Costs for customer base is amortised over their useful life. The customer base is also reviewed for impairment by assessing at each closing date whether there is any indication that the carrying amount may be impaired.

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill in acquisition of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

## Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash-flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment charge are reviewed for possible reversal of the impairment at each reporting date.

## Financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

### Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the closing date.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor. They are included in non-current assets, except for maturities under 12 months after the closing date. These are classified as current assets.

## Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless there is an intention to dispose of the investment within 12 months of the closing date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances.

The Group assesses at each closing date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

## Trade receivables

Trade receivables are recorded at their fair value. A provision for impairment of trade receivables is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered as indicators that the receivable is impaired. The amount of the impairment charge is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows.

Trade receivables include revenue based on an estimate of electricity, heat, cooling and distribution of electricity already delivered but not yet measured and not yet invoiced.

## Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

## Treasury shares

Where any group company purchases the Company’s shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company’s equity holders. When such shares are subsequently sold or reissued, any consideration received is included in equity.

## Borrowings

Borrowings are recognised initially at fair value less transaction costs incurred. In subsequent periods, they are stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised as interest cost over the period of the borrowing using the effective interest method. Borrowings or portion of borrowings being hedged item of a fair value hedge is recognised at fair value.

## Leases

### Finance leases

Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments each determined at the inception of the lease. Each lease payment is allocated between the reduction of the outstanding liability and the finance charges. The corresponding rental obligations, net of finance charges, are included in the long-term or short-term interest-bearing liabilities according to their maturities. The interest element of the finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Sale and leaseback transactions resulting in a finance lease agreement are recognised according to the principles described above. The difference between the selling price and the carrying amount of the asset sold is deferred and amortised over the lease period.

The property, plant and equipment leased out under a finance lease are presented as interest-bearing receivables at an amount equal to the net investment in the lease. Each lease payment receivable is allocated between the repayment of the principal and the finance income. Finance income is recognised in the income state-

ment over the lease term so as to produce a constant periodic rate of return on the remaining balance of the receivable for each period.

### Operating leases

Leases of property, plant and equipment, where the Group does not have substantially all of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognized in the income statement on a straight-line basis over the lease term.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related fixed production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### Deferred income taxes

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the closing date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are set off against deferred tax liabilities if they relate to income taxes levied by the same taxation authority.

Deferred tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

### Employee benefits

#### Pension obligations

The Group companies have various pension schemes in accordance with the local conditions and practises in the countries in which they operate. The schemes are generally funded through payments to insurance companies or Groups pension fund as determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

The Group's contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

For defined benefit plans, pension costs are assessed using the projected unit credit method. The cost of providing pensions is charged to the income statement as to spread the service cost

over the service lives of employees. The defined benefit obligation is measured as the present value of the estimated future cash flows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability. The liability recognised in the balance sheet is the defined benefit obligation at the closing date less the fair value of plan assets with adjustments for unrecognized actuarial gains or losses. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Actuarial gains and losses exceeding 10% of total of the present value of defined benefit obligations or the fair value of plan assets (whichever is higher) are recorded in the income statement over the employees' expected average remaining working lives. Past-service costs are recognised immediately in income statement. The related interest cost is included in the employee benefit expense.

#### Share-based compensation

The Group operates long-term management performance share arrangement. The potential reward of the performance share arrangement is based on the performance of the Group, its business units and the individual participant as well as appreciation of the Fortum share. The potential reward of the performance share arrangement is treated as cash settled arrangement which is recognised as an expense during the vesting period with a corresponding increase in the liabilities. The fair value of the potential reward is measured based on the market value of Fortum share at each closing date and at the grant date. Estimated departures are taken into account when determining the fair value of the potential reward. The changes of the fair value of the potential reward are accrued over the remaining vesting period. A provision is recorded on the social charges related to the arrangement payable by the employer.

In order to hedge the Group against the changes in the fair values of the potential rewards the Group has entered into share forward transactions which are settled in cash. The forward transactions do not qualify for hedge accounting and therefore the periodic changes to their fair values are recorded in the income statement.

#### Stock options

The Group has applied IFRS 2, Share-based Payments, for stock options that were granted after 7 November 2002 that had not vested before 1 January 2005 as allowed in the First-Time Adoption standard (IFRS 1). Stock options are measured at fair value at the time they were granted and, they are expensed on a straight-line basis in the income statement over the period from the date they were granted to commencement of the right to exercise them. The expense determined at the moment of granting the options is based on an estimate of the number of options that will vest at the time of commencement of the right to exercise them. The fair value of the options is determined on the basis of the Black-Scholes or Binomial pricing model. Estimates of the final amount of options are updated on each closing date if applicable and the effects of changes in estimates are recorded in the income statement. Social charges related to the options payable by the employer are entered as an expense to the income statement and as a provision in the balance sheet in the accounting period during which the options are granted. This provision is measured based on the fair value of the options, and the amount of the provision is adjusted to reflect the changes in the Fortum share price. When stock options are

exercised, the cash payments received on the basis of the share subscriptions (adjusted for any transaction expenses) are recognised in equity (par value) and in the share premium.

## Provisions

Provisions for environmental restorations, asset retirement obligations, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events to a third party it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

### Environmental restorations

Environmental provisions are recognised, based on current interpretation of environmental laws and regulations, when it is probable that a present obligation has arisen and the amount of such liability can be reliably estimated. Environmental expenditures resulting from the remediation of an existing condition caused by past operations, and which do contribute to current or future revenues, are expensed as incurred.

### Asset retirement obligations

Asset retirement obligation is recognised either, when there is a contractual obligation towards a third party or a legal obligation and the obligation amount and the definite lifetime can be estimated reliably. Obligating event is e.g. when a plant is built on a leased land with an obligation to dismantle and remove the asset in the future or when a legal obligation towards Fortum changes. The asset retirement obligation is recognised as part of the cost of an item of property and plant when the asset is put in service or when contamination occurs. The costs will be depreciated over the remainder of the asset's useful life.

### Restructuring provisions

Restructuring provisions comprise mainly of employee termination payments.

## Assets and liabilities related to decommissioning of nuclear power plants and the disposal of spent fuel

Fortum owns Loviisa nuclear power plant in Finland. Fortum's part of the State Nuclear Waste Management Fund and the related nuclear liability are presented gross as non-current interest-bearing assets and provisions. Fortum's share in the State Nuclear Waste Management Fund has been accounted for according to IFRIC 5, Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds which states that the fund assets are measured at the lower of fair value or the value of the related liabilities since Fortum does not have control or joint control over the State Nuclear Waste Management Fund.

The fair value of the provisions is calculated by discounting the future cash flows, which are based on estimated future costs and actions already taken. The initial net present value of the provision for decommissioning (at the time of commissioning the nuclear

power plant) has been included in the investment cost and it will be adjusted later by the possible changes in the plan. The investment costs due to the decommissioning will be depreciated over the estimated operating time of the nuclear station.

The provision for spent fuel covers the future disposal costs of fuel used until the end of the accounting period. Costs for disposal of spent fuel are expensed during the operating time based on fuel usage. The impact of the possible changes in the plan will be recognised immediately in the income statement based on fuel used until the end of the accounting period.

The timing factor is taken into account by recognising the interest expense related to discounting the nuclear provisions. The interest on the State Nuclear Waste Management Fund assets is presented as financial income.

Fortum's share of the State Nuclear Waste Management Fund, related to Loviisa nuclear power plant, is higher than the adjusted Fund Asset. The nuclear liability should, according to the Finnish Nuclear Energy Act, be fully covered by payments to the State Nuclear Waste Management Fund. The nuclear liability is not discounted. Due to the change in the nuclear liability, the share of profit of the State Nuclear Waste Management Fund and incurred costs of taken actions, the annual fee to State Nuclear Waste Management Fund is paid.

Fortum also has minority shareholdings in the associated nuclear power production companies Teollisuuden Voima Oy (TVO) in Finland and directly and indirectly OKG AB and Forsmarks Kraftgrupp AB in Sweden. Similar kinds of adjustments have been made through accounting of associates.

More information regarding nuclear related assets and liabilities, see Note 36 Nuclear Related Assets and Liabilities.

## Contingent liabilities

A contingent liability is disclosed when there is a possible obligation that arises from events and whose existence is only confirmed by one or more doubtful future events or when there is an obligation that is not recognised as a liability or provision because it is not likely that an outflow of resources will be required.

## Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the warrants and stock options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Fortum share) based on the monetary value of the subscription rights attached to outstanding stock options.

The number of shares calculated as above is deducted from the number of shares that would have been issued assuming the exercise of the stock options. The incremental shares obtained through the assumed exercise of the options and warrants are added to the weighted average number of shares outstanding.

Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options or warrants. Previously reported earnings per share are not retroactively adjusted to reflect changes in price of ordinary shares.

## Dividends

Dividends proposed by the Board of Directors are not recognised in the financial statements until they have been approved by the Company's shareholders at the Annual General Meeting.

## Accounting for derivative financial instruments and hedging activities

Within the ordinary course of business the Group routinely enters into sale and purchase transactions for commodities. The majority of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the commodity in accordance with the Group's expected sale, purchase or usage requirements. Such contracts are not within the scope of IAS 39. All other net-settled commodity contracts are measured at fair value with gains and losses taken to the income statement.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of highly probable forecast transactions (cash flow hedges); (2) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (3) hedges of net investments in foreign operations. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Derivatives are divided into non-current and current based on maturity. Only for those electricity derivatives, which have cash flows in different years, the fair values are split between non-current and current assets or liabilities.

### Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity is recognised in the income statement when the forecast transaction is ultimately also recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately recognised in the income statement.

### Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss for the period to maturity.

### Net investment hedging in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

### Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in other income in the income statement.

### Fair value estimation

The fair value of financial instruments including electricity derivatives traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the closing date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each closing date.

Fair valuation of electricity derivatives maturing over three years and which are not standard Nordpool products are based on prices collected from reliable market participants. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the closing date. Fair values of options have been determined by option valuation models. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Changes in assumptions about these factors will affect the reported fair value of financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

## 2 Critical Accounting Estimates and Judgments

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The company's critical accounting estimates and judgments are described below.

### Impairment of property, plant and equipment

The Group has significant carrying values in property, plant and equipment which are tested for impairment according to the accounting policy stated in Note 1 Accounting Policies. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates of future cash-flows.

The Group has not recognised any impairment losses during 2006 based on these calculations. If the revised estimated operating profit before depreciation at 31 December 2006 was 10% lower than management's estimates at 31 December 2006 or pre-tax discount rate applied to the discounted cash flows was 10% higher than management's estimates, the Group would not have recognised impairment against property plant and equipment.

### Deferred and income taxes

Fortum has deferred tax assets and liabilities which are expected to be realised through the income statement over the extended periods of time in the future. In calculating the deferred tax items, Fortum is required to make certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets and liabilities as recorded in the financial statements and their tax basis.

Assumptions made include the expectation that future operat-

ing performance for subsidiaries will be consistent with historical levels of operating results, recoverability periods for tax loss carry-forwards will not change, undistributed earnings of foreign investments have been permanently invested and that existing tax laws and rates will remain unchanged into foreseeable future. Fortum believes that it has prudent assumptions in developing its deferred tax balances.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Were the actual final outcome (regarding tax audits) to differ negatively from management's estimates with 10%, the Group would need to increase the income tax liability by EUR 1 million.

### Liabilities related to nuclear production

The provision for future obligations for nuclear waste management including decommissioning of Fortum's nuclear power plant and related spent fuel is based on long-term cash-flow forecasts of estimated future costs. The main assumptions are technical plans, timing, costs estimates and discount rate. The technical plans, timing and cost estimates are approved by governmental authorities.

Any changes in the assumed discount rate would affect the provision. If the discount rate used would be lowered the provision would increase. Fortum has contributed cash to the State Nuclear Waste Management Fund based on a non discounted legal liability, which leads to that the increase in provision would be offset by an increase in the recorded share of Fortum's part of the State Nuclear Waste Management Fund in the balance sheet. The effect on the income statement would be positive since the decommissioning part of the provision is treated as an assets retirement obligation. This situation will prevail as long as the legal obligation to contribute cash to the State Nuclear Waste Management Fund is based on a non discounted liability and IFRS is limiting the carrying value of the assets to the amount of the provision since Fortum does not have control or joint control over the fund. (See Note 36 Nuclear Related Assets and Liabilities).

## 3 Financial Risk Management

### Risk management objective and principles

Active risk management plays a key role in ensuring that the Fortum can deliver on its financial targets. Its purpose is also to enable the execution of the company's strategy. The objective of risk management in Fortum is to support the achievement of agreed targets while avoiding unwanted operational and financial events.

Involvement in large scale energy businesses exposes Fortum to various types of risks. Electricity prices affected by the weather in the Nordic region and the development of the global commodity markets as well as regulation and taxation within local, regional and European electricity markets are the main risk factors.

Several projects aimed at further enhancing risk management were carried out in 2006. Commodity market risk modelling was developed to cope with changing market conditions, a harmonized framework for operational risk management was introduced

throughout the Group. Fortum will continue to develop its risk management capabilities as the business operations and markets evolve.

### Risk management framework

#### Governance

Fortum's Board of Directors approves the Corporate Risk Policy that 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, and risk mandates to the CEO for approval. Business and service units are responsible for managing risks within the limits set by the policies and mandates.

## Organisation

The Audit Committee oversees risk management within the Group. The Chief Financial Officer (CFO) is responsible for consolidating and assessing the Group's exposure to risk and reporting risks and risk mandates to the CEO and the Board of Directors. An independent Corporate Risk Management function, headed by the Chief Risk Officer, is at the disposal of the CFO and assists in fulfilling these responsibilities.

Business and service units organise their own risk management and control. Risk control is organisationally segregated from decision-making functions and is responsible for reporting risks to Corporate Risk Management.

In order to capture synergies, some risks are managed at the Group level. Corporate Treasury is responsible for managing the Group's currency, interest rate, and liquidity and refinancing risks as well as for insurance management. Certain credit risk and IT-related risks are also managed at the Group level.

## Process

Risks are primarily identified and assessed by business and service units. Quantitative assessments are used where feasible, and quantification models are harmonised across different products and units. Risk assessments are also used when evaluating possible responses to identified risks. Risk responses can be one or a combination of mitigating, transferring or absorbing risk.

Risk control and reporting are carried out by the business and services units' risk control functions. The frequency of reporting is dependant upon the scope of the business, e.g. trading activities are reported daily. Corporate risk management assesses and reports the Group's consolidated exposure to financial risks to Group Management and the Board of Directors on a monthly basis. Strategic and operational risks are reported as part of the annual business planning process or as needed.

## Financial risks

Fortum defines financial risk as the negative effects of market price movements, volume changes, liquidity events or counterpart events. A number of different methods, such as Value-at-Risk and Profit-at-Risk, are used throughout the Group to quantify financial

risks. In particular, the potential impact of price and volume risks of electricity, weather, CO<sub>2</sub> and main fuels are assessed taking into account their interdependencies. Stress-testing is carried out in order to assess the effects of extreme electricity price movements on Fortum's earnings.

Financial risk taking in business units aims to capture potential upside by optimising hedging or by trading in the markets. Risk taking is limited by risk mandates. Risk mandates include minimum EBIT levels for the business units that are set by the CEO. Volumetric limits and Value-at-Risk limits, Stop-Loss limits and counterpart exposure limits are also in place.

## Electricity price risks

Fortum is exposed to electricity market price movements mainly through its power generation and customer sales businesses. The short-term factors affecting electricity prices on the Nordic market include hydrological conditions, temperature, CO<sub>2</sub> allowance prices, fuel prices, and the import / export situation.

Fortum hedges its electricity price risks by entering into electricity forwards and futures contracts. The Fortum Management Team steers the hedging activities through hedging strategies that are executed by the business units within set mandates. The strategies and their execution are continuously evaluated. Other things being equal, Fortum's sensitivity to electricity market price is dependent on the hedge level for a given time period. The hedge ratio on 31 December 2006 was approximately 65% for the year 2007 and 35% for 2008. Assuming no changes in generation volumes, hedge ratios or cost structure, a EUR 1/MWh change in the market price of electricity would affect Fortum's 2007 pre-tax earnings by approximately EUR 18 million.

The tables below disclose the Group's electricity derivatives used mainly for hedging electricity price risk. The fair values represent the values disclosed in the balance sheet. See also Note 1 Accounting Policies for accounting principles and bases for fair value estimations and Note 6 Fair Value Changes of Derivates and Underlying Items in Income Statement, for the effects in the income statement regarding electricity derivatives not getting hedge accounting status.

### Electricity derivatives by instrument

Gross	31 December 2006				Fair value, MEUR		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Sales swaps	98	35	1	134	773	258	515
Purchase swaps	80	20	1	101	208	634	-426
Purchased options	0	-	-	0	-	0	0
Written options	3	-	-	3	3	0	3
Total	181	55	2	238	984	892	92
<b>Netting against Nord Pool <sup>1)</sup></b>							
Total					-745	-745	0
<b>Balance</b>					239	147	92

<sup>1)</sup> Receivables and liabilities against Nord Pool arising from standard derivative contracts with same delivery period are netted.



## Electricity derivatives by accounting status

Gross	31 December 2006				Fair value, MEUR		
	Volume, TWh				Positive	Negative	Net
	Under 1 year	1–5 years	Over 5 years	Total			
Derivatives with hedge accounting status	70	35	1	106	398	334	64
Derivatives with non-hedge accounting status <sup>1)</sup>	111	20	1	132	586	558	28
<b>Total</b>	<b>181</b>	<b>55</b>	<b>2</b>	<b>238</b>	<b>984</b>	<b>892</b>	<b>92</b>
<b>Netting against Nord Pool <sup>2)</sup></b>							
Derivatives with hedge accounting status					–284	–284	0
Derivatives with non-hedge accounting status <sup>1)</sup>					–461	–461	0
<b>Total</b>					<b>–745</b>	<b>–745</b>	<b>0</b>
<b>Balance</b>					<b>239</b>	<b>147</b>	<b>92</b>
Of which long-term					63	70	–7
Short-term					176	77	99

## Electricity derivatives by instrument

Gross	31 December 2005				Fair value, MEUR		
	Volume, TWh				Positive	Negative	Net
	Under 1 year	1–5 years	Over 5 years	Total			
Sales swaps	54	30	–	84	10	473	–463
Purchase swaps	30	19	–	49	281	5	276
Purchased options	1	–	–	1	–	1	–1
Written options	3	–	–	3	2	0	2
<b>Total</b>	<b>88</b>	<b>49</b>	<b>–</b>	<b>137</b>	<b>293</b>	<b>479</b>	<b>–186</b>
<b>Netting against Nord Pool <sup>2)</sup></b>							
Total					–216	–216	0
<b>Balance</b>					<b>77</b>	<b>263</b>	<b>–186</b>

## Electricity derivatives by accounting status

Gross	31 December 2005				Fair value, MEUR		
	Volume, TWh				Positive	Negative	Net
	Under 1 year	1–5 years	Over 5 years	Total			
Derivatives with hedge accounting status	47	28	0	75	96	305	–209
Derivatives with non-hedge accounting status <sup>1)</sup>	41	19	2	62	197	174	23
<b>Total</b>	<b>88</b>	<b>47</b>	<b>2</b>	<b>137</b>	<b>293</b>	<b>479</b>	<b>–186</b>
<b>Netting against Nord Pool <sup>2)</sup></b>							
Derivatives with hedge accounting status					–84	–84	0
Derivatives with non-hedge accounting status <sup>1)</sup>					–132	–132	0
<b>Total</b>					<b>–216</b>	<b>–216</b>	<b>0</b>
<b>Balance</b>					<b>77</b>	<b>263</b>	<b>–186</b>
Of which long-term					48	74	–26
Short-term					29	189	–160

<sup>1)</sup> Derivatives with non-hedge accounting status consists of trading derivatives and cash flow hedges without hedge accounting status

<sup>2)</sup> Receivables and liabilities against Nord Pool arising from standard derivative contracts with same delivery period are netted

## Volume risks

Power and heat generation, customer sales, and electricity distribution volumes have significant variations that depend on the nature of the business. These volumes are subject to changes in, for example, hydrological conditions and temperature.

Changes in volumes are closely monitored so that hedges can be adjusted accordingly. In addition, volume risks in power and heat generation are partly mitigated through generation flexibility.

## Fuel price risks

Power and heat generation requires the use of fuels that are purchased from global or local markets. The main fuels used by the Group are uranium, coal, natural gas, peat, oil, and various bio-fuels such as wood pellets and palm oil.

Exposure to fuel price is to some extent limited because of Fortum's flexible generation possibilities which allows for switching between different fuels according to prevailing market conditions. Fuel price risks are mitigated through fixed price purchases that cover the forecasted consumption levels, and in some case customer contracting. Fixed price purchases can be either for physical deliveries or in the form of financial hedges.

The tables below disclose the Group's oil derivatives used mainly for hedging fuel price risk. The fair values represent the values disclosed in the balance sheet. See also Note 1 Accounting Policies and bases for fair value estimations and Note 6 Fair Value Changes of Derivates and Underlying Items in Income Statement for the effects in the income statement regarding oil derivatives not getting hedge accounting status.

### Oil futures and forward contracts

	31 December 2006				Fair value, MEUR		
	Volume, 1 000 bbl				Positive	Negative	Net
	Under 1 year	1–5 years	Over 5 years	Total			
Sales swaps	508	389	–	897	1	1	0
Purchase swaps	180	0	–	180	0	0	0
Total	688	389	–	1,077	1	1	0
Of which long-term					0	0	0
Short-term					1	1	0
Non-hedging oil derivatives	688	389	–	1,077	1	1	0

### Oil futures and forward contracts

	31 December 2005				Fair value, MEUR		
	Volume, 1 000 bbl				Positive	Negative	Net
	Under 1 year	1–5 years	Over 5 years	Total			
Sales swaps	30	60	–	90	0	0	0
Purchase swaps	391	180	–	571	7	1	6
Total	421	240	–	661	7	1	6
Of which long-term					1	0	1
Short-term					6	1	5
Non-hedging oil derivatives	421	240	–	661	7	1	6

## CO<sub>2</sub> emission allowance price risk

The European Union has established an emission trading scheme to limit the level of CO<sub>2</sub> emissions. Part of Fortum's power and heat generation is subject to requirements under the trading scheme for

having CO<sub>2</sub> allowances. Fortum manages its exposure to CO<sub>2</sub> allowance prices through the use of CO<sub>2</sub> forwards and by ensuring that the costs of allowances are taken into account during production planning.

### CO<sub>2</sub> emission allowance derivatives

	31 December 2006				Fair value, MEUR <sup>1)</sup>		
	Volume, ktCO <sub>2</sub>				Positive	Negative	Net
	Under 1 year	1–5 years	Over 5 years	Total			
Sold	230	175	–	405	0	0	0
Bought	250	165	–	415	0	0	0
Total	480	340	–	820	0	0	0
Of which long-term					0	0	0
Short-term					0	0	0
Non-hedging CO <sub>2</sub> emission allowance derivatives	480	340	–	820	0	0	0

<sup>1)</sup> Positive and negative fair values under EUR 1 million in the balance sheet.

## Maturity analysis of electricity and oil derivatives

Amounts disclosed below are non-discounted cash flows for electricity and oil derivatives.

EUR million	31 December 2006			Total
	Under 1 year	1–5 years	Over 5 years	
Electricity derivatives	768	140	3	911
Oil derivatives		1		1
Total	768	141	3	912

## Proprietary trading risks

Fortum is trading electricity forwards futures, options, and CFD's (contract for differences) mainly on the Nord Pool market and CO<sub>2</sub> allowances on the European market.

Strict management controls are set to limit trading losses. Stop loss mandates are set to limit the cumulative maximum loss in millions of euros during the year. In addition, "red-flag" thresholds are established at predefined levels before reaching the stop loss limit. Value-at-Risk mandates are set to limit the maximum risk taking during one day. Specific decision making and reporting procedures are set up to limit potential losses and ensure compliance with predefined risk mandates.

## Liquidity and refinancing risk

Fortum business is capital intensive and the Group has a regular need to raise financing. Fortum has a diversified loan portfolio mainly consisting of long term bond financing but also a variety of other long- and short-term financing facilities. As per 31 December 2006 the total interest bearing debt was EUR 4,502 million (2005:

3,946 million) and the interest-bearing net debt was EUR 4,345 million (2005: 3,158 million)

Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. The Group shall at all times have access to cash/marketable securities and unused committed credit facilities including overdrafts, to cover all loans maturing within the next twelve month period. Cash/marketable securities and unused committed credit facilities shall always amount to at least EUR 500 million. Short term financing (with a tenor less than one year) shall not account for more than EUR 1,200 million.

As per 31 December 2006, loan maturities for the coming twelve-month period amounted to EUR 442 million (2005: 828 million), cash and marketable securities amounted to EUR 157 million (2005: 788 million), and the amount of undrawn committed credit facilities was EUR 1,314 million (2005: 1,314 million). On top of the committed credit facilities, Fortum had at year end access to approximately EUR 2.2 billion (2005: 3.5 billion) of uncommitted credit facilities.

## Maturity of interest-bearing liabilities

EUR million	2006
2007	442
2008	583
2009	319
2010	552
2011	304
2012 and later	2,302
Total	4,502

## Cash and Marketable securities and Major Credit Lines and debt programs 31 December 2006

EUR million	Total facility	Drawn amount	Available amount
<b>Cash and Marketable securities</b>			157
<b>Committed credit lines</b>			
EUR 1,200 million syndicated credit facility	1,200	–	1,200
Bilateral overdraft facilities	116	2	114
Total committed credit lines	1,316	2	1,314
<b>Debt programs (uncommitted)</b>			
Fortum Corporation, CP programme EUR 500 million	500	–	500
Fortum Corporation, CP programme SEK 5,000 million	553	55	498
Fortum Corporation, EMTN programme EUR 4,000 million	4,000	2,785	1,215
Total debt programs	5,053	2,840	2,213

## Maturity analysis of interest-bearing liabilities and derivatives

Amounts disclosed below are non-discounted cash flows of interest-bearing liabilities and interest rate and currency derivatives, and the expected cash-flows arising (future interest payments and amortisations) from these items.

EUR million	31 December 2006			Total
	Under 1 year	1–5 years	Over 5 years	
Interest-bearing liabilities	620	2,355	2,880	5,855
<b>Interest rate and currency derivatives liabilities</b>	6,348	2,144	147	8,639
Interest rate and currency derivatives receivables	–6,271	–2,088	–156	–8,515
<b>Total</b>	697	2,411	2,871	5,979

## Interest rate risk and currency risk

### Interest rate risk

Fortum's debt portfolio consists of interest-bearing assets and liabilities on fixed and floating rate bases with differing maturity profiles. Fortum manages the duration of the debt portfolio by entering into different types of financing contracts and interest rate derivative contracts such as interest rate swaps and forward rate agreements (FRAs).

The Treasury risk policy stipulates that the average duration of the debt portfolio shall always be kept within a range of 12 and 24 months, and that changes in interest rates shall not effect the net interest payments of the Group by more than EUR 40 million for the next rolling 12 month period. Within these mandates, strategies are evaluated and developed in order to find an optimal balance between risk and financing cost.

On 31 December 2006 the average duration of the debt portfolio (including derivatives) was 1.5 years. (2005: 1.3 years). Approximately 66% (2005: 84%) of the debt portfolio was on a floating rate basis, or will be refinanced during the coming 12 months.

The effect of one percentage point change in interest rates on the present value of debt portfolio was EUR 56 million on 31 December 2006. The flow risk, calculated as the effect of an interest rate increase of one percentage point on net financing costs for the debt portfolio for the coming 12 months, was EUR 18 million.

### Currency risk

Fortum has cash flows, assets and liabilities in currencies other than in euro. Changes in exchange rates can therefore have an effect on Fortum's earnings and balance sheet. The main currency exposure for Fortum is EUR/SEK arising from the Group's extensive operations in Sweden.

The Group's currency exposures are divided into transaction exposures (foreign exchange exposures relating to contracted cash flows and balance sheet items where changes in exchange rates will have an impact on earnings and cash flows) and translation exposure (equity in foreign subsidiaries).

Fortum's policy is to hedge major transaction exposures while translation exposures are hedged selectively. These exposures are mainly hedged by forward contracts. The currency risk is calculated using Value-at Risk (VaR) for one day period at 95% confidence level. The limits for transaction and translation exposures are VaR EUR 5 million and EUR 10 million respectively. On 31 December 2006 the open transaction and translation exposures were EUR 9 million and EUR 1,378 million. The VaR for the transaction exposure was zero and VaR for the translation exposure calculated without the fair value change of Renewable Energy Corporation (REC) in Hafslund was EUR 6 million. For further information about the accounting of Fortum's shareholding in Hafslund, see Note 23 Investments in Associated Companies and Joint Ventures.

### Group Treasury's transaction exposure 31 December 2006

EUR million	Net position	Hedge	Open
SEK	6,763	–6,761	2
USD	–37	37	0
NOK	525	–528	–3
Other	140	–130	10
<b>Total</b>	7,391	–7,382	9

### Group Treasury's translation exposure 31 December 2006

EUR million	Investment	Hedge	Open
SEK	630	–	630
NOK *)	505	–	505
PLN	113	–	113
Other	130	–	130
<b>Total</b>	1,378	–	1,378

\*) NOK amount includes the fair value change of Renewable Energy Corporation (REC) shareholding in Hafslund approximately EUR 440 million.

## Interest rate and currency derivatives by instrument

EUR million	31 December 2006				Fair value		
	Notional amount Remaining lifetimes				Positive	Negative	Net
	Under 1 year	1–5 years	Over 5 years	Total			
Interest rate swaps	1,357	648	1,016	3,021	23	20	3
Forward foreign exchange contracts	5,191	65	–	5,256	5	66	–61
Interest rate and currency swaps	796	1,779	–	2,575	20	96	–76
<b>Total</b>	<b>7,344</b>	<b>2,492</b>	<b>1,016</b>	<b>10,852</b>	<b>48</b>	<b>182</b>	<b>–134</b>
Of which long-term <sup>1)</sup>					22	63	–41
Short-term					26	119	–93

## Interest rate and currency derivatives by use

EUR million	31 December 2006				Fair value		
	Notional amount Remaining lifetimes				Positive	Negative	Net
	Under 1 year	1–5 years	Over 5 years	Total			
Fair value hedging interest rate derivatives <sup>1)</sup>	–	300	950	1,250	5	–	5
Cash flow hedging interest rate derivatives	–	317	66	383	5	–	5
Non-hedging interest rate derivatives <sup>2)</sup>	1,357	31	–	1,388	13	20	–7
<b>Total interest rate swaps</b>	<b>1,357</b>	<b>648</b>	<b>1,016</b>	<b>3,021</b>	<b>23</b>	<b>20</b>	<b>3</b>
Net investment hedging foreign exchange derivatives	–	–	–	–	–	–	–
Cash flow hedging foreign exchange derivatives	353	51	–	404	3	5	–2
Non-hedging foreign exchange derivatives <sup>2)</sup>	4,838	14	–	4,852	2	61	–59
<b>Total forward foreign exchange contracts</b>	<b>5,191</b>	<b>65</b>	<b>–</b>	<b>5,256</b>	<b>5</b>	<b>66</b>	<b>–61</b>
Non-hedging interest rate and currency derivatives <sup>2)</sup>	796	1,779	–	2,575	20	96	–76
Total interest rate and currency swaps	796	1,779	–	2,575	20	96	–76
<b>Total</b>	<b>7,344</b>	<b>2,492</b>	<b>1,016</b>	<b>10,852</b>	<b>48</b>	<b>182</b>	<b>–134</b>

## Interest rate and currency derivatives by instrument

EUR million	31 December 2005				Fair value		
	Notional amount Remaining lifetimes				Positive	Negative	Net
	Under 1 year	1–5 years	Over 5 years	Total			
Interest rate swaps	969	1,132	535	2,636	69	58	11
Forward foreign exchange contracts	5,253	44	–	5,297	88	19	69
Interest rate and currency swaps	–	1,958	211	2,169	22	19	3
<b>Total</b>	<b>6,222</b>	<b>3,134</b>	<b>746</b>	<b>10,102</b>	<b>179</b>	<b>96</b>	<b>83</b>
Of which long-term <sup>1)</sup>					85	51	34
Short-term					94	45	49

<sup>1)</sup> Fair values of hedging interest rate swaps have been netted against fair value change of the bond in the balance sheet.

<sup>2)</sup> Consists of deals without hedge-accounting status.

## Interest rate and currency derivatives by use

EUR million	31 December 2005				Fair value		
	Notional amount Remaining lifetimes				Positive	Negative	Net
	Under 1 year	1–5 years	Over 5 years	Total			
Fair value hedging interest rate derivatives <sup>1)</sup>	–	300	500	800	47	–	47
Cash flow hedging interest rate derivatives	–	114	–	114	–	–	–
Non-hedging interest rate derivatives <sup>2)</sup>	969	718	35	1,722	22	58	–36
<b>Total interest rate swaps</b>	969	1,132	535	2,636	69	58	11
Net investment hedging foreign exchange derivatives	395	–	–	395	8	–	8
Cash flow hedging foreign exchange derivatives	222	44	–	266	10	6	4
Non-hedging foreign exchange derivatives <sup>2)</sup>	4,636	–	–	4,636	70	13	57
<b>Total forward foreign exchange contracts</b>	5,253	44	–	5,297	88	19	69
Non-hedging interest rate and currency derivatives <sup>2)</sup>	–	1,958	211	2,169	22	19	3
<b>Total interest rate and currency swaps</b>	–	1,958	211	2,169	22	19	3
<b>Total</b>	6,222	3,134	746	10,102	179	96	83

<sup>1)</sup> Fair values of hedging interest rate swaps have been netted against fair value change of the bond in the balance sheet.

<sup>2)</sup> Consists of deals without hedge-accounting status.

## Share derivatives

EUR million	31 December 2006		31 December 2005	
	Notional value	Net fair value	Notional value	Net fair value
Share forwards	24	37	11	14

Cash-settled share forwards are used as a hedging instrument for the Fortum share price risk regarding the Fortum Group's performance share arrangement. See Note 30 Employee bonus and incentive schemes for more information about the Group's performance share arrangement. The maturity of the share forwards is 1–5 years. The amounts disclosed are non-discounted cash flows for the share derivatives.

## Counterparty Risk

Fortum's business operations in electricity markets and elsewhere lead to contractual arrangements with customers and other counterparts. When an external counterpart enters into a contractual obligation, the counterpart is credit controlled to assess the risk of such relationship. Corporate Credit Control reviews all counterparts and assigns a corporate limit stating the maximum allowed level of exposure for any single counterpart. Counterpart exposure is evaluated as the maximum expected loss given that a counterpart defaults on its obligations towards Fortum.

Exposures against limits and counterparts' creditworthiness are monitored to ensure that the risks are at an accepted level.

When changes appear to be leading to unacceptable risks according to approved policies, Corporate Credit Control initiates actions to mitigate risks.

Counterpart risk exposures relating to financial derivative instruments are often volatile. The majority of the Group's commodity derivatives are cleared by the Nordic electricity exchange, Nord Pool. Derivative transactions are also done with other individual external counterparts 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.

Amounts disclosed below are presented by counterparties for interest-bearing receivables, excluding leasing receivables, and derivative financial instruments recognised as assets.

EUR million	2006	
	Carrying amount	of which past due
Investment grade receivables	79	–
Electricity exchanges	101	–
Associated companies	603	–
Other	112	–
<b>Total</b>	895	–

## 4 Primary Segment Information, Continuing Operations

Fortum's business operations are organised in seven business units. Financial target setting, follow up and allocation of resources in the groups' performance management process is based on the business units comparable operating profit including share of associated companies and return on comparable net assets. Fortum's business units are grouped into business segments in the external reporting.

Fortum's shared service centers consist of Corporate Financial Services, Corporate IT Services and Corporate Support Services. The service units have service level agreements with the business units for services provided.

**Power Generation** segment generates and sells power mainly to the Nordic electricity market and is also responsible for the risk management operations within power generation. Power Generation segment consist of the business units Generation, Portfolio Management and Trading and Service. 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. Generation is responsible for ownership, operation and maintenance of Fortum's power plants and Service business unit provides operation and maintenance services for the Nordic market and selected international markets.

**Heat** provides district heating and cooling, industrial steam and energy produced in waste-to-energy production to industrial companies, municipalities and end-users in the Nordic countries, the Baltic countries and Poland. The Heat segment also sells electricity from its combined heat and power production (CHP) to the Nordic power exchange Nord Pool. Heat consists of two business units, Heat and Värme. Heat and Värme have similar businesses, but are separated into two business units since the City of Stockholm has a 50% economic interest in Värme. Värme's business operations are mainly concentrated to the larger Stockholm area in Sweden, while Heat has operations in Finland, Norway, Poland and other countries in the Baltic rim area.

**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 and distributes electricity to a total of 1.6 million customers in Sweden, Finland, Norway and Estonia. Electricity distribution is considered and accepted as a regulated business, and is therefore supervised by national energy authorities. Models and principles for supervision and considerations of reasonable tariffs differ from country to country.

**Markets** is responsible for offering energy solutions to its 1.3 million customers in Finland, Sweden and Norway. The segment buys its electricity from Nord Pool and sells its further to household and business customers as well as other 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. Electricity supply in the Nordic countries is a deregulated business since 1995 which means that customers can freely change electricity supplier.

**Other** includes mainly corporate center, but also the groups' shared service centers. The shared service centers charge the companies according to service level agreements.

**Discontinued operations**, reported in 2005 comprise Fortum Oil, renamed to Neste Oil Oy, which was separated during 2005 through

dividend distribution and sale of shares. The oil related business was treated as discontinued operations 2005. During 2006 there are no discontinued operations. Discontinued operations are disclosed separately in Note 7.

### Inter-segment transactions and eliminations

Power Generation segment sells its production to Nord Pool and Markets buys its electricity from Nord Pool. Eliminations of sales include eliminations of sales and purchases with Nord Pool that is netted on Group level on an hourly basis and posted either as revenue or cost depending on if Fortum is a net seller or net buyer during any particular hour.

Inter-segment sales, expenses and results for the different business segments are affected by intra-Group deliveries, which are eliminated on consolidation. Internal prices are market-based.

### Segment information

Fortum discloses in the segment information operating profit and comparable operating profit as well as return on net assets and comparable return on net assets.

Comparable operating profit is disclosed to give a better view of each segments performance. The following items in operating profit have been adjusted for in comparable operating profit:

- non-recurring items, which mainly consist of capital gains and losses
- effects from fair valuations of derivatives hedging future cash-flows which do not obtain hedge accounting status according to IAS 39. The major part of Fortum's cash-flow hedges obtain hedge accounting where the fair value changes are recorded in equity. See note 6 Fair Value changes of derivatives and underlying items in Income Statement.
- effects from the accounting of Fortum's part of the State Nuclear Waste Management Fund where the assets in the balance sheet cannot exceed the related liabilities according to IFRIC 5, see note 36 Nuclear Related Assets and Liabilities.

Segment net assets consist primarily of non-interest-bearing assets and liabilities such as property, plant and equipment, intangible assets, investments in associated companies, inventories, operative related accruals and trade and other receivables and liabilities. Net assets also include Fortum's share of the State Nuclear Waste Management Fund, nuclear related provisions, pension and other provisions as well as assets and liabilities from fair valuations of derivatives hedging future cash-flows which do not obtain hedge accounting status according to IAS 39.

Interest-bearing receivables and liabilities and related accruals, current and deferred tax items, and assets and liabilities from fair valuations of derivatives hedging future cash-flows which obtain hedge accounting status according to IAS 39 are not allocated to the segments net assets.

In comparable net assets, segment net assets are adjusted for assets and liabilities from fair valuations of derivatives hedging future cash-flows which do not obtain hedge accounting status according to IAS 39 to be in line with comparable operating profit.

Gross investments in shares include investments in subsidiary shares, shares in associated companies and other shares in available for sale financial assets. Investments in subsidiary shares are net of cash and grossed with interest-bearing liabilities in the acquired company.

See also Definitions of key figures and financial ratios, page 96–97.

**2006 Primary segment information**

EUR million	Power Generation	Heat	Distribution	Markets	Other	Eliminations	Total
Sales	2,439	1,268	753	1,912	78	-1,959	4,491
Internal sales	-133	-32	8	149	62	-54	0
External sales	2,572	1,300	745	1,763	16	-1,905	4,491
Depreciation, amortisation and impairment	108	144	147	19	11		429
Operating profit	980	264	252	-6	-35		1,455
Share of profit of associated companies and joint ventures	30	23	15	1	0		69
Finance costs-net							-103
Income taxes							-301
Profit from discontinued operations							-
Profit for the period							1,120

**Comparable operating profit**

EUR million	Power Generation	Heat	Distribution	Markets	Other	Total
Operating profit	980	264	252	-6	-35	1,455
Non-recurring items	-29	-20	-2	0	-10	-61
Other operating items effecting comparability	34	9	0	2	-2	43
Comparable operating profit	985	253	250	-4	-47	1,437

**Other information**

EUR million	Power Generation	Heat	Distribution	Markets	Other	Total
Recognised impairment losses for trade receivables	-	-	-2	-2	-	-4
Recognised impairment losses for property, plant and equipment	-1	-1	-	-	-	-2
Restructuring costs	-1	-2	-2	-3	-2	-10
Average number of employees	4,147	2,345	983	825	610	8,910

**Assets and liabilities by segments**

EUR million	Power Generation	Heat	Distribution	Markets	Other and eliminations	Total
Non-interest-bearing assets	5,379	3,720	3,624	610	255	13,588
Investments in associated companies and joint ventures	1,752	150	287	8	0	2,197
<b>Assets included in Net assets</b>	<b>7,131</b>	<b>3,870</b>	<b>3,911</b>	<b>618</b>	<b>255</b>	<b>15,785</b>
Interest-bearing receivables						693
Deferred tax assets						5
Other assets						199
Cash and cash equivalents						157
<b>Total assets</b>						<b>16,839</b>

EUR million	Power Generation	Heat	Distribution	Markets	Other and eliminations	Total
<b>Liabilities included in Net assets</b>	<b>397</b>	<b>463</b>	<b>499</b>	<b>442</b>	<b>170</b>	<b>1,971</b>
Deferred tax liabilities						1,795
Other liabilities						410
<b>Total liabilities included in capital employed</b>						<b>4,176</b>
<b>Interest-bearing liabilities</b>						<b>4,502</b>
<b>Total equity</b>						<b>8,161</b>
<b>Total equity and liabilities</b>						<b>16,839</b>
Gross investments in shares	145	589	130	6	40	910
Capital expenditure	95	184	183	8	15	485

EUR million	Net assets by segments	Return on Net assets (%)	Comparable return on Net assets (%)
Power Generation	6,734	16.1	16.1
Heat	3,407	9.6	9.2
Distribution	3,412	8.4	8.3
Markets	176	-1.6	-0.8



**2005 Primary segment information**

EUR million	Power Generation	Heat	Distribution	Markets	Other	Eliminations	Total
Sales	2,058	1,063	707	1,365	91	-1,407	3,877
Internal sales	97	12	8	101	63	-281	0
External sales	1,961	1,051	699	1,264	28	-1,126	3,877
Depreciation, amortisation and impairment	112	123	145	15	12		407
Operating profit	825	269	251	32	-30		1,347
Share of profit of associated companies and joint ventures	23	12	20	1			55
Finance costs-net							-135
Income taxes							-331
Profit from discontinued operations							474
Profit for the period							1,410

**Comparable operating profit**

EUR million	Power Generation	Heat	Distribution	Markets	Other	Total
Operating profit	825	269	251	32	-30	1,347
Non-recurring items	3	-14	-1	0	-18	-30
Other operating items effecting comparability	26	-2	-6	-2	1	17
Comparable operating profit	854	253	244	30	-47	1,334

**Other information**

EUR million	Power Generation	Heat	Distribution	Markets	Other	Total
Recognised impairment losses for trade receivables	-1	-2	0	-3	-	-6
Recognised impairment losses for property, plant and equipment	-1	-	-	-	-	-1
Restructuring costs	-	-	-	-	-	-
Average number of employees	4,374	2,186	1,008	745	626	8,939

**Assets and liabilities by segments**

EUR million	Power Generation	Heat	Distribution	Markets	Other and eliminations	Total
Non-interest bearing assets	5,263	2,762	3,238	507	216	11,986
Investments in associated companies and joint ventures	1,259	133	210	8	0	1,610
<b>Assets included in Net assets</b>	<b>6,522</b>	<b>2,895</b>	<b>3,448</b>	<b>515</b>	<b>216</b>	<b>13,596</b>
Interest-bearing receivables						620
Deferred tax assets						18
Other assets						108
Cash and cash equivalents						788
<b>Total assets</b>						<b>15,130</b>

EUR million	Power Generation	Heat	Distribution	Markets	Other and eliminations	Total
<b>Liabilities included in Net assets</b>	<b>568</b>	<b>344</b>	<b>427</b>	<b>287</b>	<b>77</b>	<b>1,703</b>
Deferred tax liabilities						1,512
Other liabilities						558
<b>Total liabilities included in capital employed</b>						<b>3,773</b>
Interest-bearing liabilities						3,946
Total equity						7,411
<b>Total equity and liabilities</b>						<b>15,130</b>
Gross investments in shares	47	87	-	-	-	134
Capital expenditure	83	124	115	10	14	346

EUR million	Net assets by segments	Return on Net assets (%)	Comparable return on Net assets (%)
Power Generation	5,954	14.0	14.5
Heat	2,551	11.6	11.0
Distribution	3,021	8.8	8.6
Markets	228	17.4	16.4

## 5 Geographical Segments, Continuing Operations

The Group's business segments operate mainly in the Nordic countries and other parts of the Baltic Rim area. Power Generation, Distribution and Markets operates mainly in Finland and Sweden, where as Heat operates in all geographical segments. Other European countries are mainly the Baltic countries and U.K. The home country is Finland.

Sales figures are based on the country in which the customer is located. Assets, capital expenditure and personnel are reported where the assets and personnel are located. Investments in associated companies and joint ventures are not divided by geographical segments since the companies concerned can have business in several geographical areas.

### Sales by market area

EUR million	2006	2005
Finland <sup>1)</sup>	1,171	1,415
Sweden	2,471	2,140
Norway <sup>1)</sup>	539	134
Poland	128	39
Other European countries	182	149
<b>Total sales</b>	<b>4,491</b>	<b>3,877</b>

<sup>1)</sup> From 2006 the Finnish power production is sold to Nord Pool in Norway, whereas Swedish power production is sold through Nord Pool in Stockholm. Sales and purchases with Nord Pool are netted on country level on an hourly basis and posted either as revenue or cost depending on if Fortum is a net seller or net buyer during any particular hour.

### Capital expenditure by geographical segments

EUR million	2006	2005
Finland	146	102
Sweden	299	223
Norway	17	8
Poland	6	3
Other European countries	17	10
<b>Capital expenditure</b>	<b>485</b>	<b>346</b>

### Segment assets by geographical segments

EUR million	2006	2005
Finland	3,739	2,578
Sweden	9,712	9,046
Norway	207	203
Poland	219	253
Other European countries	214	191
Eliminations	-503	-285
<b>Non-interest bearing assets</b>	<b>13,588</b>	<b>11,986</b>
Investments in associated companies and joint ventures	2,197	1,610
<b>Total segment assets</b>	<b>15,785</b>	<b>13,596</b>

### Number of employees at 31 December

	2006	2005
Finland	2,976	3,476
Sweden	3,321	3,463
Norway	261	268
Poland	990	1,187
Other European countries	586	561
<b>Total number of employees</b>	<b>8,134</b>	<b>8,955</b>

## 6 Fair Value changes of derivatives and underlying items in Income Statement

Fair value changes in operating profit presented below are arising from financial derivatives hedging future cash flows where hedge accounting is not applied according to IAS 39 and the ineffectiveness from cash flow hedges.

Fair value changes of currency derivatives in financial net are arising mainly from balance sheet hedges without hedge accounting status according to IAS 39, because they are natural hedges of

loans and receivables. The net effect in financial costs of the fair value changes of these currency derivatives and the exchange gains and losses of the underlying balance sheet items are EUR 9 million (2005:12 million). Fair value change of interest rate hedges without hedge accounting is EUR 17 million (2005: 31 million). The net effect of fair value changes of hedging derivative and hedged bonds are EUR 4 million (2005:1 million).

EUR million	2006	2005
In Operating profit		
Fair value changes from derivatives not getting hedge accounting status		
Electricity derivatives	-31	-2
Currency derivatives	-1	-12
Oil derivatives	-6	-1
Share derivatives <sup>1)</sup>	2	-
Ineffectiveness from cash flow hedges	-6	1
Total effect in operating profit	-42	-14
Fair value changes of derivatives not getting hedge accounting included in share of profit of associated companies	3	-1
In Finance costs		
Exchange gains and losses on loans and receivables	185	-155
Fair value changes of derivatives not getting hedge accounting status		
Currency derivatives	-176	167
Interest rate derivatives	17	31
Fair value change of hedging derivatives in fair value hedge relationship	-27	8
Fair value change of hedged item in fair value hedge relationship	31	-7
Total effect in finance costs	30	44
Total effect of derivatives on Profit before income tax	-9	29

<sup>1)</sup> Related to cash-settled share forwards used as a hedging instrument for Fortum Group's performance share agreement.

Fortum discloses in segment reporting comparable operating profit to give a better view of each segments performance. The following items in operating profit have been adjusted for in comparable operating profit:

- non-recurring items, which mainly consist of capital gains and losses

- effects from fair valuations of derivatives in operating profit as presented in the table above. The major part of Fortum's cash-flow hedges obtain hedge accounting where the fair value changes are recorded in equity.
- effects from the accounting of Fortum's part of the State Nuclear Waste Management Fund where the assets in the balance sheet cannot exceed the related liabilities according to IFRIC 5.

## 7 Discontinued Operations

### Discontinued operations 2006

No discontinued operations are reported for 2006. None of the divestments have been deemed to represent a major business line in Fortum. The divestment of Industrial maintenance services has an impact on the number of employees in Fortum since it involved 930 employees. The impact on the external sales of the Fortum group from the divestment is approximately EUR 70 million. The effect on operating profit, net profit and net assets is minor.

### Discontinued operations 2005

#### The dividend distribution and sale of shares in Neste Oil in 2005

The final decision to separate Fortum Oil, renamed Neste Oil Corporation in February 2005, by distributing approximately 85% of Neste

Oil shares as dividends to shareholders was taken by the Annual General Meeting on 31 March 2005. The remaining approximately 15% of shares, a total of 38,440,137 shares, were sold to institutional and individual investors in April 2005. Both the institutional offering and the retail offering were priced at EUR 15 per share. The listing of Neste Oil Corporation shares commenced on the Helsinki Stock Exchange Prelist on 18 April and on the Main List on 21 April 2005.

#### Incorporation of Neste Oil

Neste Oil was incorporated by means of a demerger of Fortum Oil and Gas Oy, a wholly-owned subsidiary of Fortum, effected in accordance with Finnish Law on 1 May 2004. Under Finnish Law, a demerger is a transfer of all or part of the assets and liabilities of the demerging company to one or more newly incorporated receiving companies in exchange for a consideration in the form of shares of

the receiving company issued to the shareholders of the demerging company or of other assets and undertakings of the demerging company. Under the demerger plan, all the assets and liabilities related to the oil businesses of Fortum Oil and Gas Oy were transferred to Neste Oil. As Fortum Oil Oy (subsequently renamed to Neste Oil Corporation) was incorporated on 1 May 2004, the company has no history as a legal entity prior to that date.

### Business included and presentation of discontinued operations

The oil related operations in Fortum has been treated as discontinued operations effective 31 March 2005 according to IFRS 5 Non-current Assets held for Sale and Discontinued operations. Discontinued operations are disclosed on one line net of tax in the face of the income statement. In the cash-flow statement the net cash-flows attributable to the operating, investing and financing activities of the discontinued operations are disclosed separately.

### Income statement analysis

Discontinued operations include mainly the oil operations in Fortum, but financial costs incurred by the separation and effects from intra group items have also been included. The net financial costs allocated to discontinued operations are based on the fact that the financing activities and risk management have been centralised on group level and that intra-group funding has been based on short-term floating rate. Total corporate center costs and other overhead costs as previously presented in Fortum are included in continuing operations and no future cost reductions have been assumed. Transfer taxes related to the share dividend distribution, EUR 21 million, are recorded in other expenses in the income statement in discontinued operations in 2005. The tax-free capital gain amounting to EUR 390 million after fees and expenses was recorded in the other income in discontinued operations in 2005.

### An analysis of the result of discontinued operations including eliminations between Fortum and discontinued operations

EUR million	2005
Sales	2,061
Other income	395
Materials and services	-1,726
Employee costs	-57
Depreciation, amortisation and impairment charges	-36
Other expenses	-120
Operating profit	517
Share of profit of associated companies and joint ventures	-2
Finance costs – net	-6
Profit before income tax	509
Income tax expenses	-35
Profit for the year from discontinued operations	474

Other income includes tax free capital gain amounting to EUR 390 million from the sale of shares in Neste Oil Oyj in 2005.

### Cash flow statement analysis

Cash flow from discontinued operations include oil operations, effects from allocating the centralised financing activities, allocated taxes, impact from sale of shares and repayment of interest-bearing receivable after refinancing.

The gross proceeds from the sale of the shares were EUR 577 million and proceeds from the interest-bearing receivable of EUR

804 million, which Neste Oil paid back in April 2005. These proceeds net of fees, expenses and cash disposed were included in the cash flow from investing activities in discontinued operations in 2005. Transfer taxes related to the share dividend distribution, EUR 21 million, are recorded in the cash flow from operations in discontinued operations in 2005.

### The net cash flows attributable to the operating, investing and financing activities of discontinued operations are as follows:

EUR million	2005
Net cash from operating activities	133
Net cash from/used in investing activities	1,155
Net cash from financing activities	29
Total cash flows	1,317

### Share dividend distribution

Fortum Corporation's Annual General Meeting approved in 31 March 2005 that Fortum Corporation could distribute a dividend of 217,963,549 Neste Oil Corporation shares (approximately 85 per cent of the shares outstanding) such that for each four shares in Fortum Corporation each shareholder were entitled to receive one

Neste Oil Corporation share. Fortum's equity was effected by the share dividend distribution through de-consolidation of Neste Oil. The impact on equity was EUR 920 million and EUR 969 million in Fortum Group and in Fortum Corporation respectively.

## Condensed balance sheet of Neste Oil as of 31 March 2005

EUR million	31 March 2005
<b>Assets</b>	
Non-current assets	1,927
Cash pool receivables	129
Current assets	1,348
Cash and cash equivalents	64
Total assets	3,468
<b>Equity and liabilities</b>	
Shareholders' equity	1,083
Minority interest	6
Interest-bearing liabilities	1,147
Interest-free liabilities	1,232
Total equity and liabilities	3,468

## 8 Acquisitions and Disposals

Material acquisitions in recent years consisted of E.ON Finland Oyj (renamed Fortum Espoo Oyj) in June 2006 and MPEC Wroclaw (renamed Fortum Wroclaw S.A.) in Poland in December 2005.

In 2006 Fortum invested EUR 765 million in subsidiary shares, of which the investment in Fortum Espoo represented EUR 713 million.

The effect of the acquisitions on the 2006 sales is EUR 205 million, being:

- Fortum Espoo Oy external sales July to December, EUR 131 million
- Fortum Wroclaw S.A. external sales for whole year 2006 were EUR 74 million

### Gross Investments in subsidiary shares by segment

EUR million	2006	2005
Power Generation	2	–
Heat	587	87
Distribution	130	–
Markets	6	–
Other and eliminations	40	–
Total	765	87

### Gross Investments in subsidiary shares by country

EUR million	2006	2005
Finland	714	–
Sweden	–	–
Other European countries	51	87
Total	765	87

Gross Investments in subsidiary shares consist of interest-bearing debt as well as paid cash according to purchase agreement added with direct costs relating to the acquisition less cash and cash equivalents in acquired subsidiary.

## Acquisitions 2006

Fortum acquired 99,8% of the shares of Fortum Espoo Oy (former E.ON Finland Oyj) on 26 June 2006 after approval by Finnish Competition Authority. On 13 September 2006 Fortum obtained the title to all minority shares of Fortum Espoo in the redemption procedure according to the Finnish Companies Act. The quotation of Fortum Espoo's share on Helsinki Stock Exchange ceased on 13 September 2006. On 31 December 2006 Fortum Espoo Oy demerged into Fortum Espoo Markets Oy, Fortum Espoo Distribution Oy and Fortum Espoo Power and Heat Oy. Fortum Espoo has been consolidated from 30 June 2006.

The acquisition was accounted for using the purchase method under which Fortum allocated the total purchase consideration to assets and liabilities based on their fair values. Fortum Espoo business areas comprise sale of electricity to retail and business customers, ownership and operation of electricity networks as well as generation and sales of power and heat located mainly to Espoo and Joensuu, Finland. At the year-end it employed 336 persons and had sales of EUR 271 million for the year, of which EUR 131 million arose after the acquisition.

The effect on Fortum's operating profit from the Fortum Espoo Oy acquisition for the six months post-acquisition showed an operating profit of EUR 16 million, including EUR 5 million in restructuring costs, and profit for the period as of EUR 13 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation that has been charged due to the fair value adjustments of intangible assets and property, plant and equipment together with the consequential tax effects.

Fortum has fulfilled the conditions set by the Competition Authority for the realisation of the Fortum Espoo acquisition. In October, Fortum finalised the sale of its combined heat and power plant in Hämeenlinna, Finland, to Vattenfall. In November 2006, Fortum sold its 154-MW peat-fired power plant in Haapavesi, Finland, to Kanteleen Voima Oy, which is owned by a group of regional energy companies. Fortum has also sold the equivalent of 1 TWh/a of constant generation capacity in the Finnish area from November

2006 to the end of March 2011. Fortum has leased its 308-MW share of the Meri-Pori power plant from January 2007 to the end of June 2010.

Details of the Fortum Espoo Oy acquisition are shown in the table below, along with figures for the entire Group; no other single acquisition was deemed material. The Fortum Espoo figures will remain provisional as further information may become available within the 12 month period post-acquisition which may result in changes in the net assets acquired or fair value allocations.

#### Other acquisitions in 2006 included:

In October 2006 Fortum completed its acquisition in Fortum Wrocław S.A. The business had full year sales of EUR 74 million in 2006 and employed 203 people at the year end. The operating profit including the fair value adjustments of property, plant and equipment together with the consequential tax effects amounted to EUR 5 million, with a profit for the period of EUR 5 million.

Consideration	Total Group Acquisitions	Fortum Espoo Group
<b>EUR million</b>		
Purchase consideration:		
Cash paid	812	761
Direct costs relating to the acquisition	6	5
Total purchase consideration	818	766
Fair value of the acquired net assets	817	766
Translation difference	1	–
Goodwill	0	0

Specification of the acquired net identifiable assets	Total Group Acquisitions			Fortum Espoo Group		
	Total Value	Allocated Fair Values	Acquired Book Value	Total Value	Allocated Fair Values	Acquired Book Value
<b>EUR million</b>						
Cash and cash equivalents	64	–	64	64	–	64
Intangible assets	13	–28	41	13	–28	41
Property, plant and equipment	995	683	312	1,008	696	312
Shares	3	1	2	3	1	2
Inventories	18	–	18	18	–	18
Receivables	185	23	162	185	23	162
Deferred tax assets	19	18	1	19	18	1
Minorities	–	–	–	–	–	–
Non-interest bearing liabilities	–307	–17	–290	–307	–17	–290
Interest-bearing liabilities	–11	–	–11	–11	–	–11
Deferred tax liabilities	–224	–188	–36	–226	–190	–36
<b>Net identifiable assets</b>	<b>755</b>	<b>492</b>	<b>263</b>	<b>766</b>	<b>503</b>	<b>263</b>
Minority interests	62	62	–	–	–	–
<b>Fair value of the acquired net identifiable assets</b>	<b>817</b>	<b>554</b>	<b>263</b>	<b>766</b>	<b>503</b>	<b>263</b>

	Total Group Acquisitions	Fortum Espoo Group
Purchase consideration settled in cash	818	766
Cash and cash equivalents in subsidiaries acquired	64	64
Cash outflow on acquisition	754	702
Interest-bearing debt in subsidiaries acquired	11	11
Gross investment in subsidiaries acquired	765	713

## Acquisitions 2005

In December 2005, Fortum acquired majority of MPEC Wroclaw and majority of Plocka Energetyka Ciepna Sp. z o.o., two district heating distributors operating in Poland. Furthermore in May, Fortum acquired majority of UAB Suomijos Energija, a lithuanian district heating company. These acquisitions have been summarized below.

On 28 December 2005, the Group obtained control over 57,03% of the share capital of MPEC Wroclaw, a district heating distributor operating in the Poland. The acquired business did not contribute any net sales or net profit to the Group in 2005.

Consideration	Total Group Acquisitions	MPEC Wroclaw S.A.
<b>EUR million</b>		
Purchase consideration:		
Cash paid	91	78
Direct costs relating to the acquisition	1	1
Total purchase consideration	92	79
Fair value of the acquired net assets	96	82
Translation difference	-4	-3
Goodwill	0	0

Specification of the acquired net identifiable assets	Total Group Acquisitions			MPEC Wroclaw		
	Total Value	Allocated Fair Values	Acquired Book Value	Total Value	Allocated Fair Values	Acquired Book Value
<b>EUR million</b>						
Cash and cash equivalents	13	-	13	12	-	12
Intangible assets	1	-	1	1	-	1
Property, plant and equipment	170	50	120	146	43	103
Inventories	1	-	1	-	-	-
Receivables	21	-	21	18	-	18
Deferred tax assets	2	-	2	1	-	1
Minorities	-1	-1	0	-	-	-
Non-interest bearing liabilities	-24	-	-24	-17	-	-17
Interest-bearing liabilities	-9	-	-9	-4	-	-4
Deferred tax liabilities	-14	-10	-4	-13	-9	-4
<b>Net identifiable assets</b>	<b>160</b>	<b>39</b>	<b>121</b>	<b>144</b>	<b>34</b>	<b>110</b>
Minority interests	-64	-64	-	-62	-62	-
<b>Fair value of the acquired net identifiable assets</b>	<b>96</b>	<b>-25</b>	<b>121</b>	<b>82</b>	<b>-28</b>	<b>110</b>

	Total Group Acquisitions	MPEC Wroclaw
Purchase consideration settled in cash	92	79
Cash and cash equivalents in subsidiaries acquired	13	12
Cash outflow on acquisition	79	67
Interest-bearing debt in subsidiaries acquired	8	4
Gross investment in subsidiaries acquired	87	71

## Disposals 2006 and 2005

Fortum sold its industrial maintenance services business with operations in Finland and Sweden on 31 October 2006. Industrial maintenance service was a business area within the Service business unit in Power Generation segment and had total external sales of EUR 70 million from January to October 2006. Some 900 employees were transferred in connection with the deal. The divestment included both subsidiary shares and assets. Fortum also sold

Bromölla Fjärrvärme AB, its Swedish subsidiary. The total disposal consideration was EUR 11 million.

In 2005 Fortum made only some minor disposals. Fortum divested majority shareholdings in Fortum Elsikkerhet AS, its Norwegian subsidiary and ÅPS Combustion AB, its subsidiary in Sweden. The total disposal consideration was EUR 3 million.

## 9 Exchange Rates

The income statement of subsidiaries, whose measurement and reporting currency are not euros, are translated into the Group reporting currency using the average exchange rates, whereas the balance sheet of such subsidiaries are translated using the exchange rates on the balance sheet date. The balance sheet date

rate is based on exchange rate published by the European Central Bank for the closing date. The average exchange rate is calculated as an average of each months ending rate from the European Central Bank during the year and ending rate previous year. Key exchange rates for Fortum Group applied in the accounts:

	Currency	Average rate		Balance sheet date rate	
		2006	2005	31 Dec 2006	31 Dec 2005
Sweden	SEK	9.2637	9.2783	9.0404	9.3885
Norway	NOK	8.0376	8.0240	8.2380	7.9850
Poland	PLN	3.8965	4.0268	3.8310	3.8600

## 10 Sales

EUR million	2006	2005
Power sales excluding indirect taxes	2,437	2,002
Heating sales	1,014	867
Network transmissions	716	674
Other sales	324	334
Total	4,491	3,877

Sales from contracts in progress entered as income according to the percentage of completion EUR 44 million in 2006 (2005: 14 million). Heating sales include sale of delivered heat and transmission of heat.

## 11 Other income

EUR million	2006	2005
Capital gains on disposal of non-current assets	71	56
Rental income	9	10
Fair value changes on derivatives that do not qualify for hedge accounting status (Note 6)	-43	-14
Other items	43	49
Total	80	101

Revenue from activities outside normal operations is reported in Other income. This includes recurring items such as rental income and non-recurring items such as gains from sale of shares etc. Gains on sale of shares, property, plant and equipment and emission rights are included in capital gains on disposal of non-current assets. During 2006 capital gains included gain on sale of emission rights

EUR 10 million (2005: 24 million). Costs for made emissions which are not covered by emission rights received for free were EUR 10 million 2006 (2005: 0 million). The costs are included in Materials and services. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in other income.

## 12 Materials and Services

EUR million	2006	2005
Purchases	971	668
Purchases from associated companies	487	446
Purchases from joint ventures	1	2
Transmission costs	122	122
Change in inventories	-3	-5
External services	95	92
Total	1,673	1,325

Purchases contain mainly nuclear and coal fuel purchased for producing power and heat. Purchases from associated companies consist of purchases of nuclear power and hydro power at production costs including interest costs and income taxes. See Note 23 Investments in Associated Companies and Joint Ventures. Total pur-

chases include production taxes and duties EUR 149 million (2005: 113 million) of which Nuclear related property taxes EUR 66 million (2005: 38 million) and hydro power related property taxes EUR 10 million (2005: 5 million).



## 13 Other Expenses

EUR million	2006	2005
Operation and maintenance costs	115	83
Property taxes	56	26
IT and telecommunication costs	92	56
Research and development costs	17	14
Other items	226	239
Total	506	418

The major components recorded in the other expenses are the external operation and maintenance costs of power and heat plants and of transmission lines.

Property taxes include property taxes relating to hydro power production MEUR 52 million (2005: 20 million).

### Auditors' fee

EUR million	2006	2005
Audit fees	1.0	1.1
Other assignments	0.2	0.5
Total	1.2	1.6

## 14 Management Remuneration and Employee Costs

EUR million	2006	2005
Wages and salaries	339	320
Pensions		
Defined contribution plans	36	35
Defined benefit plans (Note 35)	15	17
Social security costs	91	74
Share-based remunerations (Note 30)	9	13
Other post-employment benefits	1	1
Other employee costs	17	21
Total	508	481
Non-monetary benefits	0	4

The Nomination and Compensation Committee discusses, assesses and makes proposals on the pay structure, bonus and incentive systems for the Group and its management, and contributes to the Group's nomination issues. The remuneration policy is determined by the Board of Directors.

The compensation package for Fortum employees consists of a combination of salaries, benefits and short-term and long-term incentives. The majority of Fortum employees are covered by an annual performance bonus system. The long-term incentive schemes are intended for the top management and key personnel of the Fortum Group.

For further information on Fortum's employee bonus and equity incentive schemes, see Note 30 and for pension obligations see Note 35.

### Supervisory Board remuneration

The Supervisory Board comprises a minimum of six and a maximum of 12 members. The Supervisory Board meetings are also attended by employee representatives who are not members of the Supervisory Board. The Annual General Meeting confirms the remuneration for the Supervisory Board members.

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 in Fortum.

Total remuneration for the Supervisory Board service in 2006 has been EUR 85 thousand (2005: 89 thousand).

### Board remuneration

EUR thousand	2006	2005
Chairman, Peter Fageräs	63	61
Deputy chairman, Birgitta Kantola	50	49
Other members of the Board	190	180
Total	303	290

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. During 2006 the Board consisted of seven members.

The Annual General Meeting confirms an yearly compensation for Board service. 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 members. The table above shows total compensation for the Board of Directors paid by Fortum.

### The President and CEO and the Management Team remuneration

EUR thousand	2006		2005	
	The President and CEO	Other management team members	The President and CEO	Other management team members
Salaries and fringe benefits	796	1,415	769	1,460
Performance bonuses	385	585	366	709
Share-based remunerations	571	1,802	504	1,379
Post-employment benefits	377	776	452	858
Total	2,129	4,578	2,091	4,406

The Fortum Management Team consists of seven members, including the President and CEO to whom the members of the Management Team report.

The compensation package for Management Team and other senior management consists of base salary, including fringe benefits, an annual individual short-term performance bonus and long-term incentives, such as stock options or performance-based long-term incentive arrangements.

The criteria used in determining the size of the annual 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 per-

formance, as well as on their individual 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.

For the President and CEO and the members of the Fortum Management Team, the retirement age is 60 and the pension paid 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. The pension of the President and CEO is 60%.

In the event that Fortum decides to give notice of termination to the President and CEO, he is entitled to 24 months' salary, other Management Team members for 12 to 18 months.

## 15 Depreciation, Amortisation and Impairment Charges

EUR million	2006	2005
Depreciation of property, plant and equipment		
Buildings and structures	60	52
Machinery and equipment	331	323
Other tangible assets	5	5
Amortisation of intangible assets	31	26
Total	427	406
Impairment charges		
Other intangible assets	1	0
Buildings and structures	1	1
Total	2	1
Depreciation, amortisation and impairment charges total	429	407

## 16 Finance Costs – Net

EUR million	2006		2005	
	Fortum total	Fortum continuing	Fortum discontinued	Fortum total
Interest expense				
Borrowings	-174	-201	-9	-210
Other interest expense	-2	-2	0	-2
Total	-176	-203	-9	-212
Interest income				
Receivables	40	40	5	45
Other interest income	10	6	0	6
Total	50	46	5	51
Fair value gains and losses on financial instruments	30	40	2	42
Exchange gains and losses				
Loans and receivables	185	-155	7	-148
Derivatives	-185	159	-11	148
Dividend income	1	1	0	1
Interest income on share of State Nuclear Waste Management Fund	18	13	0	13
Unwinding of discount on nuclear provisions	-24	-22	0	-22
Unwinding of discount on other provisions	0	2	0	2
Other financial income	2	1	0	1
Other financial expenses	-4	-17	0	-17
Total	-7	-18	-4	-22
Finance costs-net	-103	-135	-6	-141

Interest expenses include interest expenses on interest-bearing loans, interest on interest rate and currency swaps, forward points on forward foreign exchange contracts hedging loans and receivables. Other interest expenses include mainly interest on financial leases.

Interest income includes EUR 20 million (2005: 24 million) from shareholders loans in Finnish and Swedish nuclear companies. Other interest income includes mainly income from financial leases as a lessor.

Fair value gains and losses on financial instruments include change in clean price of interest rate and cross currency swaps not getting hedge accounting and fair value changes of interest rate derivatives in hedge relationship and hedged items. Accrued interest on these derivatives are entered in interest expenses of borrowings.

Fair value gains and losses include also rate difference from forward contracts hedging loans and receivables without hedge accounting. 2006 includes also realised foreign exchange gains EUR 4 million.

Exchange gains and losses includes exchange rate differences arising from valuation of foreign currency loans and receivables and exchange rate differences from forward foreign exchange contracts and interest rate and currency swaps.

Financial costs allocated to discontinued operations in 2005 are based on the fact that the financing activities and risk management have been centralised on group level and that intra-group funding has been based on short-term floating rate. Discontinued operations are disclosed in Note 7.

## Unrealised fair value changes on interest rate and currency derivatives

EUR million	2006	2005 <sup>2)</sup>
<b>Interest rate and cross currency swaps</b>		
Interest expenses on borrowings	1	-5
Exchange rate difference from derivatives	-80	-8
Rate difference in Fair value gains and losses on financial instruments <sup>1)</sup>	-10	39
<b>Total fair value change of interest rate derivatives in finance costs – net</b>	<b>-89</b>	<b>26</b>
<b>Forward foreign exchange contracts</b>		
Interest expenses on borrowings	14	-7
Exchange rate difference from derivatives	-101	167
Rate difference in fair value gains and losses on financial instruments	5	8
<b>Total fair value change of currency derivatives in finance costs – net</b>	<b>-82</b>	<b>168</b>
<b>Total fair value change of interest and currency derivatives in finance costs – net</b>	<b>-171</b>	<b>194</b>

<sup>1)</sup> Fair value gains and losses on financial instruments for continuing operations include fair value changes from interest rate swaps not getting hedge accounting amounting to EUR 17 million (2005: 31 million).

<sup>2)</sup> Fortum continuing operations

## The aggregate exchange differences charged/credited to the income statement are included as follows

EUR million	2006	2005
Items included in operating profit	-4	1
Finance costs-net	0	4
<b>Total</b>	<b>-4</b>	<b>5</b>

## 17 Income Tax Expense

## Profit before Tax

EUR million	2006	2005
Finnish companies	600	570
Swedish companies	546	631
Other companies	275	66
<b>Total</b>	<b>1,421</b>	<b>1,267</b>

## Major components of income tax expense by major countries

EUR million	2006	2005
<b>Current taxes</b>		
Finnish companies	-135	-160
Swedish companies	-186	-128
Other companies	-19	-4
<b>Total current taxes</b>	<b>-340</b>	<b>-292</b>
<b>Deferred taxes</b>		
Finnish companies	2	16
Swedish companies	32	-54
Other companies	6	2
<b>Total deferred taxes</b>	<b>40</b>	<b>-36</b>
<b>Adjustments recognised for current tax of prior periods</b>		
Finnish companies	5	-3
Swedish companies	-1	0
Other companies	-5	0
<b>Total adjustments recognised for current tax of prior periods</b>	<b>-1</b>	<b>-3</b>
<b>Income taxes</b>	<b>-301</b>	<b>-331</b>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the enacted tax rates in Finland:

EUR million	2006	%	2005	%
Profit before tax	1,421		1,267	
Tax calculated at nominal Finnish tax rate	-369	26.0	-329	26.0
Differences in tax rates in other countries	-31	2.2	-7	0.6
Income not subject to tax	80	-5.7	8	-0.7
Expenses not deductible for tax purposes	-8	0.5	-16	1.3
Share of profit of associated companies and joint ventures	18	-1.3	15	-1.2
Utilisation of previously unrecognised tax losses	2	-0.1	0	0.0
Adjustments recognised for change in deferred tax of prior period	8	-0.5	1	-0.1
Adjustments recognised for current tax of prior period	-1	0.1	-3	0.2
Tax charge in the income statement	-301	21.2	-331	26.1

The weighted average applicable tax rate was 27,9 % (2005: 26,5%). The increase is caused by movements of income to countries with higher nominal tax rate.

Fortum's effective tax rate has decreased under 2006. This is due to few main reasons. Fortum's profit included significant amount of tax exempt capital gains and other one time adjustments decreasing the tax rate. The share of profit of associated companies

and joint ventures also decreased the effective tax rate. Fortum finalised some structural improvements during 2006 that result in more effective tax treatment. Also a substantial amount of income was generated in EU-countries, where the actual level of taxation is lower than Fortum's average tax rate. On the other hand more income than in 2005 was allocated to higher tax rate countries, which has an offsetting effect.

## 18 Earnings Per Share

### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006 Fortum total	Fortum continuing	2005 Fortum discontinued	Fortum total
Profit attributable to equity holders of the Company (EUR million)	1,071	884	474	1,358
Weighted average number of shares (thousands)	881,194			872,613
Basic earnings per share (EUR per share)	1.22	1.01	0.54	1.55

### Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At the end of 2006 the Group has two diluting stock option schemes (stock option schemes 2001 and 2002 for key employees). For the warrants and stock options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Fortum's shares) based on the monetary value of the subscription rights attached to outstanding options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the stock options.

The number of shares calculated as above is deducted from the number of shares that would have been issued assuming the exercise of the stock options. The incremental shares obtained through the assumed exercise of the options and warrants are added to the weighted average number of shares outstanding.

Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options or warrants. Previously reported earnings per share are not retroactively adjusted to reflect changes in price of ordinary shares.

	2006 Fortum total	Fortum continuing	2005 Fortum discontinued	Fortum total
Profit attributable to equity holders of the Company (EUR million)	1,071	884	474	1,358
Weighted average number of shares (thousands)	881,194			872,613
Effect of the 2001 key employees stock options	1,345			7,033
Effect of the 2002 key employees stock options	4,390			8,007
Diluted average number of shares (thousands)	886,929			887,653
Diluted earnings per share (EUR per share)	1.21	1.00	0.53	1.53

## 19 Dividend Per Share

The dividends paid in 2006 and 2005 were EUR 987 million (EUR 1.12 per share) and EUR 505.7 million (EUR 0.58 per share) respectively. Of the dividend paid in 2006, EUR 0.58 per share is attributable to the profit from the continuing operations in 2005, and EUR 0.54 per share to the profit from the discontinued operations.

The annual general meeting on 31 March 2005 decided also to distribute 85% of Neste Oil shares as dividends to shareholders. The impact on equity was EUR 920 million and EUR 969 million in Fortum Group and in Fortum Corporation respectively.

A dividend in respect of 2006 of EUR 1.26 per share, amounting to a total dividend of EUR 1,119 million based on the number of shares registered as of 30 January 2007, is to be proposed at the Annual General Meeting on 28 March 2007. Of this total dividend, EUR 0.73 per share is in accordance with the Group's dividend policy. An additional dividend of EUR 0.53 per share is proposed in order to steer Fortum's capital structure towards the agreed target. These financial statements do not reflect this dividend payable.

## 20 Financial Assets and Liabilities by Categories

Financial assets and liabilities in the tables below are split into categories in accordance with IAS 39. The categories are further split into classes which are basis for valuing respective asset or liability. Further information can be found in the Notes mentioned in the table.

### Financial assets by categories

	See note	2006				Available-for-sale financial assets	Total financial assets
		Loans and receivables	Financial assets at fair-value through profit and loss				
		Amortised cost	Hedge accounting, fair value hedges	Non-hedge accounting	Fair-value recognised in equity, cash flow hedges		
<b>EUR million</b>							
<b>Financial instruments in non-current assets</b>							
Other long-term investments	24	39				62	101
Derivative financial instruments	3						
Electricity derivatives				53	10		63
Interest rate and currency derivatives			18	17	5		40
Oil futures and forward contracts							–
Long-term interest-bearing receivables	25	582					582
<b>Financial instruments in current assets</b>							
Derivative financial instruments	3						
Electricity derivatives				73	103		176
Interest rate and currency derivatives				18	3		21
Oil futures and forward contracts				1			1
Trade receivables	27	847					847
Other interest-bearing receivables		12					12
Cash and cash equivalents	28	157					157
<b>Total</b>		<b>1,637</b>	<b>18</b>	<b>162</b>	<b>121</b>	<b>62</b>	<b>2,000</b>

## Financial assets by categories

		2005					
		Loans and receivables	Financial assets at fair-value through profit and loss			Available-for-sale financial assets	Total financial assets
		Amortised cost	Hedge accounting, fair value hedges	Non-hedge accounting	Fair-value recognised in equity, cash flow hedges		
EUR million	See note						
<b>Financial instruments in non-current assets</b>							
Other long-term investments	24	26				40	66
Derivative financial instruments	3						
Electricity derivatives				39	9		48
Interest rate and currency derivatives			2	34	2		38
Oil futures and forward contracts				1			1
Long-term interest-bearing receivables	25	524					524
<b>Financial instruments in current assets</b>							
Derivative financial instruments	3						
Electricity derivatives				27	2		29
Interest rate and currency derivatives				86	8		94
Oil futures and forward contracts				6			6
Trade receivables	27	716					716
Other interest-bearing receivables		1					1
Cash and cash equivalents	28	788					788
Total		2,055	2	193	21	40	2,311

## Financial liabilities by categories

		2006			Other financial liabilities		Total financial liabilities
		Financial liabilities at fair-value through profit and loss			Amortised cost	Fair value	
		Hedge accounting, fair value hedges	Non-hedge accounting	Fair-value recognised in equity, cash flow hedges			
EUR million	See note						
<b>Financial instruments in non-current liabilities</b>							
Interest-bearing liabilities <sup>1)</sup>	32				2,810	1,250	4,060
Derivative financial instruments	3						
Electricity derivatives			49	21			70
Interest rate and currency derivatives			62	2			64
Oil futures and forward contracts							–
<b>Financial instruments in current liabilities</b>							
Interest-bearing liabilities	32				442		442
Derivative financial instruments	3						
Electricity derivatives			49	28			77
Interest rate and currency derivatives			117	3			120
Oil futures and forward contracts			1				1
Trade payables	38				242		242
Total			278	54	3,494	1,250	5,076

<sup>1)</sup> Fair values of hedging interest rate swaps have been netted against fair value of the bond in the balance sheet.

## Financial liabilities by categories

2005

EUR million	See note	Financial liabilities fair-value through profit and loss			Other financial liabilities		Total financial liabilities
		Hedge accounting, fair value hedges	Non-hedge accounting	Fair-value recognised in equity, cash flow hedges	Amortised cost	Fair value	
<b>Financial instruments in non-current liabilities</b>							
Interest-bearing liabilities <sup>1)</sup>	32				2,284	834	3,118
Derivative financial instruments	3						
Electricity derivatives			32	41			73
Interest rate and currency derivatives			50				50
Oil futures and forward contracts							–
<b>Financial instruments in current liabilities</b>							
Interest-bearing liabilities	32				828		828
Derivative financial instruments	3						–
Electricity derivatives			14	175			189
Interest rate and currency derivatives			39	6			45
Oil futures and forward contracts			1				1
Trade payables	38				262		262
<b>Total</b>			136	222	3,374	834	4,566

<sup>1)</sup> Fair values of hedging interest rate swaps have been netted against fair value of the bond in the balance sheet.

## 21 Intangible Assets

EUR million	2006	2005
<b>Cost 1 January</b>	238	370
Discontinued operations	–	–128
Exchange rate differences and other adjustments	2	–1
Acquisitions through business combinations	39	4
Additions	21	11
Purchase of emission rights	9	–
Disposals	–4	–18
Reclassifications	12	0
<b>Cost 31 December</b>	317	238
Accumulated depreciation 1 January	158	254
Discontinued operations	–	–105
Acquisitions through business combinations	26	2
Exchange rate differences and other adjustments	–	–1
Disposals	–3	–18
Reclassifications	9	0
Depreciation for the period	31	26
<b>Accumulated depreciation 31 December</b>	221	158
<b>Carrying amount 31 December</b>	96	80

Main items in intangible assets are costs for customer base, software products and software licenses, which are all amortised over their useful lives. Costs for customer base means a portfolio of customers or market share that is stated at fair value at the date of acquisition. Costs for customer base are tested for impairment annually.

Bought emission rights are recognised in intangible assets to the lower of fair value and historical cost. Emission rights received free of charge are accounted to nominal value. The amount of emission rights in intangible assets is EUR 9 million (2005: 0 million).



## 22 Property, Plant and Equipment

	Land, waterfall rights and tunnels	Buildings, plants and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
<b>EUR million</b>						
<b>Cost 1 January 2006</b>	3,077	2,056	9,832	197	242	15,404
Exchange rate differences and other adjustments	116	44	261	-3	2	420
Acquisitions through business combinations	6	179	1,132	27	13	1,357
Capital expenditure	-	32	109	1	322	464
Disposals	-8	-48	-168	-5	-2	-231
Reclassifications	-2	-26	197	4	-176	-3
<b>Cost 31 December 2006</b>	3,189	2,237	11,363	221	401	17,411
<b>Accumulated depreciation 1 January 2006</b>	-	916	4,182	130	-	5,228
Exchange rate differences and other adjustments	-	15	89	2	-	106
Acquisitions through business combinations	-	49	312	1	-	362
Disposals	-	-35	-116	-3	-	-154
Depreciation for the period	-	60	330	6	-	396
Impairment charges	-	1	1	-	-	2
<b>Accumulated depreciation 31 December 2006</b>	-	1,006	4,798	136	-	5,940
<b>Carrying amount 31 December 2006</b>	3,189	1,231	6,565	85	401	11,471
<b>Carrying amount 31 December 2005</b>	3,077	1,140	5,650	67	242	10,176
<b>EUR million</b>						
<b>Cost 1 January 2005</b>	3,255	2,931	11,560	272	481	18,499
Discontinued operations	-55	-1,089	-1,631	-73	-242	-3,090
Exchange rate differences and other adjustments	-124	-11	-232	1	-18	-384
Acquisitions through business combinations	5	186	67	1	2	261
Capital expenditure	0	27	77	1	230	335
Disposals	-1	-18	-195	-1	-4	-219
Reclassifications	-3	30	186	-4	-207	2
<b>Cost 31 December 2005</b>	3,077	2,056	9,832	197	242	15,404
<b>Accumulated depreciation 1 January 2005</b>	-	1,378	5,032	164	-	6,574
Discontinued operations	-	-566	-969	-38	-	-1,573
Exchange rate differences and other adjustments	-	9	-66	-2	-	-59
Acquisitions through business combinations	-	54	38	1	-	93
Disposals	-	-11	-176	-1	-	-188
Depreciation for the period	-	52	322	6	-	380
Impairment charges	-	0	1	0	-	1
<b>Accumulated depreciation 31 December 2005</b>	-	916	4,182	130	-	5,228
<b>Carrying amount 31 December 2005</b>	3,077	1,140	5,650	67	242	10,176
<b>Carrying amount 31 December 2004</b>	3,255	1,553	6,528	108	481	11,925

Property, plant and equipment are subject to restrictions in the form of real estate mortgages, EUR 102 million (2005: 115 million), see Note 40 Pledged assets.

## Principal Capital Expenditure Projects in 2006

EUR million	Project	Pre-2006	2006
<b>Power Generation</b>			
Finland	Loviisa automation renewal	12	19
Sweden	Avestaforsen, hydro power plant	11	17
<b>Heat</b>			
Sweden	CHP-plant in Värtan, Stockholm	0	5
Sweden	Railway to Brista CHP-plant	2	5
Sweden	Connecting district heating networks Stockholm South-Central	0	9
<b>Distribution</b>			
Sweden	Automatic meter reading for customers	3	5
Sweden	Network Information System Project	2	2
Sweden	Automatic meter management	0	15
Finland and Sweden	Reliability investment program	3	39
<b>Markets</b>			
Sweden	Customer Services, Customer automated billing	12	6

At Loviisa nuclear power plant work is ongoing to modernise the plant's automation system. All new automation systems will be in operation in 2014.

The currently most extensive hydro refurbishment project at Månsbo hydropower plant in Sweden has proceeded according to schedule. The old power plant has been completely modernised and will start operation in 2007 under a new name, Avestaforsen.

In May 2006, Fortum started a project to connect the southern and central parts of the district heating systems in Stockholm. This will lead to more efficient use of heat production capacity in Stockholm. The project will be ready by May 2007 and the size of the investment is around EUR 20 million.

In May 2006, Fortum signed a service agreement over the delivery of automated meter management (AMM) system in

Sweden. The AMM enables customers to be invoiced based on their actual electricity consumption. Fortum's Swedish network areas will be within the system by the end of 2008 and the total investment is approximately EUR 240 million.

Distribution is committed to continuous improvement of its network reliability with an aim to halve the average yearly outage time. In 2005 Distribution launched the EUR 200 million Reliability Investment Programme. It continued according to plan in 2006.

Important project in year 2006 has been the implementation of new customer service and billing system, CAB, in Sweden. The system is used in all customer service functions and is supporting electricity sales and distribution by strengthening the relationships with customers as well as increasing service quality and reducing the operating costs.

## Assets leased by finance lease agreements

EUR million	2006	2005
Acquisition cost	63	61
Accumulated depreciation	-17	-13
Carrying amount	46	48

The assets leased by financial lease agreements are classified as machinery and equipment.

Fortum acts also as a lessor and has leased out property, plant and equipment for EUR 97 million (2005: 97 million), which are not included in property, plant and equipment in the consolidated financial statements.

## Capitalised interest expenses

Cumulative capitalised interest expenses included in the carrying amount in Machinery and equipment were EUR 19 million in 2006 (2005: 20 million). There were no new capitalised interest expenses in 2006 or 2005.

## 23 Investments in Associated Companies and Joint Ventures

EUR million	2006	2005
<b>At 1 January</b>	1,610	1,680
Discontinued operations	–	–140
Share of profits of associated companies	69	55
Acquisitions	124	47
Increase through acquisition of subsidiaries	2	–
Divestments	–5	–1
Translation differences	3	–8
Fair value and other adjustments in equity	394	–23
<b>At 31 December</b>	2,197	1,610

The carrying amounts of investments in associated companies include publicly listed shares for EUR 1,026 million. The fair value of those investments was EUR 1,696 million. Fortum owns shares in three (five) companies classified as joint ventures. The total carrying value of these joint ventures is EUR 63 million (2005: 59 million).

Acquisitions in 2006 mainly comprise acquisition of additional 12.5% of the shares in St. Petersburg Generating Company, see below information regarding Territorial Generating Company 1 "TGC-1" and Lenenergo. The divestments included the shares in Sölvesborgs Fjärrvärme AB and Karskär Energi AB in Sweden and Enprima Oy and Enermet Oy, Finland.

Fair value and other adjustments in equity include EUR 440 million fair value adjustment in Hafslund ASA related to its shareholding in Renewable Energy Corporation (REC). According to Fortum group accounting policies, the share of profits from Hafslund has been

included in Fortum Group figures based on the previous quarter information. When calculating the share of profits in Hafslund, Fortum has in accordance with Fortum's accounting policies, reclassified Hafslund's accounting treatment for the shareholding in REC. Hafslund has classified the shareholding in REC as financial assets at fair value through profit and loss, while Fortum has classified the REC shareholding as available for sale financial assets with fair value changes directly through equity. Only if Hafslund would divest shares in REC would the cumulative fair value change effect Fortum's income statement. Since REC is listed on the Oslo stock exchange as of 9 May 2006, Fortum is accounting for the fair value change in price in Oslo stock exchange at each closing date. The amount of shares is based on the amount published by Hafslund in the previous quarter if other information is not available.

### Bookvalues of principal associates

Company	Segment	Domicile	Participation in %		Book value in Group	
			2006	2005	2006	2005
Kemijoki Oy	Power Generation	Finland	18	18	266	268
Hafslund ASA	Power Generation	Norway	34	34	750	308
Teollisuuden Voima Oy	Power Generation	Finland	26	26	199	202
OKG AB	Power Generation	Sweden	46	46	94	96
Forsmarks Kraftgrupp AB	Power Generation	Sweden	26	26	94	89
Territorial Generating Company 1 "TGC-1"	Power Generation	Russia	26	–	207	–
St. Petersburg Generating Company	Power Generation	Russia	–	31	–	84
Gasum Oy	Heat	Finland	31	31	105	91
Fingrid Oyj	Distribution	Finland	25	25	91	83
Lenenergo	Distribution	Russia	35	31	66	66
<b>Total</b>					1,872	1,287
<b>Others</b>					325	321
<b>Carrying amount of associated companies at 31 December</b>					2,197	1,608

The Group's interest in associated companies is accounted by equity method. Assets acquired and liabilities assumed in the investment in associates are measured initially at their fair value at the acquisition date. The Group's share of its associated companies profit or loss and expenses related to the adjustments to fair values of the assets and liabilities assumed is recognised in the income statement. Accounting policies of the associated companies have been changed where necessary to ensure consistency with Fortum's accounting policies.

Fair values, based on market quotations, of listed principal associates (Hafslund ASA, TGC-1 and Lenenergo) is EUR 1.665 million.

Fortum owns 63.8% of the hydro shares and 15.4% of the monetary shares in Kemijoki Oy. Each owner of hydro shares is entitled to the hydro power production in proportion to its hydro shareholding. Fortum's total ownership is 17.5% of the share capital. Since Fortum has significant influence due to its representation on the board of directors and participation in policy-making processes, Kemijoki Oy is accounted for as an associated company.

JSC Lenenergo carried out a spin off in October 2005. The company was divided into five separate companies according to business line. The distribution business (less than 110 kV) remained in JSC Lenenergo, the distribution business (over 100 kV) was transferred to St Petersburg Main Power Circuits, the electricity generation as well as heat production and sales to St. Petersburg Generating Company, electricity sales to St. Petersburg Sale Company and other operations to NW Energy Management Company. The owners of Lenenergo received direct ownership in the four new companies as a result of the spin off. Fortum received 31.02% of the capital and 29.98% of the votes in each of the companies. Fortum's shareholding in Lenenergo remained 35.45% of the capital and 33.2% of the votes.

In October 2006, Fortum acquired additional 12.5% of the shares in St. Petersburg Generating Company. Fortum's ownership in St. Petersburg Generating Company after the acquisition of additional shares amounted to 43.5 % of the shares and 39.7% of the votes. In November 2006, St. Petersburg Generation Company, JSC Kola Generation Company, JSC Karelenenerogeneratsiya and JSC Apatity CHPP merged to form Territorial Generating Company 1, TGC-1. As a result of the merger, Fortum owns 25.7% of the shares and votes in TGC-1.

JSC Lenenergo is a listed company, St. Petersburg Main Power Circuits was listed in October 2006 and TGC-1 was listed in January 2007.

The restructuring of the Russian power sector is still on-going and changes are to be expected in the future. The companies do not prepare IFRS Consolidated Financial Statements, although TGC-1 is planning to prepare IFRS accounts in the spring of 2007. Based on these facts, Fortum has chosen to account for the five Russian associated companies based mainly on historical cost and not equity accounting. Management believes that the impact on Fortum's income statement would not be material if equity accounting would be used. Market value, based on market quotation, for the three listed shareholdings, EUR 725 million, exceeds the carrying amounts, EUR 277 million, with EUR 448 million at 31 December 2006. Fortum will apply equity accounting when IFRS accounts can be established.

The carrying amount in Fortum for Lenenergo in 2005 have been restated in 2006 and allocated to the five companies established through the spin off in October 2005. The split of the carrying amount for the shares in Lenenergo has been based on the relative fair values of the companies. The shareholding in Lenenergo was presented in Power Generation segment in Fortum in 2005 since the split of the values into the five new companies could not be done. In 2006 the five shareholdings are included in the appropriate segments in Fortum according to the business line. Lenenergo and St Petersburg Main Power Circuits Company are included in Distribution segment, TGC-1 in Power Generation segment, St. Petersburg Sale Company in Markets segment and NW Energy Management Company in Other segment.

#### Assets, liabilities, sales and profit and loss as presented by the Group's principal associates are as follows:

EUR million

2006	Domicile	Assets	Liabilities	Sales	Profit/loss	ownership, %	votes, %
Kemijoki Oy <sup>2) 5)</sup>	Finland	420	269	38	-4	18	
Hafslund ASA <sup>3)</sup>	Norway	3,654	1,724	2,089	1,240	34	33
Teollisuuden Voima Oy <sup>2)</sup>	Finland	2,651	1,980	242	0	26	26
OKG AB <sup>2) 4)</sup>	Sweden	1,354	995	185	0	46	46
Forsmarks Kraftgrupp AB <sup>2) 4)</sup>	Sweden	1,152	878	226	0	26	26
Territorial Generation Company 1 "TGC-1" <sup>1)</sup>	Russia	-	-	-	-	26	26
Gasum Oy <sup>3)</sup>	Finland	578	227	637	41	31	31
Fingrid Oyj <sup>3)</sup>	Finland	1,515	1,121	256	47	25	33
Lenenergo	Russia	-	-	-	-	35	33

2005	Domicile	Assets	Liabilities	Sales	Profit/loss	ownership, %	votes, %
Kemijoki Oy <sup>2)</sup>	Finland	420	269	38	-4	18	
Hafslund ASA <sup>3)</sup>	Norway	2,504	1,709	771	109	34	33
Teollisuuden Voima Oy <sup>2)</sup>	Finland	2,519	1,890	199	0	26	26
OKG AB <sup>2) 4)</sup>	Sweden	1,283	928	168	0	46	46
Forsmarks Kraftgrupp AB <sup>2) 4)</sup>	Sweden	1,144	832	215	0	26	26
Gasum Oy <sup>3)</sup>	Finland	503	178	433	22	31	31
Fingrid Oyj <sup>3)</sup>	Finland	1,467	1,128	223	41	25	33
Lenenergo	Russia	-	-	-	-	31	30

<sup>1)</sup> There is no annual report available for TGC-1 after the mergers which took place in November 2006. Currently accounting in TGC-1 is accounted for according to Russian accounting principles. Company is planning to prepare IFRS accounts during 2007.

<sup>2)</sup> Power plants are often built jointly with other power producers. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership or other agreements and each owner is liable for an equivalent portion of costs. The associated companies are not profit making, since the owners purchase electricity at production cost including interest cost and income taxes. (Note 44 Related party transactions)

<sup>3)</sup> Based on September 2006 and 2005 figures.

<sup>4)</sup> Based on June 2006 and 2005 figures.

<sup>5)</sup> Based on December 2005 figures.

### Associated company transactions

EUR million	2006	2005
Sales to associated companies	101	67
Interest on associated company loan receivables	20	24
Purchases from associated companies	487	446

Purchases from associated companies are purchases of nuclear- and hydro power at production costs (Note 44 Related party transactions)

### Associated company balances

EUR million	2006	2005
<b>Receivables from Associated Companies</b>		
Long-term interest-bearing loan receivables	575	517
Trade receivables	28	19
Other receivables	7	17
<b>Liabilities to Associated Companies</b>		
Long-term loan payables	164	157
Trade payables	12	63
Other payables	23	18

Long-term interest-bearing receivables are mainly from Swedish nuclear companies, OKG AB and Forsmarks Kraftgrupp AB EUR 504 million (2005: 462 million). Investments in Swedish nuclear companies are financed through loans from owners of the nuclear companies, pro rata ownership.

### Transactions and balances with joint ventures

EUR million	2006	2005
Sales	0	0
Purchases	1	2
Receivables from joint ventures	3	7
Payables to joint ventures	0	8

There were no outstanding loans receivable from joint ventures on 31 December 2006 or 2005.

## 24 Other Long-term Investments

EUR million	2006	2005
Available for sale financial assets	62	40
Other	39	26
Total	101	66

Available for sale financial assets, ie shares which are not classified as associated companies or joint ventures, consists mainly of shares in unlisted companies of EUR 39 million (2005: 40 million), for which the fair value can not be reliably determined. These assets are measured at cost less possible impairment. Available for sale

financial assets include listed shares at fair value of EUR 23 million (2005: 0 million). During 2006 Fortum has invested EUR 17 million in Wholesale Generating Company 5 (WGC5) (listed company in Russia). Total fair value changes, EUR 6 million (2005: 0 million), have been recognised in equity.

## 25 Long-term and Short-term Interest-bearing Receivables

EUR million	2006	2005
Long-term loan receivables	582	524
Finance lease receivables	98	96
Total long-term interest-bearing receivables	680	620
Other short-term interest-bearing receivables	12	1
Short-term finance lease receivables	1	3
Total short-term interest-bearing receivables <sup>1)</sup>	13	4
Total interest-bearing receivables	693	624

<sup>1)</sup> Included in trade and other receivables in balance sheet.

Long-term loan receivables include receivables from associated companies EUR 575 million (2005: 517 million).

### Interest-bearing receivables

EUR million	Effective interest rate	Carrying amount 2006	Repricing under 1 year	Repricing 1–5 years	Repricing over 5 years	Fair value 2006	Carrying amount 2005	Fair value 2005
Long-term loan receivables	3.9	591	586	1	4	606	524	543
Leasing receivables	6.3	99	62	6	31	114	99	114
Total long-term interest-bearing receivables <sup>2)</sup>	4.2	690	648	7	35	720	623	657
Other current receivables	1.5	3	3	–	–	3	1	1
Total interest-bearing receivables	4.2	693	651	7	35	723	624	658

<sup>2)</sup> Including current portion of long-term receivables

### Finance lease receivables

Fortum owns assets (mainly CHP- and heating plants) that it leases to customers under financial leasing agreements in Finland, Sweden and Estonia. These assets are recorded at the gross investment cost

in the lease, less unearned financial income. The average lease term is approximately 7 years. The average term of new contracts signed in 2005 is 10 years. Of all contracts, 4.9 percent carry a floating interest rate and 95.1 percent a fixed rate.

EUR million	2006	2005
Gross investment in finance lease contracts	130	132
Less unearned finance income	31	33
Present value of future minimum lease payment receivables	99	99

### Maturity of finance lease receivables

EUR million	2006	2005
<b>Gross investment</b>		
Less than 1 year	15	15
1–5 years	64	60
Over 5 years	51	57
Total	130	132

### Present value of future minimum lease payments receivables

EUR million	2006	2005
Less than 1 year	10	3
1–5 years	47	48
Over 5 years	42	48
Total	99	99
Contingent rents recognised in income statement	1	0

## 26 Inventories

EUR million	2006	2005
Nuclear fuel	56	54
Coal	104	97
Oil	58	20
Other inventories	111	85
Total	329	256

No impairment costs have been booked related to inventories neither in 2006 or 2005.

## 27 Trade and Other Receivables

EUR million	2006	2005
Trade receivables	847	716
Income tax receivables	26	31
Accrued interest income	1	7
Accrued income and prepaid expenses	67	66
Other receivables	98	58
Finance lease receivables	1	3
Other interest-bearing receivables	12	1
Total	1,052	882
Doubtful receivables that are deducted from trade receivables	32	32
Recognised impairment losses in the income statement	-4	-6

As of 31 December 2006 trade receivables of EUR 42 million (2005: 28 million) were past due, but not impaired. The ageing analysis of the past due trade receivables is as follows:

EUR million	2006	2005
Up to 3 months	30	21
3-6 months	6	4
Over 6 months	6	3
Total	42	28

The management consider that the carrying amount of trade and other receivables approximates their fair value.

## 28 Cash and Cash Equivalents

EUR million	2006	2005
Cash at bank and in hand	157	191
Short-term bank deposits	-	450
Commercial papers	-	147
Total	157	788

Maturity of cash and cash equivalents is under 3 months.

## 29 Shareholder's Equity

### Share capital

Under the Articles of Association Fortum Corporation's share capital may range between a minimum of EUR 2 billion and a maximum of EUR 8 billion. Within these limits, it can be increased or decreased without changing the Articles of Association. Fortum has one class of shares. By the end of 2006, a total of 887,393,646 shares had

been issued. The nominal value of the shares is EUR 3.40 and each share entitles the holder to one vote at the Annual General Meeting. All shares entitle holders to an equal dividend. At the end of 2006 Fortum Corporation's share capital, paid in its entirety and entered in the trade register, was EUR 3,022,782,396.

The Board of Directors of Fortum Corporation proposes to Annual General Meeting of Shareholders to be held on 28 March 2007 that the minimum and maximum capital requirements in Paragraph 3, sub-section 1 of the Articles of Association shall be deleted.

At the beginning of 2006, the Finnish State owned 51,52 % of the company's shares. After the increase in the share capital on the share subscriptions under share option schemes for key employees 2001 and 2002 the Finnish State owned 50,82% of the company's shares at the end of the year. The Finnish Parliament has authorised the Government to reduce the Finnish State's holding in Fortum Corporation to no less than 50,1% of the share capital and voting rights.

At the end of 2006, the President and CEO and other members of the Fortum management team owned 369,591 (322,431) shares, representing less than 0.0% of the shares in the Company.

A full description of Fortum's equity incentive schemes is shown in Note 30 together with details on the President and CEO and other members of the Fortum management team's shareholdings and interest in the equity incentive schemes. A description of shares, share capital and shareholders in Fortum is shown in Note 45.

### Treasury shares

Fortum Corporation's Annual General Meeting held on 16 March 2006 authorised the Board of Directors to decide on repurchasing the company's own shares by using funds available for distribution of profit. The authorisation is valid for one year from the date of the decision of the Annual General Meeting. The maximum amount of shares to be repurchased is 35 million. In addition, the amount of funds used for the repurchases may not exceed EUR 500 million.

The maximum amount of shares to be repurchased corresponds to approximately four per cent of the share capital of the company and the total voting rights.

The shares will be repurchased through public trading of securities on the Helsinki Stock Exchange at the market price of the shares at the time of the repurchase. The repurchases shall be carried out and settled according to the Rules of the Helsinki Stock Exchange and the Rules of the Finnish Central Securities Depository.

Shares repurchased by the company shall be cancelled either by decreasing the share capital through decision made by a General Meeting of Shareholders or without decreasing the share capital through a decision of the Board of Directors. The repurchase will reduce the company's distributable retained earnings but will not have a material impact on the division of the ownership of the shares and the voting rights.

Total amount of shares repurchased during the year was 1,660,000 and the cost was EUR 30 million. In December 2006 the Board of Directors decided to cancel the total amount of repurchased shares without decreasing the share capital. The cancellation was entered in the Trade Register on 19 December 2006.

### Other convertible bond loans, bonds with warrants and unused authorisations

Fortum Corporation has issued no other convertible bonds or bonds with attached warrants, which would entitle the bearer to subscribe for Fortum shares. The Board of Directors of Fortum Corporation has today no unused authorisations from the General Meeting of shareholders to issue convertible bond loans or bonds with warrants or increase the company's share capital.

EUR million	Number of shares	Share capital	Share issue	Share premium
<b>At 1 January 2005</b>	867,083,905	2,948	13	62
Shares subscribed with options	8,210,120	28	-13	8
Unregistered shares	483,000	0	2	0
<b>At 31 December 2005</b>	875,777,025	2,976	2	70
Shares subscribed with options	13,276,621	47	-1	3
Cancellation of own shares	-1,660,000	-	-	-
<b>At 31 December 2006</b>	887,393,646	3,023	1	73

Detailed changes in shares and share capital are presented in Note 45 Shares and Shareholders.

### Fair value and other reserves

EUR million	Net investment	Hedging reserve	Fair value of options	Other fair value changes	Total
<b>Balance at 31 December 2005</b>	20	-151	16	-2	-117
Cash flow hedges					
Fair value gains/losses in period	-	103	-	-	103
Tax on fair value gains/losses	-	-27	-	-	-27
Transfers to income statement	-	170	-	-	170
Tax on transfers to income statement	-	-45	-	-	-45
Net investment hedge	-4	-	-	-	-4
Tax on net investment hedge	1	-	-	-	1
Options	-	-	6	-	6
Other equity changes in associates and available for sale financial assets <sup>1)</sup>	-	-	-	436	436
Change in the recognition of performance share agreement <sup>2)</sup>	-	-	-12	-	-12
<b>Balance at 31 December 2006</b>	17	50	10	434	511

<sup>1)</sup> Includes the fair value change of Renewable Energy Corporation (REC) shareholding in Hafslund. See Note 23 Investments in Associated Companies and Joint Ventures.

<sup>2)</sup> Share performance arrangement has been officially decided to be cash-settled, which has had an impact on the accounting treatment, see Note 30 Employee Bonus and Incentive Schemes.



EUR million	Net investment	Hedging reserve	Fair value of options	Other fair value changes	Total
<b>Balance at 31 December 2004</b>	-2	128	8	-	134
Cash flow hedges					
Fair value gains/losses in period	-	-176	-	-	-176
Tax on fair value gains/losses	-	46	-	-	46
Transfers to income statement	-	-157	-	-	-157
Tax on transfers to income statement	-	41	-	-	41
Discontinued operations	-	-45	-	-	-45
Tax on discontinued operations	-	12	-	-	12
Net investment hedge	30	-	-	-	30
Tax on net investment hedge	-8	-	-	-	-8
Options	-	-	8	-	8
Other equity changes in associates and available for sale financial assets	-	-	-	-2	-2
<b>Balance at 31 December 2005</b>	20	-151	16	-2	-117

#### Cash flow hedges – amount removed from equity to income statement by line item

EUR million	2006	2005
Included in operating profit	174	-157
Included in financial costs	4	-4
<b>Total cash flow hedges – amounts moved from equity to income statement</b>	178	-161

## 30 Employee Bonus and Incentive Schemes

### Employee bonus system

Fortum's short-term incentive system (called annual bonus below) 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 big 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% of the person's annual salary including fringe benefits. For executives with business responsibilities, the scheme is structured to reflect also the performance of their business unit as well as 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. For further information on bonus costs for management, see Note 14 Management Remuneration and Employee Costs.

### Fortum personnel fund

The Fortum Personnel Fund (for employees in Finland only) has been in operation since 2000. 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. Persons included in the Performance Share Arrangement are not eligible to be members of this fund. 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.

The fund's latest financial year ended at 30 April 2006. The fund had a total of 3,659 members. At the end of April 2006 Fortum contributed EUR 2.9 million to the personnel fund as an annual profit-sharing bonus based on the result of 2005. The combined amount of member's shares in the fund was EUR 25.2 million.

The contribution to the personnel fund is expensed as it is earned.

### Incentive Schemes

#### Performance share arrangement for key personnel

Fortum's Long-Term Management Performance Share Arrangement (LTI) for key personnel was launched in 2003 to support the achievement of the Group's long-term goals by attracting and retaining key personnel. The LTI arrangement is a performance-based long-term incentive arrangement intended for the top management and key personnel of the Fortum Group. At present, approximately 150 managers, all of whom have been elected by the Board of Directors, are participants in at least one on-going plan.

A new performance share plan (LTI plan) under the arrangement starts annually if approved by the Board of Directors and runs for a six-year period. The performance share plan for 2006–2011 is for non-share option holders only. At the end of 2006, approximately 120 persons were approved by the Board of Directors to participate for the year 2007 in LTI plans that have on-going earning periods in 2007. The potential reward of the performance share arrangement is based on the performance of the Group, its business units and the individual participant as well as appreciation of the Fortum share.

Each LTI plan comprises of two three-year periods following each other. The plan starts with a three-year earning period, during which the person earns annual bonus based on the performance of the Group, the relevant Business unit and the achievements of the individual participant. The grant date when the amount of the potential reward as a calculative amount of share rights is decided is determined by the Board following the announcement of the Group's annual results for the last calendar year after the earning period has ended. The maximum potential reward a participant can be granted after the three years earning period cannot exceed one year's salary including fringe benefits.

The earning period is followed by an approximately three year restriction period which ends at the cash-settlement of the earned reward provided that the participant remains employed by the Group. The potential reward under each annual LTI plan is adjusted during the restriction period by dividends paid up until the settlement date, which takes place at the end of the restriction period. The participant has approved that the earned reward will be used to

acquire Fortum shares in the name of the participant deducted by the income tax and the statutory employment related expenses and insurance contributions payable by the participant on the reward.

The first annual share plan began in 2003 (based on 2002 results). At the end of 2006 five LTI plans were running. The earning period of LTI plans 2002–2007 and 2003–2008 had ended at the 31.12.2004 and 31.12.2005 respectively and the amount of potential reward in the form of calculative share rights had been determined in the spring 2005 and 2006 for these plans. The restriction period for LTI plan 2004–2009 ended at the end of 2006. The other plans were still on their earning period.

From 2006 onwards the LTI arrangement is treated as cash settled arrangement instead of equity settled arrangement. As a result of the change in the accounting principle EUR 12, 6 million has been added to liabilities. Change in the equity was –24 million euros. The total LTI liability including provisions for social charges at the end of the year 2006 was EUR 29 (18) million. The expense recorded in the personnel costs for the period was EUR 2 (8) million, netted with the change in the fair values of the hedge arrangements.

In order to hedge the Group against the changes in the fair values of the potential rewards the Group has entered into share forward transactions which are settled in cash. The change in the fair values of the hedge arrangements for the 2002–2007 and 2003–2008 plans amounted to EUR 13 (3) million. The change for 2006 EUR 10 million is netting personnel expenses with a corresponding entry in the long-term receivables.

### Performance share arrangement

Incentive period	Number of participants	Payments in EUR thousand	Periodised expenses in EUR thousand	Total expenses in EUR thousand
Plan 2002–2007	126	303	14,102	14,405
Plan 2003–2008	149	44	7,451	7,495
Plan 2004 –2009	144	–	3,742	3,742
Plan 2005–2010	138	–	1,887	1,887
Plan 2006 –2011	22	–	67	67
Total		347	27,249	27,596

The fair value of the potential reward is measured based on the market value of Fortum share at each closing date and at the grant date taking into account the estimated departures. The changes of the fair values of the potential rewards are accrued over the remaining vesting period.

### Calculative share rights granted

Incentive period	Grant date	Maximum number of share rights at the grant date	Fair value of share rights on the grant date in EUR	Total initial fair value in EUR thousand
Plan 2002–2007	11.2.2005	573,885	14.51	8,327
Plan 2003–2008	13.2.2006	514,903	19.07	9,819

### Net calculative share rights granted to the management

The calculative share rights with adjustment for dividends and after taxes (assumed tax deduction of 56%) that the President and CEO and other members of the Fortum Management Team will receive in 2008 and 2009 are as follows:

Name	Year 2009	Year 2008
Mikael Frisk	5,102	8,884
Timo Karttinen	4,239	7,406
Tapio Kuula	7,111	12,381
Juha Laaksonen	6,044	10,533
Mikael Lilius	18,750	32,235
Christian Lundberg	6,372	10,674
Carola Teir-Lehtinen	3,952	6,888

## Stock option schemes with expiry date later than 2006

### Stock option scheme for key employees (2001)

In 2001, a resolution was passed to issue a maximum of 24,000,000 stock options to key employees of the Fortum Group and to a wholly owned subsidiary of Fortum Corporation. Of the total number of stock options, 8,000,000 were marked with the letter A and are exercisable from 15 October 2005 through to 1 May 2007, 8,000,000 were marked with the letter B and are exercisable from 15 January 2006 through to 1 May 2007 and 8,000,000 were marked with the letter C and would have been exercisable from 15 April 2006 through to 1 May 2007. However, the exercise period would not have commenced for any stock options unless the performance of the Fortum shares on the Helsinki Exchanges between 2001 and 2004 would not have at least matched that of the Dow Jones STOXX 600 Utilities Index, and unless the average profit per share for the four successive years beginning on 1 January 2001 would not have been at least 105 per cent of the average profit per share for the financial years from 1998 through to 2000, adjusted for exceptional entries.

In March 2002, a total of 2,525,000 non-transferred stock options marked with the letter A were annulled, a total of 212,500 non-transferred stock options marked with the letter B were annulled, and all of the 8,000,000 non-transferred stock options marked with the letter C were annulled. In October 2005, a total of 537,500 stock options marked with the letter A and in December 2005, a total of 1,087,500 stock options marked with the letter B were annulled.

The subscription price of the stock options marked with the letter A is the volume-weighted average price of the shares on the Helsinki Exchanges during the period from 1 April 2001 through to 31 March 2005 and for the stock options marked with the letter B, the volume-weighted average price of the shares during the period from 1 October 2001 through to 30 September 2005. However, the subscription price for all the stock options will be decreased by twice the percentage amount by which the performance of the Fortum shares on the Helsinki Exchanges exceeds the performance of the Dow Jones STOXX 600 Utilities Index during the period the subscription price of the stock options is determined. The subscription price is, however, a minimum of EUR 4.47. Any dividends paid by Fortum Corporation after the beginning of the period for determination of the subscription price but prior to the subscription of shares will be deducted from the subscription price. The subscription price will always, however, be at least EUR 3.40, which equals the nominal value of the shares.

The total number of stock options marked with a letter A listed on 17 October 2005 was 4,937,500. Each stock warrant entitles the holder to subscribe for one share. The warrants are exercisable during the period from 17 October 2005 through to 1 May 2007. By the end of 2006, a total of 4,662,550 shares were subscribed for and entered into the trade register with the stock options marked with a letter A. Total of 274,950 shares can still be subscribed for and registered with the stock options 2001A such that the share capital is increased by a maximum of EUR 934,830, which corresponds to 0.0% of the share capital at the end of 2006. At the end of 2006, the subscription price of the stock options marked with the letter A was EUR 3.40.

The subscription period and listing of options marked with letter B started on 16 January 2006. The number of options listed was 6,700,000 and the subscription price EUR 4.47. By the end of 2006, a total of 5,360,133 shares were subscribed and entered into

the trade register with the stock options marked with a letter B. Total of 1,339,867 shares could still have been registered with stock option 2001B such that the share capital is increased by a maximum of EUR 4,555,548, which corresponds to 0.2% of the share capital at the end of 2006. At the end of 2006, the subscription price of the stock options marked with the letter B was EUR 3.40.

A total of 1,614,817 shares could still have been registered with 2001 stock option scheme (with either letter A or B) such that the share capital is increased by a maximum of EUR 5,490,378 which corresponds to 0.2% of the share capital at the end of 2006. The entitlement of the shares subscribed for with the options to dividend, and other shareholder rights, will commence once the increase in the share capital has been registered. The stock options are freely transferable, when the relevant share subscription period has commenced. This scheme covered approximately 350 persons.

### Stock option scheme for key employees (2002)

In March 2002, a resolution was passed to issue a maximum of 25,000,000 stock options to key employees of the Fortum Group and to a wholly owned subsidiary of Fortum Corporation. Of the total number of stock options, 12,500,000 are marked with the letter A and are exercisable from 1 October 2004 through to 1 May 2007, and 12,500,000 are marked with the letter B and are exercisable from 1 October 2006 through to 1 May 2009. The Board of Directors could distribute stock options to the key personnel, only if the increase in Fortum Group's earnings per share (EPS) was at least five percent compared with the preceding period. The proportion of the annual maximum amount that became available for distribution was influenced by the Company's relative share price development compared to the European Utilities Index during a period of twelve calendar months preceding the month that the stock options were distributed.

The total number of stock options marked with a letter A listed on 1 October 2004 was 10,767,000. Each stock warrant entitles the holder to subscribe for one share. The warrants are exercisable during the period from 1 October 2004 through to 30 April 2007. By the end of 2006, a total of 10,644,900 shares were subscribed for and entered into the trade register with the stock options marked with a letter A. At the end of 2006 total of 122,100 shares could still have been registered with the stock options 2002A such that the share capital is increased by a maximum of EUR 415,140, which corresponds to 0.0% of the share capital at the end of 2006. At the end of 2006, the subscription price of the stock options marked with the letter A was EUR 3.40.

The total number of stock options marked with a letter B listed on 2 October 2006 was 10,003,000. Each stock warrant entitles the holder to subscribe for one share. The warrants are exercisable during the period from 2 October 2006 to 30 April 2009. By the end of 2006, a total of 4,856,488 shares were subscribed for and entered into the trade register with the stock options marked with a letter B. At the end of 2006 total of 5,146,512 shares could still have been registered with the stock options 2002B such that the share capital is increased by a maximum of EUR 17,498,141, which corresponds to 0.6% of the share capital at the end of 2006. At the end of 2006, the subscription price of the stock options marked with the letter B was EUR 3.40.

A total of 5,268,612 shares can be subscribed for pursuant to the 2002 stock options (with either letter A or B) such that the share capital is increased by a maximum of EUR 17,913,281, which corresponds to 0.6% of the share capital at the end of 2006. The entitlement of the shares subscribed for with the options to dividend, and other shareholder rights, will commence once the increase in the share capital has been registered. The stock options are freely

transferable, when the relevant share subscription period has commenced. This scheme (either with letter A or B) covered some 350 persons.

## Stock option schemes with expiry date in 2005

### Management stock option scheme (1999)

In 1999, a resolution was passed to issue a total of 15,000 stock options to the Group management. The stock options entitled the holders to subscribe for a maximum of 15,000,000 Fortum Corporation shares. In accordance with the terms and conditions of the option scheme, some of the stock options have been redeemed following the termination of some employment contracts before 1 October 2002.

The preconditions for this stock option scheme were met, and a total of 11,768 stock options were listed on 1 October 2002. Each stock option entitled the holder to subscribe for 1,000 shares. The stock options were exercisable during the period from 1 October 2002 through to 1 October 2005. By the end of 2005, a total of 11,768,000 shares were subscribed for and entered into the trade

register. This scheme ended on October 2005. This scheme covered approximately 120 persons.

### Bond loan with warrants for employees (1999)

In 1999, a resolution was passed to issue a bond loan with warrants for a maximum amount of FIM 25,000,000 (approximately EUR 4.2 million) to employees. The bond loan included a total of 7,500,000 stock warrants, which entitled holders to subscribe for a maximum of 7,500,000 shares. The loan period was three years, and it carried an annual interest of 4%. The loan including the interest was repaid in one installment on 17 May 2002. According to the terms and conditions of the bond, part of the loan was redeemed following the termination of some employment contracts.

The total number of stock warrants listed on 17 May 2002 was 6,159,300. Each stock warrant entitled the holder to subscribe for one share. The warrants were exercisable during the period from 17 May 2002 through to 17 May 2005. By the end of 2005, a total of 6,153,000 shares were subscribed for and entered into the trade register. This scheme ended on May 2005. This arrangement covered approximately 1,850 persons.

## Movements in the number of share options outstanding and their related weighted average exercise prices are as follows

	2006		2005	
	Weighted average exercise price, EUR	Number of options (thousand)	Weighted average exercise price, EUR	Number of options (thousand)
Outstanding at the beginning of the period	3.40	20,664	4.85	29,098
Granted during the period	–	0	–	0
Forfeited during the period	3.40	21	4.42	218
Exercised during the period	3.40	13,760	5.94	8,210
Expired or cancelled during the period	–	0	3.40	6
Outstanding at the end of the period	3.40	6,883	3.75	20,664
Exercisable at the end of the period	3.40	6,883	3.40	3,940

A total of 21 (4,101) thousand options held by Fortum Assets Oy were annulled in December 2006 (2005).

## Share options outstanding at the end of the year have the following expiry dates and exercise prices

	Expiry date	2006		2005	
		Exercise price in EUR per share	Number of options (thousand)	Exercise price in EUR per share	Number of options (thousand)
Management share option scheme (1999)	1.10.2005	–	–	5.61	–
Bond loan with warrants for employees (1999)	17.5.2005	–	–	3.40	–
Share options scheme for key employees (2001A)	1.5.2007	3.40	275	3.40	3,301
Share options scheme for key employees (2001B)	1.5.2007	3.40	1,340	4.47	6,700
Share options scheme for key employees (2002A)	1.5.2007	3.40	122	3.40	639
Share options scheme for key employees (2002B)	1.5.2009	3.40	5,146	3.40	10,024
			6,883		20,664

## Fair value of stock options

In compliance with IFRS, the fair value has been defined for 2002B options that were granted 15 April 2003 and vested 2 October 2006. The fair value of transferable 2002B options has been determined at the grant date by using the Binomial valuation model and has been expensed over the vesting period. The fair values of other option schemes have not been determined and they are not included in expense recognition. During the year 2006 the fair valuation of 2002B had an impact of EUR –4 million (EUR –3 million) on the Group's profit. In 2006 this amount included an additional EUR 1.5 million expense due to the following adjustments done to the valuation parameters.

The subscription price EUR 6.19 was deducted with the dividend of EUR 0.31 paid before grant date. The dividend yield was adjusted to be zero since the dividends reduce the exercise price according to the terms of the option scheme. The option life was shortened to reflect the average length of time similar options have remained outstanding.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical share prices at the grant date over the prior three and a half years added with a 7% margin. The risk-free interest rate is based on the government zero coupon bond interest rate at the measurement date with a maturity equaling the option exercise period.

### Fair value measurement assumptions

	2006	Prior years
Number of options granted, thousand	7,657	7,657
Estimated departures, %	5	5
Share price, EUR	6.41	6.41
Subscription price, EUR	5.88	6.19
Expected average volatility, %	30	30
Dividend yield, %	0	4.89
Option life, years	4	6
Risk-free interest rate, %	4	4

### Management shareholding and stock options

On 31 December 2006, the members of the Supervisory Board of Fortum Corporation owned a total of 2,400 shares or 0.0 % of the shares and voting rights. The members of the Board of Directors

and the President and CEO owned a total of 201,641 shares, which corresponds to 0.0% of the company's shares and voting rights.

Other members of the Fortum Management Team owned a total of 167,950 shares which corresponds to 0.0 % of the company's shares and voting rights.

### Shares held by member of the Board of Directors

	2006	2005
Peter Fagernäs	30,591	30,591
Christian Ramm-Schmidt	1,000	n/a
Total	31,591	30,591

### Shares held by members of Fortum Management Team

	2006	2005
Mikael Frisk	14,900	14,900
Timo Karttinen	30,000	18,870
Tapio Kuula	50,050	50,050
Juha Laaksonen	20,000	20,000
Mikael Lilius	170,050	150,050
Christian Lundberg	30,000	20,000
Carola Teir-Lehtinen	23,000	17,970
Total	338,000	291,840

### Stock options held by members of Fortum Management Team on 31 December 2006

	2001A received	2001B received	2002A received	2002B received	2002B remaining
Mikael Frisk	100,000	100,000	150,000	150,000	0
Timo Karttinen	50,000	75,000	90,000	120,000	0
Tapio Kuula	100,000	100,000	200,000	200,000	0
Juha Laaksonen	100,000	100,000	250,000	175,000	0
Mikael Lilius	200,000	200,000	340,000	340,000	0
Christian Lundberg	–	–	150,000	175,000	0
Carola Teir-Lehtinen	100,000	100,000	150,000	150,000	55,970

Fortum Management Team did not have any remaining stock options from the option schemes 2001A, 2001B and 2002A on 31 December 2006.

### Stock options held by members of Fortum Management Team on 31 December 2005

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

## 31 Minority Interests

### Principal minority interests

EUR million		2006	2005
AB Fortum Värme Holding samägt med Stockholms stad	Sweden	228	180
Fortum Wrocław S.A.	Poland	2	62
Jyväskylän Energiatuotanto Oy	Finland	4	4
Tartu Energi Group	Estonia	4	4
Ekerö Energi Group	Sweden	4	3
Other		11	7
<b>Total minority interests</b>		<b>253</b>	<b>260</b>

During 2006 Fortum acquired the 42,97% minority shares in Fortum Wrocław S.A., Poland.

Fortum owns, via Fortum Power and Heat AB, 90.1% of the shares which represents 50.1% of the votes in AB Fortum Värme Holding samägt med Stockholms stad. 9.9% of the shares is owned by the City of Stockholm. The City of Stockholm holds preference shares in AB Fortum Värme Holding samägt med Stockholms stad, which entitles them 50% of the economical output. The ownership and administration of AB Fortum Värme Holding samägt med Stockholms stad is settled by a consortium agreement.

## 32 Interest-bearing Liabilities

EUR million	2006	2005
Bonds	2,775	1,542
Loans from financial institutions	306	333
Finance lease liabilities	32	32
Other long-term interest-bearing debt	947	1,211
<b>Total long-term interest-bearing debt</b>	<b>4,060</b>	<b>3,118</b>
Current portion of long-term bonds	10	697
Current portion of loans from financial institutions	40	92
Current portion of other long-term interest-bearing debt	321	1
Current portion of financial lease liabilities	14	15
Commercial papers	55	21
Other short-term interest-bearing debt	2	2
<b>Total short-term interest-bearing debt</b>	<b>442</b>	<b>828</b>
<b>Total interest-bearing debt</b>	<b>4,502</b>	<b>3,946</b>

### Interest-bearing debt

EUR million	Effective interest rate	Carrying amount 2006	Repricing under 1 year	Repricing 1–5 years	Repricing over 5 years	Fair value 2006	Carrying amount 2005	Fair value 2005
Bonds	4.6	2,785	835	716	1,234	2,887	2,239	2,354
Loans from financial institutions	3.6	346	345	1	–	348	425	430
Other long-term interest-bearing debt <sup>1)</sup>	4.9	1,314	1,287	16	11	1,309	1,259	1,376
<b>Total long-term interest-bearing debt <sup>2)</sup></b>	<b>4.6</b>	<b>4,445</b>	<b>2,467</b>	<b>733</b>	<b>1,245</b>	<b>4,544</b>	<b>3,923</b>	<b>4,160</b>
Commercial paper	3.1	55	55	–	–	55	21	21
Other short-term interest-bearing debt	4.3	2	5	–	–	2	2	2
<b>Total short-term interest-bearing debt</b>	<b>3.1</b>	<b>57</b>	<b>60</b>	<b>–</b>	<b>–</b>	<b>57</b>	<b>23</b>	<b>23</b>
<b>Total interest-bearing debt</b>	<b>4.6 <sup>3)</sup></b>	<b>4,502</b>	<b>2,527</b>	<b>733</b>	<b>1,245</b>	<b>4,601</b>	<b>3,946</b>	<b>4,183</b>

<sup>1)</sup> Includes loan from State Nuclear Waste Management Fund EUR 627 million (2005: 605 million), financing arrangement related to Nybroviken Kraft AB EUR 320 million (2005: 308 million), financial leases EUR 46 million (2005: 47 million), loans from Fortum's Finnish pension fund EUR 33 million (2005: 35 million), and other loans EUR 288 million (2005: 264 million).

<sup>2)</sup> Including current portion of long-term debt

<sup>3)</sup> The effective interest rate including interest bearing debt and derivatives is 4.1%

## Bond Issues

Issued- Maturity	Loan description <sup>1)</sup>	Interest basis	Interest rate	Effective interest	Currency	Nominal million	Carrying amount
2003 / 2010	Fortum Oyj EUR 4,000 Million EMTN Programme	Fixed	4.625	4.728	EUR	500	492
2003 / 2013	Fortum Oyj EUR 4,000 Million EMTN Programme	Fixed	5.000	5.164	EUR	500	516
2000 / 2007	Fortum Oyj EUR 4,000 Million EMTN Programme	Floating	Euribor 3M+0.78		EUR	10	10
2000 / 2008	Fortum Oyj EUR 4,000 Million EMTN Programme	Floating	Euribor 3M+0.75		EUR	20	20
2000 / 2008	Fortum Oyj EUR 4,000 Million EMTN Programme	Floating	Stibor 3M+0.60		SEK	200	22
2003 / 2008	Fortum Oyj EUR 4,000 Million EMTN Programme	Fixed	6.100	6.242	EUR	500	500
2006 / 2011	Fortum Oyj EUR 4,000 Million EMTN Programme	Fixed	3.750	3.793	SEK	2,000	221
2006 / 2009	Fortum Oyj EUR 4,000 Million EMTN Programme	Floating	Stibor 3M+1.00		SEK	2,500	276
2006 / 2016	Fortum Oyj EUR 4,000 Million EMTN Programme	Fixed	4.500	4.615	EUR	750	738
							2,795
	Hedging swaps						10
	Total outstanding carrying amount 31 December 2006						2,785

<sup>1)</sup> EMTN = Euro Medium Term Note

### Nybroviken Kraft AB (Nykab)

Nybroviken Kraft AB (Nykab) is a financing arrangement of hydro-power assets that was established in 1990. Fortum, via Fortum Generation AB, owns 52.9% of the voting shares and 10.1% of the capital in Nykab. The remaining shares, preference shares representing a book value of EUR 99 million (SEK 890 million), are held by AP-fonden. AP-fonden has as a part of the financing agreement also granted Nykab a long-term loan of EUR 221 million (SEK 2,000 million). Over the lifetime of the agreement AP-fonden is guaranteed to have a return of 4.5% over inflation (CPI) on their full investment in Nykab EUR 320 million (SEK 2,890 million). The agreement is

valid until 2015, however Fortum Generation AB has a call option to purchase AP-fondens shares and loans issued to Nykab at 31st of October 2007, 2011 or 2015. AP-fonden has the right to cancel the option agreement on the 31st of October 2007, and if they do, Fortum has the right to call the option and to purchase the shares.

According to IAS 32 and IAS 39 the minority interest referring to the preference shares is classified as an interest-bearing liability carried with an effective interest rate of 4.5% over inflation.

Nykab has pledged the shares in hydropower stations as a security for the loan from AP-fonden.

### Finance lease liabilities

On 31 December 2006 Fortum had a small number of finance leasing agreements for machinery and equipment. No new leasing commitments were entered into in 2006 or 2005. In 2005 one lease agreement was terminated due to exercise of the purchase option.

EUR million	2006	2005
Minimum lease payments	57	56
Less future finance charges	11	9
Present value of finance lease liabilities	46	47

### Maturity of finance lease liabilities

EUR million	2006	2005
Minimum lease payments		
Less than 1 year	15	16
1–5 years	15	12
Over 5 years	27	28
Total	57	56

### Present value of finance lease liabilities

EUR million	2006	2005
Less than 1 year	14	15
1–5 years	8	8
Over 5 years	24	24
Total	46	47

## 33 Deferred Income Taxes

EUR million

The movement in deferred tax assets and liabilities during the year:	1 Jan 2006	Charged to Income Statement	Charged in Equity	Exchange rate differences, reclassifications and other changes	Acquisitions and Disposals	31 Dec 2006
<b>Deferred tax assets</b>						
Property, plant and equipment	3	6	–	–	8	17
Provisions	16	4	–	–	9	29
Tax losses and tax credits carry-forward	8	1	–	–	–	9
Other	31	–8	–	–10	2	15
Total deferred tax assets	58	3	–	–10	19	70
Offset against deferred tax liabilities	–40	–	–	–	–	–65
Deferred tax assets after offset	18	3	–	–10	19	5
<b>Deferred tax liabilities</b>						
Property, plant and equipment	1,582	–38	–	70	215	1,829
Derivative financial instruments	–68	8	68	9	2	19
Current assets	0	–	–	–	7	7
Other	38	–7	–	–26	–	5
Offset against deferred tax assets	–40	–	–	–	–	–65
Deferred tax liabilities after offset	1,512	–37	68	53	224	1,795

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through future profits is probable. The recognised tax assets relates to losses carry-forward with no expiration date and partly with expiry date as described below.

EUR million	Amount	Deferred tax assets
Losses without expiration date (Norway)	23	6
Losses with expiration date (Poland)	15	2

Deferred tax assets of EUR 14 million (2005: 15 million) have not been recognised in the consolidated financial statements, because the realisation is not probable. The biggest part of the unrecognised tax asset (EUR 13 million) relates to capital loss in UK, which has no expiration date. Rest of the unrecognised tax losses (EUR 1 million) relates to loss carry-forward that are unlikely to be used under the expiration time.

Deferred income tax liabilities of EUR 4 million (2005: 4 million) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of 100% owned subsidiaries. Such amounts are permanently reinvested.

Deferred tax liability of EUR 0.8 million (2005: none) has been booked on retained earnings in associated company based on the withholding tax that would be payable if the profits were distributed. Deferred tax EUR 0.2 million has also been booked on the retained earnings that are expected to be distributed from Estonian subsidiaries. Unremitted earnings totalled EUR 25 million on 31 December 2006 (2005: 16 million).

Deferred tax assets and liabilities from acquisitions mainly refer to Fortum Espoo.



## EUR million

The movement in deferred tax assets and liabilities during the year	1 Jan 2005	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	Acquisitions and Disposals <sup>1)</sup>	31 Dec 2005
<b>Deferred tax assets</b>						
Property, plant and equipment	3	–	–	–	–	3
Provisions	46	–13	–	–	–17	16
Tax losses and tax credits carry-forward	20	–1	–	–	–11	8
Other	37	–17	–	–	11	31
<b>Total deferred tax assets</b>	<b>106</b>	<b>–31</b>	<b>–</b>	<b>–</b>	<b>–17</b>	<b>58</b>
Offset against deferred tax liabilities	–	–	–	–	–	–40
<b>Deferred tax assets after offset</b>	<b>106</b>	<b>–31</b>	<b>–</b>	<b>–</b>	<b>–17</b>	<b>18</b>
<b>Deferred tax liabilities</b>						
Property, plant and equipment	1,687	76	–	–52	–129	1,582
Derivative financial instruments	38	–15	–91	–	–	–68
Other	116	–56	–	–23	1	38
Offset against deferred tax assets	–	–	–	–	–	–40
<b>Deferred tax liabilities after offset</b>	<b>1,841</b>	<b>5</b>	<b>–91</b>	<b>–75</b>	<b>–128</b>	<b>1,512</b>

<sup>1)</sup> Includes the effects from the deconsolidation of Neste Oil due to the dividend of approximately 85% of the shares in the company.

## 34 Pension and Other Provisions

EUR million	Pension	Impregnated poles	Environmental	Other	Total
At 1 January 2006	119	17	21	31	188
Provisions for the period	7	–	2	50	59
Provisions used	–	–	–10	–32	–42
Provisions reversed	–	–17	–	–2	–19
At 31 December 2006	126	0	13	47	186
Allocation between current and non-current provisions:					
Current provisions	–	–	–	1	1
Non-current provisions	126	–	13	46	185

The provision for impregnated poles has been reversed, since EU legislation allows to re-use the poles. Previous legislation forbade the re-use and demanded dismantling of the poles. The related investment cost in property, plant and equipment has also been reversed. The net effect to the income statement is less than EUR 1 million.

Environmental provision relates to dismantling of buildings and structures on contaminated land. The provision is estimated to be used within five years.

Other provisions include provisions for insurance payments, tax claims and provisions for onerous contracts. The provision is estimated to be used within two to five years. Pension obligations include EUR 2 million (2005: 2 million) of unpaid liabilities related to defined contribution plans, see Note 35 Pension Obligations.

## 35 Pensions Obligations

The Group companies have various defined benefit and defined contribution pension plans in accordance with the local conditions and practices in the countries in which they operate. The concerned pensions are primarily retirement pensions, early retirement disability pensions and family pensions but contain also early retirement arrangements.

In Finland the most significant pension plan is the Finnish Statutory Employment Pension Scheme (TEL) in which benefits are directly linked to employee's earnings. These pensions are funded in insurance company and treated as defined contribution plans. The disability component of TEL has been accounted for as a defined benefit plan. In December 2004, the Finnish Ministry of Social Affairs and Health approved certain changes to the principles for calculating disability component of pension liabilities under TEL, effective from January 2006 onwards. According to the new practice, TEL's disability component will be accounted for as a defined contribution plan. Due to this change and based on the year-end actuarial calculations, Fortum has released EUR 20 million of this obligation in December 2004 and the rest, EUR 4 million, was released at the end of 2005. In addition certain employees in Finland have additional pension coverage through companies own pension fund or through insurance companies.

In Sweden the Group operates several defined benefit and defined contribution plans like the general ITP-pension plan and the PA-KL and PA-KFS plans that are eligible for employees within companies formerly owned by municipalities. The pension arrangements comprise normally retirement pension, complementary retirement pensions, survivors' pension and disability pension. The most significant pension plan is the ITP-plan for white-collar

employees in permanent employment (or temporary employees after a certain waiting period), who fulfill the age conditions. To qualify for a full pension the employee must have a projected period of pensionable service, from the date of entry until retirement age, of at least 30 years. The ITP-plan is partly financed through insurance premiums or through provisions in the balance sheet (book-reserves). The part of the ITP multiemployer pension plan that is secured by paying pension premiums to Alecta, in Fortums case the collective family pension, is accounted for as a defined contribution plan due to lack of information necessary to account for the plan as a defined benefit plan.

The Norwegian companies have defined benefit pension plans where the benefits are based on the final salary.

In other countries the pension arrangements are done in accordance with the local legislation and practice, mostly being defined contribution plans.

The pension obligations are calculated annually, on the balance sheet date, based on actuarial principles. When accounting for defined contribution plans the obligation for each period is determined by the amounts to be contributed for that period. When accounting for defined benefit plans, actuarial calculations are required to measure the obligation on discounted basis and the expense. The plan assets for pensions are valued at market value. When the net cumulative unrecognized actuarial gain or loss on pension obligations and plan assets goes outside the corridor of 10% of the greater of either pension obligations or the market value of the plan assets, the surplus amount is amortised over the average remaining employment period.

### Amounts recognised in the income statement

EUR million	2006	2005
Current service cost	-13	-10
Interest cost	-15	-14
Expected return on plan assets	13	11
Acquisition	0	-5
Past service cost	0	1
Total included in employee costs (Note 14)	-15	-17

The actual return on plan assets in Finland and Sweden totalled EUR 33 million (2005: 18 million).

### Amounts recognised in the balance sheet

EUR million	2006	2005
Present value of funded obligations	361	368
Fair value of plan assets	-250	-228
	111	140
Present value of unfunded obligations	1	1
Unrecognised actuarial gains and losses	12	-24
Liability in the balance sheet	124	117

Pension plan assets include the Company's ordinary shares with a fair value of EUR 6 million (2005: 5 million) and buildings occupied by the Group with a fair value of EUR 59 million (2005: 53 million).

### The principal actuarial assumptions used

EUR million	2006			2005		
	Finland	Sweden	Other countries	Finland	Sweden	Other countries
Discount rate, %	4.50	4.00	4.75	4.50	5.00	4.80
Expected return on plan assets, %	6.50	4.00	5.80	6.30	5.00	5.80
Future salary increases, %	3.50	3.50	3.20	3.50	3.00	3.20
Future pension increases, %	2.00	2.00	2.70	2.10	2.00	2.00

## Amounts recognised in the balance sheet

EUR million	2006			Total
	Finland	Sweden	Other countries	
Present value of funded obligations	190	149	22	361
Fair value of plan assets	-210	-24	-16	-250
	-20	125	6	111
Present value of unfunded obligations	0	0	1	1
Unrecognised actuarial gains and losses	38	-26	0	12
Liability in the balance sheet	18	99	7	124

## Amounts recognised in the balance sheet

EUR million	2005			Total
	Finland	Sweden	Other countries	
Present value of funded obligations	191	153	24	368
Fair value of plan assets	-181	-29	-18	-228
	10	124	6	140
Present value of unfunded obligations	0	0	1	1
Unrecognised actuarial gains and losses	4	-28	0	-24
Liability in the balance sheet	14	96	7	117

## Balance sheet reconciliation

EUR million	2006	2005
At 1 January	117	86
Impact of acquired/sold companies	4	17
Structural changes in pension fund arrangements	3	11
Total expense charged in the income statement	-15	17
Contributions paid	15	-14
At 31 December	124	117

## Balance sheet obligations

EUR million	2006	2005
Pension benefits	124	117
Overfunded pension plan shown as asset <sup>1)</sup>	0	-11
Net liability	124	106

<sup>1)</sup> The treatment in 2005 relates to the discontinued operations

## 36 Nuclear Related Assets and Liabilities

Fortum owns the Loviisa nuclear power plant in Finland. Based on the Nuclear Energy Act in Finland Fortum has a legal obligation to fully fund the legal liability, decided by the governmental authorities, for decommissioning of the power plant and disposal of spent

fuel through the State Nuclear Waste Management Fund. On 31 December the following carrying values regarding nuclear related assets and liabilities are included in the balance sheet:

EUR million	2006	2005
<b>Nuclear provisions</b>		
At 1 January	418	401
Additional provisions	24	9
Used during the year	-17	-14
Unwinding of discount	24	22
At 31 December	450	418
Carrying value of Fortum's share in the State Nuclear Waste Management Fund	450	418

## Nuclear provisions

The provisions are related to future obligations for nuclear waste management including decommissioning of the power plant and disposal of spent fuel. The fair value of the provisions is calculated according to IAS 37 based on future cash-flows regarding estimated future costs.

## Carrying value of Fortum's Share in the State Nuclear Waste Management Fund

Other long-term investments include the carrying amount of Fortum's share of the State Nuclear Waste Management Fund. Fortum contributes funds to the State Nuclear Waste Management Fund in Finland to cover future obligations based on the legal liability calculated according to the Nuclear Energy Act. The fund is managed by governmental authorities. The carrying value of the Fund in Fortum's balance sheet is calculated according to IFRIC 5 Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

## Fortum's legal liability and share of the State Nuclear Waste Management Fund

Fortum's legal liability and share of the State Nuclear Waste Management Fund at year end are as follows:

EUR million	2006	2005
Liability for nuclear waste management according to the Nuclear Energy Act	685	618
Fortum's funding target obligation to the State Nuclear Waste Management Fund	649	618
Fortum's share of the State Nuclear Waste Management Fund	-636	-610
Difference covered by real estate mortgages	13	8

The legal liability calculated according to the Nuclear Energy Act in Finland and decided by the governmental authorities as at 31 December 2006 is EUR 685 million (2005: 618 million). The carrying value of the liability in the balance sheet calculated according to IAS 37 is at 31 December 2006 EUR 450 million (2005: 418 million). The main reason for the difference in liability is that the legal liability is not discounted to net present value.

Fortum's share of the State Nuclear Waste Management Fund as of 31 December 2006 is EUR 636 million (2005: 610 million). The carrying value in the balance sheet is EUR 450 million (2005: 418 million). The difference is due to the fact that IFRIC 5 limits the carrying amount of Fortum's share of the State Nuclear Waste Management Fund to the amount of the related liability since Fortum does not have control or joint control over the Fund.

Fortum's share of the legal liability towards the fund was fully

funded at year-end 2005. In 2006 Fortum has utilised the possibility according to the Nuclear Energy Act to reduce the funding target 2006 and to fully cover the legal liability over a period of three years, ie 2006–2008. The difference between the funding target for Fortum to the State Nuclear Waste Management Fund at year-end and Fortum's share of the State Nuclear Waste Management Fund at year-end is due to timing of the annual calculation of the liability and will be paid during the first quarter the following year. Fortum has given real estate mortgages as security, which also covers unexpected events according to the Nuclear Energy Act. The real estate mortgages are included in pledged assets, See Note 40.

Fortum uses the right to borrow back from the State Nuclear Waste Management Fund according to certain rules. The loans are included in interest-bearing liabilities, see Note 32.

## 37 Other Non-current Liabilities

EUR million	2006	2005
Connection fees	400	259
Other liabilities	85	53
Total	485	312

Connection fees to the electricity network in Finland that are paid before 2003 are refundable if the customer would ever disconnect the initial connection.

## 38 Trade and Other Current Liabilities

EUR million	2006	2005
Trade payables	242	262
Accrued expenses and deferred income		
Personnel expenses	93	82
Interest expenses	154	141
Other accrued expenses and deferred income	127	159
Other liabilities		
VAT-liability	61	56
Energy taxes	31	43
Advances received	78	42
Other liabilities	58	81
Total	844	866

The management consider that the amount of trade and other payables approximates fair value.

### Treatment of balance sheet items relating to revenue from projects in progress

EUR million	2006	2005
Prepayments and accrued income	28	8
Deductions in receivables	28	8
Advance payments received	2	6
Deductions in liabilities	2	6

## 39 Subsidiaries by Segment on 31 December 2006

- 1) Name change  
 2) Acquired  
 3) Founded  
 4) Shares held by the parent company  
 5) Dormant  
 6) Demerger

- = Power Generation  
 ■ = Heat  
 ▲ = Distribution  
 ● = Markets  
 ▼ = Other Operations

Company Name	Country	Segment	Group holding %
Asunto Oy Imatran Voimakaari	Finland	▼	100.0
Fortum Assets Oy	Finland	▼	100.0
Fortum Espoo Markets Oy	Finland	●	100.0
Fortum Espoo Power and Heat Oy	Finland	● ■ ▼	100.0
Fortum Espoo Distribution Oy	Finland	▲	100.0
Fortum Espoo Sähkösiirto Oy	Finland	▲	100.0
Fortum Heat and Gas Oy	Finland	● ■ ▲ ▼ ●	100.0
Fortum Lämpö Oy	Finland	■	100.0
Fortum Markets Oy	Finland	●	100.0
Fortum Nuclear Services Oy	Finland	●	100.0
Fortum Power and Heat Oy	Finland	● ■ ▲ ▼ ●	100.0
Fortum Sähkösiirto Oy	Finland	▲	100.0
Hexivo Oy	Finland	●	52.0
Imatran Voima Oy	Finland	▲	100.0
Imatrankosken Voima Oy	Finland	▲	100.0
Jyväskylän Energiatuotanto Oy	Finland	■	60.0
Kiinteistö Oy Espoon Energiatalo	Finland	▼	100.0
Killin Voima Oy	Finland	●	60.0
Koillis-Pohjan Energiantuotanto Oy	Finland	●	100.0
Koskivo Oy	Finland	▲	100.0
KPPV-Sijoitus Oy	Finland	▲	100.0
Kuopion Kaupunkienergia Oy	Finland	▼	100.0
Linnankosken Voima Oy	Finland	▲	100.0
Lounais-Suomen Lämpö Oy	Finland	▲	100.0
Mansikkalan Voima Oy	Finland	▲	100.0
Oy Pauken Ab	Finland	▼	100.0
Oy Tersil Ab	Finland	▲	100.0
Oy Tertrade Ab	Finland	▲	100.0
Rajapatsaan Voima Oy	Finland	▲	100.0
Saimaanrannan Voima Oy	Finland	▲	100.0
Tunturituuli Oy	Finland	●	55.4
Varsinais-Suomen Sähkö Oy	Finland	▲	100.0
Viikinki Energia Oy	Finland	▼	100.0
Olstens France S.a.r.l.	France	▼	100.0
Fortum Liegenschaftsverwaltungs GmbH	Austria	▼	100.0
Fortum Project Finance N.V.	Belgium	▼	100.0
Fortum Energi A/S	Denmark	●	100.0
AS Anne Soojus	Estonia	■	60.0
AS Fortum Tartu	Estonia	■	60.0
AS Tartu Joujaam	Estonia	■	60.0
AS Tartu Keskkatlamaja	Estonia	■	60.0
Fortum CFS Eesti osauhing	Estonia	▼	100.0
Fortum Elekter AS	Estonia	▲	99.3
Fortum Termest AS	Estonia	■	99.7
Lauka Turvas OU	Estonia	●	60.0
Fortum Service Deutschland GmbH	Germany	●	100.0
Fortum Capital Ltd	Great Britain	▼	100.0
Fortum Direct Ltd	Great Britain	●	100.0
Fortum Energy Ltd	Great Britain	●	100.0
Fortum Gas Ltd	Great Britain	●	100.0

Company Name	Country	Segment	Group holding %
Fortum Insurance Ltd	Great Britain	▼	100.0
Fortum O&M (UK) Limited	Great Britain	●	100.0
Grangemouth CHP Limited	Great Britain	●	100.0
IVO Energy Limited	Great Britain	●	100.0
Kildare Energy Ltd	Ireland	●	55.0
UAB Fortum Ekosiluma	Lithuania	■	100.0
UAB Fortum Heat Lietuva	Lithuania	■	100.0
UAB Joniskio energija	Lithuania	■	66.0
UAB Svencioniu energija	Lithuania	■	50.0
Fortum Sendi Prima Sdn Bhd	Malaysia	●	100.0
Baerum Fjernvarme AS	Norway	■	100.0
Fortum Distribution AS	Norway	▲ ●	100.0
Fortum Förvaltning AS	Norway	●	100.0
Fortum Heat AS	Norway	■	100.0
Fortum Holding Norway AS	Norway	● ▲ ▼	100.0
Fortum Markets AS	Norway	●	100.0
Fortum Service AS	Norway	●	100.0
Mosjøen Fjernvarme AS <sup>2)</sup>	Norway	■	100.0
Fortum DZT Service Sp. z o.o.	Poland	■	93.6
Fortum Czystochowa S.A.	Poland	■	87.6
Fortum DZT S.A.	Poland	■	93.6
Fortum Heat Polska Sp. z o.o.	Poland	■	100.0
Fortum Plock Sp. z o.o.	Poland	■	85.0
Fortum Wroclaw S.A.	Poland	■	98.2
Nowe Wiadomosci Walbrzyskie Sp. z o.o.	Poland	■	87.6
LLC Fortum Energy OOO Fortum Energija	Russia	▼	100.0
AB Fortum Värme Holding samägt med Stockholms stad	Sweden	■	50.1
AB Fortum Värme samägt med Stockholms stad	Sweden	■	50.1
AB Ljusnans Samkörning	Sweden	▲	80.0
Akallaverket AB	Sweden	■	37.6
Arvika Fjärrvärme AB	Sweden	■	30.1
Blybergs Kraft AB	Sweden	●	66.7
Brännälven Kraft AB	Sweden	●	35.4
Bullerforsens Kraft AB	Sweden	●	88.0
Ekerö Energi AB	Sweden	▲	81.7
Ekerö Energi Försäljning AB	Sweden	●	81.7
Fortum Alfa AB	Sweden	▼	100.0
Fortum Arrendekraft AB <sup>2)</sup>	Sweden	●	100.0
Fortum Beta AB	Sweden	▼	100.0
Fortum Dalälvens Kraft AB	Sweden	●	100.0
Fortum Distribution AB	Sweden	▲	100.0
Fortum Distribution Ryssa AB	Sweden	▲	100.0
Fortum Fastigheter AB	Sweden	▼	100.0
Fortum Generation AB	Sweden	●	100.0
Fortum Holding AB <sup>1) 4)</sup>	Sweden	▼	100.0
Fortum Indalskraft AB	Sweden	●	100.0
Fortum Ljunga Kraft AB	Sweden	●	100.0
Fortum Ljusnans Kraft AB	Sweden	●	100.0
Fortum Markets AB	Sweden	●	100.0
Fortum Portfolio Services AB <sup>1)</sup>	Sweden	●	100.0

table continues

## 39 Subsidiaries by Segment on 31 December 2006 continues

- 1) Name change  
 2) Acquired  
 3) Founded  
 4) Shares held by the parent company  
 5) Dormant  
 6) Demerger

- = Power Generation  
 ■ = Heat  
 ▲ = Distribution  
 ● = Markets  
 ▼ = Other Operations

Company Name	Country	Segment	Group holding %
Fortum Power and Heat AB	Sweden	▼ ● ■	100.0
Fortum Service AB	Sweden	●	100.0
Fortum Service Öst AB	Sweden	●	100.0
Fortum Sverige AB	Sweden	▼	100.0
Fortum Värme Fastigheter AB	Sweden	■	50.1
Fortum Värme Nynäshamn AB	Sweden	■	100.0
Fortum Älvkraft i Värmland AB	Sweden	●	100.0
Hällefors Värme AB	Sweden	■	47.6
Ljusnans Fiskodling AB	Sweden	●	100.0
Mellansvensk Kraftgrupp AB	Sweden	●	86.9
Netcircle AB	Sweden	●	100.0
NGI Naturgasinvest AB	Sweden	■	52.1
Nybroviken Kraft AB	Sweden	●	52.9
Nynäshamn Gasterminal AB	Sweden	■	50.1
Oreälvens Kraft AB	Sweden	●	65.0
Parteboda Kraft AB	Sweden	●	52.9
Recotech AB	Sweden	●	100.0
Ryssa Energi AB	Sweden	●	100.0
Sigtuna-Väsby Fastighets AB	Sweden	■	50.1
Svensk Naturgas AB	Sweden	■	100.0
Säffle 5:35 Fastighets AB	Sweden	■	50.1
Säffle Fjärrvärme AB	Sweden	■	25.6
Uddeholm Kraft AB	Sweden	▼	100.0
Voxnan Kraft AB	Sweden	●	52.9
Värmlandsenergi AB	Sweden	▼	100.0
Värmlandskraft OKG-delägarna AB	Sweden	●	73.3
FB Generation Services B.V.	The Netherlands	●	75.0
Fortum East China Energy Investments B.V.	The Netherlands	●	100.0
Fortum Finance B.V.	The Netherlands	▼	100.0
Fortum Holding B.V.	The Netherlands	● ■ ▼	100.0
Fortum Power Holding B.V.	The Netherlands	●	100.0
Fortum Russia Holding B.V.	The Netherlands	▼	100.0
Fortum Yellow Sea Energy Investments B.V.	The Netherlands	▼	100.0

### Sold, merged and dissolved subsidiaries

Bromölla Fjärrvärme AB  
 Cajero AB  
 Espoon Kaupunkienergia Oy  
 Fortum Energy Solutions (Thailand) Ltd  
 Fortum Espoo Oy  
 Fortum Heat Sarpsborg AS  
 Fortum Investments Ltd  
 Fortum Power Finance CV  
 Fortum Service Industripartner AB  
 Koillis-Pohjan Holding Oy  
 Kotkan Putkityö Oy  
 NetCircle Sverige AB  
 Streamgate AB



## 40 Pledged Assets

EUR million	2006	2005
On own behalf		
For debt		
Pledges	176	144
Real estate mortgages	49	49
For other commitments		
Real estate mortgages	56	66
On behalf of associated companies and joint ventures		
Pledges and real estate mortgages	3	3

Finnish participants in the State Nuclear Waste Management Fund are allowed to borrow from the Fund. Fortum has borrowed from the fund and has pledged 53,000 (2005: 50,000) Kemijoki shares as a security. The shares have a carrying value of EUR 102 million (2005: 73 million).

Fortum has pledged shares in subsidiaries and associated companies of EUR 51 million (2005: 54 million) as a guarantee to AP-fonden, for a loan in Fortum's Swedish subsidiary, Nybroviken Kraft AB. Real estate mortgages are also given for loans from Fortum's pension fund for EUR 41 million (2005: 41 million). Regarding the

relevant interest-bearing liabilities, see Note 32 Interest-bearing Liabilities.

Fortum has given real estate mortgages in Naantali and Inkoo power plants in Finland for a value of EUR 56 million (2005: 53 million) as a security to the State Nuclear Waste Management Fund for the uncovered part of the legal liability and unexpected events. The amount of the security is adjusted by the end of June the following year. See also Note 36 Nuclear Related Assets and Liabilities.

Pledges include also bank deposits as trading collateral of EUR 2 million (2005: 0 million) for trading with Nord Pool.

## 41 Commitments

### Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

EUR million	2006	2005
Property, plant and equipment	266	80
Intangible assets	0	1
Total	266	81

### Operating lease commitments

Fortum leases office equipment and cars under various non-cancellable operating leases, some of which contain renewal options. The future costs for non-cancellable operating leasing contracts are:

#### Future minimum lease payments on operating leases

EUR million	2006	2005
Not later than 1 year	20	17
Later than 1 year and not later than 5 years	38	32
Later than 5 years	78	76
Total	136	125

Lease rental expenses amounting to EUR 19 million (2005: 24 million) are included in the income statement in other operating expenses. Future minimum lease payments include from 2006 land leases with long lease periods. Comparison numbers for 2005 have been restated.

## 42 Contingent Liabilities

EUR million	2006	2005
On own behalf		
Other contingent liabilities	144	94
On behalf of associated companies and joint ventures		
Guarantees	213	208
Other contingent liabilities	125	125
On behalf of others		
Guarantees	12	2
Other contingent liabilities	1	3

Under Swedish law, Fortum has a strictly unlimited liability for third-party damages resulting from dam accidents. Together with other hydro power producers in Sweden, Fortum has taken out liability cover which will pay out a maximum of SEK 7,000 million (2005: 6,000 million) from this type of damages.

According to Swedish law, nuclear companies in Sweden shall pledge assets to the Swedish Nuclear Waste Fund to guarantee that sufficient funds exist to cover future expenses of nuclear waste management. Owners of the nuclear companies have issued guarantees for the commitments. Fortum has given guarantees to Fortum's associated companies, Forsmarks Kraftgrupp AB and OKG AB, to cover unexpected events for EUR 185 million (2005: 161 million).

Fortum owns shares in the Finnish nuclear company Teollisuuden Voima Oy (TVO). As TVO is an operator of nuclear power plants it has an obligation to fully cover the legal liability decided by governmental authorities for future decommissioning of the power plants and disposal of spent fuel through the Finnish State Nuclear Waste Management Fund. Fortum has given a guarantee, EUR 20

million (2005: 20 million), to TVO to cover Fortum's part of TVO's uncovered part of the legal liability and for unexpected events. The size of the total guarantee is adjusted by the end of June the following year.

Other contingent liabilities include guarantees that are issued for the fulfillment of various contractual obligations in the UK business and guarantees relating to the sold Enprima business. On closing day, these obligations amounted to a maximum of EUR 128 million (2005: 83 million).

Meri-Pori power plant in Finland is owned by Fortum 54.55% and TVO 45.45%. Based on the participation agreement Fortum has to give a guarantee to TVO against possible loss of asset or breach in contract of TVO's share of the asset, EUR 125 million (2005: 125 million).

Fortum's 100% owned subsidiary Fortum Heat and Gas Oy has a collective contingent liability with Neste Oil Oyj of the demerged Fortum Oil and Gas Oy's liabilities based on the Finnish Companies Act's (734/1978) Chapter 14a Paragraph 6.

## 43 Legal Actions and Official Proceedings

The Energy Authority (EMI) in Sweden has performed supervision of 2003 year's distribution prices on basis of the "Nätnyttomodell". The authority notified 17 companies in June 2005 and two companies in February and June 2006 of over debiting. All of these companies have filed a complaint.

Fortum has three grid areas that are affected by the supervision of 2003 distribution prices. A minor subsidiary of Fortum (Ekerö Energi) received a decision of over debiting in 2003 and filed a complaint. Decisions on two other Fortum areas are expected during the first quarter of 2007. A court decision on prices in 2003 is expected during the first quarter of 2008, at the earliest.

In November 2005, EMI published information on those companies that will be supervised more closely for their 2004 distribution prices. Based on EMI's decision on supervision, five Fortum areas exceeded the stipulated charge rate limit. However, Fortum believes that the charge rate calculation concerning two of its grid areas is not in compliance with EMI's own instructions. Fortum has applied for withdrawal of the supervision decision for these two grid areas.

In December 2006, EMI published information on those companies that will be supervised more closely for their 2005 distribu-

tion prices. Based on EMI's decision on supervision, three Fortum areas exceeded the stipulated charge limit.

A subsidiary of Fortum, Grangemouth CHP Limited, is a defendant in a court case regarding greenhouse gas emissions allowances in the High Court of Justice in London. Grangemouth CHP Limited is a party to an Electricity Supply Agreement with Ineos Manufacturing Scotland Limited, pursuant to which Grangemouth CHP Limited provides electricity from its CHP plant to the Grangemouth site in Scotland until April 2016. Ineos Manufacturing Scotland Limited claims that it is entitled to all of the emissions allowances allocated under the EU ETS scheme for greenhouse gas emission allowance trading with respect to the CHP plant. Grangemouth CHP Limited denies this claim.

The Finnish Competition Authority gave on 2 June 2006 its conditional approval to the transaction by which Fortum acquired control in E.ON Finland Oyj. On 3 July 2006 Fortum appealed against the decision to the Market Court.

In addition to the litigations described above, some Group companies are involved in disputes incidental to their business. Management believes that the outcome of such disputes will not have material effect on the Group's financial position.

## 44 Related Party Transactions

At the beginning of 2006 the Finnish State owned 51.52% of the company and at the end of 2006 50.82%. See Note 45 Shares and shareholders for further information on Fortum shareholders. All transactions between Fortum and other companies owned by the Finnish State are on arms length basis. In the ordinary course of business Fortum engages in transactions on commercial terms with associated companies and other related parties, which are on same terms as they would be for third parties, except for some associates as discussed later in this note.

### Board of Directors and Fortum Management Team

Fortum has not been involved in any material transactions with members of the Board of Directors or Fortum Management Team. Fortum has issued a loan of EUR 65 thousand to a member of the Fortum Management Team. The loan is a constant payment loan with interest rate of 4.25% which will be amortized semi-annually and its due in 2009. Members of the Board of Directors and Fortum Management Team holdings of options and shares are disclosed in Note 30 Employee bonus and Incentive Schemes. Compensation to members of the Supervisory Board, the Board of Directors and Fortum Management Team are disclosed in Note 14 Management Remuneration and Employee costs.

### Finnish State and companies owned by the Finnish State

All transactions between Fortum and other companies owned by the Finnish State are on arms length basis.

Neste Oil buys services from Fortums Shared Service Center. The service agreement is on arms length.

### Associated companies and joint ventures

Fortum owns shareholdings in associated companies and joint ventures which in turn own hydro-and nuclear power plants. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership or other agreements. Each owner is liable for an equivalent portion of costs regardless of output. The associated companies are not profit making, since the owners purchase electricity at production cost including interest costs and income taxes, which generally is lower than market price. For further information of transactions and balances with associated companies and joint ventures, see Note 23 Investments in associated companies and joint ventures.

## 45 Shares and Shareholders

### Shares and share capital

Fortum has one class of shares. By the end of 2006, a total of 887,393,646 shares had been issued. The nominal value of the shares is EUR 3.40 and each share entitles the holder to one vote at the Annual General Meeting. All shares entitle holders to an equal dividend. At the end of 2006 Fortum Corporation's share capital, paid in its entirety and entered in the trade register, was EUR 3,022,782,396. Under the Articles of Association Fortum Corporation's share capital may range between a minimum of EUR 2 billion and a maximum of EUR 8 billion. Within these limits, it can be

increased or decreased without changing the Articles of Association.

The Board of Directors of Fortum Corporation proposes to Annual General Meeting of Shareholders to be held on 28 March 2007 that the minimum and maximum capital requirements in Paragraph 3, sub-section 1 of the Articles of Association shall be deleted.

Fortum Corporation's shares are in the Finnish book entry system maintained by the Finnish Central Securities Depository Ltd.

Fortum Corporation's shares are listed on the Helsinki Stock Exchange. The trading code is FUM1V.

### Share capital 1998–2006

	Number of shares	Share capital, EUR
Fortum established on 7 February 1998	500,000	1,681,879
Rights issue in 1998	782,282,635	2,631,409,886
Employee issue in 1998	2,000,000	6,727,517
<b>Share capital on 31 December 1998</b>	<b>784,782,635</b>	<b>2,639,819,282</b>
<b>Share capital on 31 December 1999</b>	<b>784,782,635</b>	<b>2,639,819,282</b>
Script issue in 2000	–	28,441,677
Rights issue in 2000	60,825,940	206,808,196
<b>Share capital on 31 December 2000</b>	<b>845,608,575</b>	<b>2,875,069,155</b>
<b>Share capital on 31 December 2001</b>	<b>845,608,575</b>	<b>2,875,069,155</b>
Subscriptions with options in 2002		
– 1999 bond loan with warrants	148,380	504,492
– 1999 management share option scheme	3,000	10,200
<b>Share capital on 31 December 2002</b>	<b>845,759,955</b>	<b>2,875,583,847</b>
Subscriptions with options in 2003		
– 1999 bond loan with warrants	159,520	542,368
– 1999 management share option scheme	2,913,000	9,904,200
<b>Share capital on 31 December 2003</b>	<b>848,832,475</b>	<b>2,886,030,415</b>
Subscriptions with options in 2004		
– 1999 bond loan with warrants	4,560,730	15,506,482
– 1999 management share option scheme	7,154,000	24,323,600
– 2002 A share options scheme for key employees	6,536,700	22,224,780
<b>Share capital on 31 December 2004</b>	<b>867,083,905</b>	<b>2,948,085,277</b>
Subscriptions with options in 2005		
– 1999 bond loan with warrants	1,284,370	4,366,858
– 1999 management share option scheme	1,698,000	5,773,200
– 2001 A share options scheme for key employees	1,636,350	5,563,590
– 2002 A share options scheme for key employees	3,591,400	12,210,760
<b>Share capital on 31 December 2005</b>	<b>875,294,025</b>	<b>2,975,999,685</b>
Subscriptions with options in 2006		
– 2001 A share options scheme for key employees	3,026,200	10,289,080
– 2001 B share options scheme for key employees	5,360,133	18,224,452
– 2002 A share options scheme for key employees	516,800	1,757,120
– 2002 B share options scheme for key employees	4,856,488	16,512,059
Cancellation of own shares	–1,660,000	–
<b>Total shares and share capital on 31 December 2006</b>	<b>887,393,646</b>	<b>3,022,782,396</b>

## Shareholders on 31 December 2006

Shareholder	No. of shares	Holding %
Finnish State	450,932,988	50.82
Ilmarinen Mutual Pension Insurance Company	10,879,053	1.23
Social Insurance Institution	7,195,896	0.81
The municipality of Kurikka	6,203,500	0.70
The State Pension Fund	5,600,000	0.63
Varma Mutual Pension Insurance Company	4,450,000	0.50
Etera Mutual Pensions Insurance Company	3,015,283	0.34
OP-Delta Investment Fund	2,826,608	0.32
Fennia Mutual Pensions Insurance Company	2,755,221	0.31
Svenska Handelsbanken Ab	1,858,798	0.21
Nominee registrations	312,994,286	35.27
Other shareholders in total	78,682,013	8.86
<b>Total number of shares</b>	<b>887,393,646</b>	<b>100.00</b>

## Breakdown of share ownership on 31 December 2006

### By number of shares owned

Number of shares	No. of share-holders	% of share-holders	No. of shares	% of total amount of shares
1–100	4,647	9.26	300,018	0.03
101–500	21,775	43.40	5,763,742	0.65
501–1,000	12,995	25.90	8,804,154	0.99
1,001–10,000	10,167	20.26	25,605,797	2.89
10,001–100,000	514	1.03	12,919,843	1.46
100,001–1,000,000	65	0.13	21,575,227	2.43
1,000,001–10,000,000	11	0.02	37,536,722	4.23
over 10,000,000	2	0.00	461,812,041	52.04
	50,176	100.00	574,317,544	64.72
Unregistered/uncleared transactions on 31 December			81,816	0.01
Nominee registrations			312,994,286	35.27
<b>Total</b>			<b>887,393,646</b>	<b>100.00</b>

### By shareholder category

	% of total amount of shares
Finnish shareholders	
Corporations	0.7
Financial and insurance institutions	1.9
General government	56.1
Non-profit organisations	1.1
Households	4.8
Non-Finnish shareholders	35.4
<b>Total</b>	<b>100.00</b>

## Key share ratios

	FAS 2002	FAS 2003	IFRS 2004	IFRS 2005	IFRS 2006
Earnings per share total Fortum, EUR	0.79	0.91	1.48	1.55	1.22
Earnings per share continuing operations, EUR	–	–	0.79	1.01	1.22
Earnings per share discontinued operations, EUR	–	–	0.69	0.54	–
Diluted earnings per share total Fortum, EUR	0.78	0.90	1.46	1.53	1.21
Diluted earnings per share continuing operations, EUR	–	–	0.78	1.00	1.21
Diluted earnings per share discontinued operations, EUR	–	–	0.68	0.53	–
Cash flow per share total Fortum, EUR	1.60	1.86	2.06	1.61	1.31
Cash flow per share continuing operations, EUR	–	–	1.44	1.46	1.31
Equity per share, EUR	6.97	7.55	8.65	8.17	8.91
Dividend per share total Fortum, EUR <sup>1)</sup>	0.31	0.42	0.58	1.12	1.26 <sup>2)</sup>
Dividend per share continuing operations, EUR				0.58	0.73 <sup>2), 3)</sup>
Dividend per share additional in 2006 / discontinued operations in 2005, EUR				0.54	0.53 <sup>2)</sup>
Payout ratio total Fortum, %	39.2	46.2	39.2	72.3	103.3 <sup>2), 5)</sup>
Payout ratio continuing operations, %				57.4 <sup>4)</sup>	59.8 <sup>2), 3), 5)</sup>
Payout ratio additional dividend in 2006 / discontinued operations in 2005, %				100.0 <sup>4)</sup>	43.4 <sup>2), 5)</sup>
Dividend yield, %	5.0	5.1	4.3	7.1	5.8 <sup>2)</sup>
Price/earnings ratio Fortum (P/E)	7.9	9.0	9.2	10.2	17.7
Share prices					
At the end of the period, EUR	6.25	8.18	13.62	15.84	21.56
Average share price, EUR	5.87	6.94	10.29	13.87	20.39
Lowest share price, EUR	4.75	5.66	7.45	10.45	15.71
Highest share price, EUR	6.52	8.75	13.99	16.90	23.48
Market capitalisation at the end of the period, MEUR	5,286	6,943	11,810	13,865	19,132
Trading volumes					
Number of shares, 1,000 shares	251,216	270,278	478,832	900,347	830,764
In relation to the weighted average number of shares, %	29.7	31.9	59.2	103.2	0.94
Number of shares, 1,000 shares	845,776	849,813	867,084	875,294	887,394
Average number of shares, 1,000 shares	845,642	846,831	852,625	872,613	881,194
Diluted adjusted average number of shares, 1,000 shares	851,482	858,732	861,772	887,653	886,929

<sup>1)</sup> In addition to cash dividend Fortum distributed approximately 85% of Neste Oil Corporation shares as dividend in 2005.

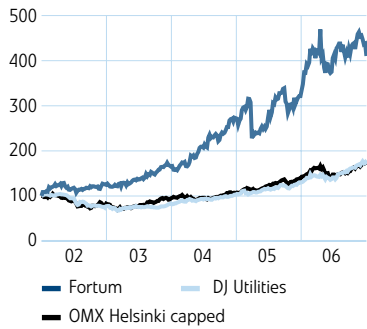
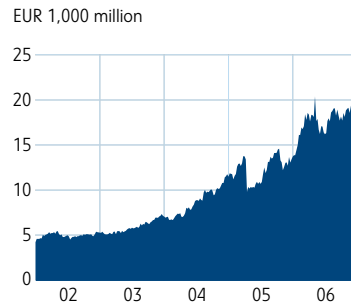
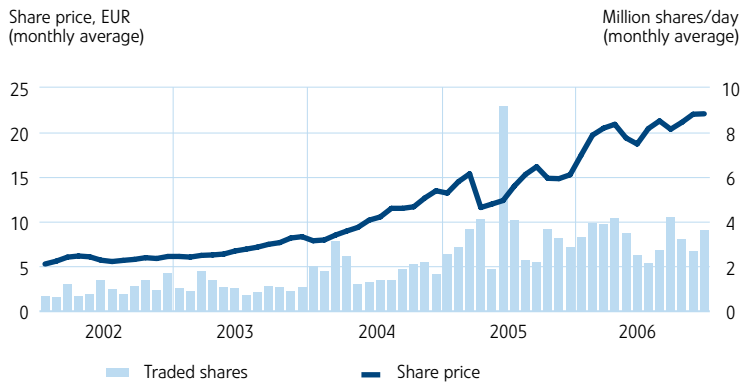
<sup>2)</sup> Board of Directors' proposal for the Annual General Meeting in March 2007.

<sup>3)</sup> In accordance with Group's dividend policy.

<sup>4)</sup> 2005 payout ratio for continuing and discontinued operations are calculated based on the respective earnings per share from continuing and discontinued operations.

<sup>5)</sup> Payout ratios for proposed dividends in 2006 are based on the total earnings per share.

Years 2002–2003 have not been restated to comply with IFRS. They are presented under Finnish Accounting Standards (FAS). Definitions of Key Ratios on pages 96 and 97.

**Share quotations 2002–2006****Market capitalisation 2002–2006****Number of shares traded 2002–2006****46 Events After the Balance Sheet Date**

Storms in January, especially in Sweden, have caused approximately EUR 10 million additional costs for the Distribution segment.

In January Fortum's subsidiary in Estonia, Fortum Tartu AS announced an investment in a new CHP-plant in the City of Tartu.

The size of the investment is around EUR 60 million. Fortum owns 60% of the company.

# Key Ratios

	IFRS 2004	IFRS 2005	IFRS 2006
Continuing operations:			
Sales, MEUR	3,835	3,877	4,491
EBITDA, MEUR	1,583	1,754	1,884
Operating profit, MEUR	1,195	1,347	1,455
– of sales %	31.2	34.7	32.4
Comparable operating profit, MEUR	1,148	1,334	1,437
Profit before income tax, MEUR	962	1,267	1,421
– of sales %	25.1	32.7	31.6
Profit for the period from continuing operations, MEUR	703	936	1,120
– of which attributable to equity holders, MEUR	670	884	1,071
Capital employed, MEUR	12,890	11,357	12,663
Capital employed continuing operations, MEUR	10,739	11,357	12,663
Interest-bearing net debt, MEUR	5,095	3,158	4,345
Capital expenditure and gross investments in shares continuing operations, MEUR	514	479	1,395
Capital expenditure continuing operations, MEUR	335	346	485
Net cash from operating activities continuing operations, MEUR	1,232	1,271	1,151
Return on capital employed, %	15.8	16.6	13.4
Return on capital employed continuing operations, %	11.4	13.5	13.4
Return on shareholders' equity, %	18.2	18.7	14.4
Return on shareholders' equity continuing operations, % <sup>1)</sup>	–	13.5	14.4
Interest coverage	8.0	11.6	11.5
Funds from operations/interest-bearing net debt, %	36.4	43.2	30.6
Gearing, %	67	43	53
Net debt / EBITDA	2.1	1.4	2.3
Net debt / EBITDA continuing operations	–	1.8	2.3
Equity-to-assets ratio, %	44	49	48
Average number of employees continuing operations	8,592	8,939	8,910

<sup>1)</sup> Return on equity for continuing operations for 2005 is calculated based on profit for the period from continuing operations divided by total equity at the end of the period. Profit for the period from discontinued operations has been subtracted from total equity on 31 December 2005.



	FAS 2002	FAS 2003	IFRS 2004	IFRS 2005	IFRS 2006
Total Fortum:					
Sales, MEUR	11,148	11,392	11,659	5,918	4,491
Operating profit, MEUR	1,289	1,420	1,916	1,864	1,455
– of sales %	11.6	12.5	16.4	31.5	32.4
Profit before income tax, MEUR	1,008	1,184	1,700	1,776	1,421
– of sales %	9.0	10.4	14.6	30.0	31.6
Capital employed, MEUR	13,765	12,704	12,890	11,357	12,663
Interest-bearing net debt, MEUR	5,848	5,626	5,095	3,158	4,345
Capital expenditure and gross investments in shares, MEUR	4,381	1,136	830	578	1,395
– of sales %	39.3	10.0	7.1	9.8	31.1
Return on capital employed, %	11.1	11.4	15.8	16.6	13.4
Return on shareholders' equity, %	10.5	12.3	18.2	18.7	14.4
Gearing, % <sup>1)</sup>	80	85	67	43	53
Equity-to-assets ratio, %	41	40	44	49	48
Net cash from operating activities, MEUR	1,351	1,577	1,758	1,404	1,151
Dividends, MEUR <sup>2)</sup>	262	357	506	987	1,119 <sup>3)</sup>
Research and development expenditure, MEUR	33	35	26	14	17
– of sales %	0.3	0.3	0.2	0.2	0.4
Average number of employees	14,053	13,343	12,859	10,026	8,910

<sup>1)</sup> Gearing is defined as interest-bearing net debt over shareholders' equity plus minority interest.

In 2002 minority interest included the preference shares amounting to EUR 1.2 billion, carrying fixed income dividend of 6.7 percent, issued by Fortum Capital Ltd.

<sup>2)</sup> In addition to cash dividend Fortum distributed approximately 85% of Neste Oil Corporation shares as dividend in 2005

<sup>3)</sup> Board of Directors proposal for the Annual General Meeting in March 2007. The total amount is calculated based on the number of registered shares on 30 January 2007.

Years 2002–2003 have not been restated to comply with IFRS. They are presented under Finnish Accounting Standards (FAS). Definitions of Key Ratios on pages 96 and 97.

# Parent Company Financial Statements, Finnish GAAP (FAS)

## Income Statement

EUR million	Note	2006	2005
<b>Sales</b>	2	82	73
Other income	3	5	420
Employee costs	4	-45	-33
Depreciation, amortisation and write-downs		-8	-9
Other expenses		-65	-85
<b>Operating profit</b>		-31	366
Financial income and expenses	5	38	873
<b>Profit before extraordinary items</b>		7	1,239
Extraordinary items	6	638	482
<b>Profit before income taxes</b>		645	1,721
Income tax expense	7	-123	-157
<b>Profit for the period</b>		522	1,564

## Balance Sheet

EUR million	Note	2006	2005
<b>ASSETS</b>			
<b>Non-current assets</b>	8		
Intangible assets		15	10
Property, plant and equipment		12	11
Investments in group companies		11,605	5,166
Interest-bearing receivables from group companies		2,159	7,803
Investments in associated companies		0	5
Interest-bearing receivables from associated companies		2	14
Other non-current assets		2	1
<b>Total non-current assets</b>		13,795	13,010
<b>Current assets</b>			
Trade and other receivables from group companies	9	673	519
Trade and other receivables from associated companies	9	0	4
Trade and other receivables	9	43	112
Deferred tax assets		2	2
Cash and cash equivalents	10	73	643
<b>Total current assets</b>		791	1,280
<b>Total assets</b>		14,586	14,290

EUR million	Note	2006	2005
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	12		
Share capital		3,023	2,976
Share issue		0	2
Share premium		2,822	2,818
Retained earnings		1,543	997
Profit for the period		522	1,564
<b>Total shareholders' equity</b>		7,910	8,357
<b>Provisions for liabilities and charges</b>		1	-
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
External interest-bearing liabilities	13	3,540	2,280
Interest-bearing liabilities to group companies	13	2,528	2,445
Interest-bearing liabilities to associated companies	13	164	157
Other non-current liabilities		27	43
<b>Total non-current liabilities</b>		6,259	4,925
<b>Current liabilities</b>			
External interest-bearing liabilities	13	71	736
Trade and other payables to group companies	14	135	178
Trade and other payables to associated companies	14	5	3
Trade and other payables	14	205	91
<b>Total current liabilities</b>		416	1,008
<b>Total liabilities</b>		6,675	5,933
<b>Total equity and liabilities</b>		14,586	14,290

# Cash Flow Statement

EUR million	2006	2005
<b>Cash flow from operating activities</b>		
Profit for the period	522	1,564
<b>Adjustments:</b>		
Income tax expense	123	157
Extraordinary items	-638	-482
Financial costs – net	-38	-873
Depreciations, amortisation and write-downs	9	9
<b>Operating profit before depreciations</b>	-22	375
Non-cash flow items and divesting activities	2	414
Interest and other financial income	134	308
Interest and other financial expenses paid, net	-217	-243
Dividend income	156	726
Group contribution received	482	443
Realised foreign exchange gains and losses	220	104
Income taxes paid	-158	-134
<b>Funds from operations</b>	597	1,993
Increase/decrease in trade and other short-term receivables	-15	5
Decrease/increase in trade and other short-term payables	-42	1
<b>Change in working capital</b>	-57	6
<b>Net cash from operating activities</b>	540	1,999
<b>Cash flow from investing activities</b>		
Capital expenditures	-15	-12
Acquisition of shares in subsidiaries	-6,439	-213
Proceeds from sales of fixed assets	1	6
Proceeds from sales of shares in subsidiaries	-	171
Proceeds from sales of shares in associates	3	-
Change in interest-bearing receivables and other non-current assets	5,655	-
<b>Net cash used in investing activities</b>	-795	-48
<b>Cash flow before financing activities</b>	-255	1,951
<b>Cash flow from financing activities</b>		
Proceeds from long-term liabilities	1,338	28
Payment of long-term liabilities	-725	-481
Change in short-term liabilities	41	-393
Proceeds from stock options exercised	49	22
Repurchase of own shares	-31	-
Dividends paid	-987	-506
<b>Net cash used in financing activities</b>	-315	-1,330
<b>Net increase (+)/decrease (-) in cash and cash equivalents</b>	-570	621
Cash and cash equivalents at the beginning of the period	643	22
Cash and cash equivalents at the end of the period	73	643
<b>Net increase (+)/ decrease (-) in cash and cash equivalents</b>	-570	621

# Parent Company Notes to the Financial Statements, FAS

## 1 Accounting Policies and Principles

The financial statements of Fortum Oyj are prepared in accordance with Finnish Accounting Standards (FAS).

### Sales

Sales include sales revenues from actual operations and exchange rate differences on trade receivables, less discounts and indirect taxes such as value added tax.

### Other operating income

Other operating income includes gains on the sales of tangible assets and shareholdings, as well as all other operating income not related to the sales of products or services, such as rents.

### Foreign currency items and derivative instruments

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the financial net in the income statement.

Fortum Oyj enters into derivative contracts mainly for hedging foreign exchange and interest rate exposures.

Derivatives used to hedge balance sheet items e.g. bank accounts, loans or receivables are valued employing the exchange rate quoted on the balance sheet date, and gains or losses are recognised in the income statement. The interest element on forward contracts is accrued for the period.

Option premiums are treated as advances paid or received until the option matures, and any losses on options entered into other than for hedging purposes are entered as an expense in the income statement.

Interest income or expense for derivatives used to hedge the interest rate risk exposure is accrued over the period to maturity and is recognised as an adjustment to the interest expense of the liabilities.

### Extraordinary items

Group contributions paid and received are reported in extraordinary items.

### Income taxes

Income taxes presented in the income statement consist of accrued taxes for the financial year and tax adjustments for prior years.

### Property, plant and equipment and depreciation

The balance sheet value of property, plant and equipment consists of historical costs less depreciation and other deductions. Property, plant and equipment are depreciated using straight-line depreciation based on the expected useful life of the asset.

The depreciation is based on the following expected useful lives:

Buildings and structures	15–40 years
Machinery and equipment	3–15 years
Other intangible assets	5–10 years

### Pension expenses

Statutory pension obligations are covered through a compulsory pension insurance policy or Group's own pension fund. Payments to Group's pension fund are recorded in the income statement in amounts determined by the pension fund according to the actuarial assumptions pursuant to the Finnish Employee's Pension Act.

### Equity-related compensation benefits

Before 2006 the social charges related to Fortum Corporation options have been entered as expense to the income statement in the accounting period during which the options have become exercisable. Since 2006 the premium basis for social charges has changed, and there is no obligations to pay social charges from the option income any more. Costs related to the Fortum long-term incentive plans are accrued over the plan period and the related liability is booked to the balance sheet.

### Provisions

Foreseeable future expenses and losses that have no corresponding revenue to which Fortum is committed or obliged to settle, and whose monetary value can be reasonably assessed, are entered as expenses in the income statement and included as provisions in the balance sheet.

## 2 Sales by Market Area

EUR million	2006	2005
Finland	66	66
Sweden and other countries	16	7
Total	82	73

## 3 Other Income

EUR million	2006	2005
Gain on sales of shareholdings	–	414
Rental income	5	6
Total	5	420

Gain on sales of shareholdings in 2005 consists of the sale of approximately 15% of the shares in Neste Oil, EUR 381 million, and gains from sales of shares to other companies within the group, EUR 33 million.

## 4 Employee Costs

EUR million	2006	2005
Personnel expenses		
Wages, salaries and remunerations	34	31
Indirect employee costs		
Pension costs <sup>1)</sup>	6	-3
Other indirect employee costs	2	3
Other personnel expenses	3	2
Total	45	33

<sup>1)</sup> The pension liabilities that were funded through Neste Pension Fund were transferred to insurance companies which resulted in a positive effect in pension costs 2005.

### Salaries and remunerations

President and CEO, members of the Board of Directors and the Supervisory Board	2	2
Average number of employees	565	576

## 5 Financial Income and Expenses

EUR million	2006	2005
Dividend income from group companies	147	733
Interest and other financial income from group companies	121	282
Interest and other financial income	17	19
Exchange rate differences	-21	39
Write-downs on other long-term investments	–	2
Interest and other financial expenses to group companies	-84	-96
Interest and other financial expenses	-142	-106
Total	38	873
<b>Total interest income and expenses</b>		
Interest income	137	301
Interest expenses	-221	-207
Interest net	-84	94

## 6 Extraordinary Items

EUR million	2006	2005
Group contributions from Group companies	638	482

## 7 Income Tax Expense

EUR million	2006	2005
Taxes on regular business operations	-43	37
Taxes on extraordinary items	166	120
Total	123	157

Current taxes from the period	129	157
Current taxes from prior periods	-5	1
Changes in deferred tax	-1	-1
Total	123	157

## 8 Non-current Assets

### Intangible assets

EUR million	Intangible assets total
Cost 1 January 2006	20
Additions	9
Disposals	0
Cost 31 December 2006	29
Accumulated depreciation 1 January 2006	10
Disposals	0
Depreciation for the period	4
Accumulated depreciation 31 December 2006	14
Carrying amount 31 December 2006	15
Carrying amount 31 December 2005	10

### Property, plant and equipment

EUR million	Buildings and structures	Machinery and equipment	Advances paid and construction in progress	Total
Cost 1 January 2006	1	17	3	21
Additions	-	5	-	5
Disposals	-	-1	0	-1
Cost 31 December 2006	1	21	3	25
Accumulated depreciation 1 January 2006	0	10	-	10
Disposals	-	-1	-	-1
Depreciation for the period	0	4	-	4
Accumulated depreciation 31 December 2006	0	13	0	13
Carrying amount 31 December 2006	1	8	3	12
Carrying amount 31 December 2005	1	7	3	11

Investments	Shares in Group companies	Receivables from Group companies	Shares in associated companies	Receivables from associated companies	Other non current assets	Total
EUR million						
At 1 January 2006	5,166	7,803	5	14	1	12,989
Additions	6,439	4	–	0	1	6,444
Disposals	–	–5,648	–5	–12	–	–5,665
At 31 December 2006	11,605	2,159	0	2	2	13,768
Carrying amount 31 December 2006	11,605	2,159	0	2	2	13,768
Carrying amount 31 December 2005	5,166	7,803	5	14	1	12,989

## 9 Trade and Other Receivables

EUR million	2006	2005
Trade and other receivables from group companies		
Trade receivables	25	10
Other receivables	638	491
Accrued income and prepaid expenses	10	18
Total	673	519
Trade and other receivables from associated companies		
Accrued income and prepaid expenses	0	4
Trade and other receivables		
Trade receivables	1	1
Other receivables	2	1
Accrued income and prepaid expenses	40	110
Total	43	112

## 10 Cash and Cash Equivalents

EUR million	2006	2005
Cash at bank and in hand	73	496
Commercial papers	0	147
Total	73	643

## 11 Pension Commitments to Corporate Management

For the President and CEO and the members of the Fortum Management Team, the retirement age is 60. The pension obligations are covered either through insurance companies or Fortum Pension Fund.

## 12 Changes in Shareholders' Equity

EUR million	Share capital	Share issue	Share premium	Retained earnings	Total
<b>Balance 31 December 2005</b>	2,976	2	2,818	2,561	8,357
Stock options exercised	47	-2	4	-	49
Cash dividend	-	-	-	-987	-987
Repurchase of own shares	-	-	-	-31	-31
Profit for the period	-	-	-	522	522
<b>Balance 31 December 2006</b>	<b>3,023</b>	<b>0</b>	<b>2,822</b>	<b>2,065</b>	<b>7,910</b>
<b>Balance 31 December 2004</b>	<b>2,948</b>	<b>13</b>	<b>2,810</b>	<b>2,472</b>	<b>8,243</b>
Stock options exercised	28	-11	8	-	25
Cash dividend	-	-	-	-506	-506
Share dividend	-	-	-	-969	-969
Profit for the period	-	-	-	1,564	1,564
<b>Balance 31 December 2005</b>	<b>2,976</b>	<b>2</b>	<b>2,818</b>	<b>2,561</b>	<b>8,357</b>

EUR million	2006	2005
Distributable funds 31 December	2,065	2,561

## 13 Interest-bearing Liabilities

EUR million	2006	2005
<b>External interest-bearing liabilities</b>		
Bonds	2,782	1,547
Loans from financial institutions	98	97
Other long-term interest-bearing debt	660	636
<b>Total long-term interest-bearing debt</b>	<b>3,540</b>	<b>2,280</b>
Current portion of long-term bonds	10	660
Current portion of loans from financial institutions	5	54
Commercial papers	55	21
Other short-term interest-bearing debt	1	1
<b>Total short-term interest-bearing debt</b>	<b>71</b>	<b>736</b>
<b>Total external interest-bearing debt</b>	<b>3,611</b>	<b>3,016</b>

### Maturity of external interest-bearing liabilities

Year	
2007	71
2008	540
2009	276
2010	499
2011	265
2012 and later	1,960
<b>Total</b>	<b>3,611</b>

### External interest-bearing liabilities due after five years

Bonds	1,248	498
Loan from financial institutions	52	95
Other long-term liabilities	660	637
<b>Total</b>	<b>1,960</b>	<b>1,230</b>

### Other interest-bearing liabilities due after five years

Interest-bearing liabilities to group companies	17	14
Interest-bearing liabilities to associated companies	164	157
<b>Total</b>	<b>181</b>	<b>171</b>



## 14 Trade and Other Payables

EUR million	2006	2005
Trade and other payables to group companies		
Trade payables	1	1
Other liabilities	127	170
Accruals and deferred income	7	7
Total	135	178
Trade and other payables to associated companies		
Accruals and deferred income	5	3
Total	5	3
Trade and other payables		
Trade payables	8	9
Other liabilities	2	1
Other short-term accruals and deferred income	195	81
Total	205	91

## 15 Contingent Liabilities

EUR million	2006	2005
<b>On own behalf</b>		
Other contingent liabilities	5	4
<b>On behalf of group companies</b>		
Guarantees	460	493
<b>On behalf of associated companies</b>		
Guarantees	–	13
<b>On behalf of others</b>		
Guarantees	6	
<b>Contingent liabilities total</b>	<b>471</b>	<b>510</b>

### Operating leases

EUR million	2006	2005
Lease payments		
Not later than 1 year	1	1
Later than 1 year and not later than 5 years	1	0
Total	2	1

### Derivatives

EUR million	2006			2005		
	Contract or notional value	Fair value	Not recognised as an income	Contract or notional value	Fair value	Not recognised as an income
Interest rate swaps	2,245	11	–6	914	47	43
Forward foreign exchange contracts <sup>1), 2)</sup>	12,756	–38	5	11,045	101	–4
Currency swaps	2,358	–63	7	1,926	–2	–1

<sup>1)</sup> Includes also closed forward and future positions

<sup>2)</sup> Includes net investment hedges against shareholders equity in foreign group companies in 2005

# Definitions of Key Ratios

EBITDA (Earnings before interest, taxes, depreciation and amortisation) continuing operations	=	Operating profit continuing operations + Depreciation, amortisation and impairment charges continuing operations	
Comparable operating profit	=	Operating profit – non-recurring items – other items effecting comparability	
Non-recurring items	=	Mainly capital gains and losses	
Other items effecting comparability	=	Includes effects from financial derivatives hedging future cash-flows where hedge accounting is not applied according to IAS 39 and effects from the accounting of Fortum's part of the Finnish Nuclear Waste Fund where the asset in the balance sheet cannot exceed the related liabilities according to IFRIC interpretation 5.	
Funds from operations (FFO)	=	Net cash from operating activities before change in working capital	
Gross investments in shares	=	Subsidiary shares, shares in associated companies and other shares in available for sale financial assets. Investments in subsidiary shares are net of cash and grossed with interest-bearing liabilities in the acquired company.	
Return on shareholders' equity, %	=	$\frac{\text{Profit for the year}}{\text{Total equity average}} \times 100$	
Return on capital employed, %	=	$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Capital employed average}} \times 100$	
Return on capital employed continuing operations, %	=	$\frac{\text{Profit before taxes continuing operations + interest and other financial expenses continuing operations}}{\text{Capital employed continuing operations average}} \times 100$	
Return on net assets, %	=	$\frac{\text{Operating profit + Share of profit (loss) in associated companies and joint ventures}}{\text{Net assets average}} \times 100$	
Comparable return on net assets, %	=	$\frac{\text{Comparable operating profit + Share of profit (loss) in associated companies and joint ventures (adjusted for IAS 39 effects)}}{\text{Comparable net assets average}} \times 100$	
Capital employed	=	Total assets – non-interest bearing liabilities – deferred tax liabilities – provisions	
Net assets	=	Non-interest bearing assets + interest-bearing assets related to the Nuclear Waste Fund – non-interest bearing liabilities – provisions (non-interest bearing assets and liabilities do not include finance related items, tax and deferred tax and assets and liabilities from fair valuations of derivatives where hedge accounting is applied)	
Comparable net assets	=	Net assets adjusted for non-interest bearing assets and liabilities arising from financial derivatives hedging future cash-flows where hedge accounting is not applied according to IAS 39	
Interest-bearing net debt	=	Interest-bearing liabilities – cash and cash equivalents	
Gearing, %	=	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}} \times 100$	

Equity-to-assets ratio, %	=	$\frac{\text{Total equity including minority interest}}{\text{Total assets}} \times 100$
Net debt / EBITDA	=	$\frac{\text{Interest-bearing net debt}}{\text{Operating profit} + \text{Depreciation, amortisation and impairment charges}}$
Net debt / EBITDA continuing operations	=	$\frac{\text{Interest-bearing net debt}}{\text{Operating profit continuing operations} + \text{Depreciation, amortisation and impairment charges continuing operations}}$
Interest coverage	=	$\frac{\text{Operating profit}}{\text{Net interest expenses}}$
Earnings per share (EPS)	=	$\frac{\text{Profit for the period} - \text{minority interest}}{\text{Average number of shares during the period}}$
Cash flow per share	=	$\frac{\text{Net cash from operating activities}}{\text{Average number of shares during the period}}$
Equity per share	=	$\frac{\text{Shareholder's equity}}{\text{Number of shares at the end of the period}}$
Payout ratio, %	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$
Payout ratio continuing operations, %	=	$\frac{\text{Dividend per share continuing operation}}{\text{Earnings per share continuing operation}} \times 100$
Dividend yield, %	=	$\frac{\text{Dividend per share}}{\text{Share price at the end of the period}} \times 100$
Price/earnings (P/E) ratio	=	$\frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$
Average share price	=	$\frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$
Market capitalisation	=	Number of shares at the end of the period x share price at the end of the period
Trading volumes	=	Number of shares traded during the period in relation to the weighted average number of shares during the period

# Proposal for Distribution of Earnings

Parent company's distributable equity as of 31 December 2006 amounted to EUR 2,065 million. After the end of the financial period there has been no material changes in the financial position of the Company.

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a cash dividend of

EUR 1.26 per share for 2006, totalling EUR 1,119 million based on the number of registered shares as of 30 January 2007. Of this total dividend, EUR 0.73 per share is in accordance with the Group's dividend policy. An additional dividend of EUR 0.53 per share is proposed in order to steer Fortum's capital structure towards the agreed target.

Espoo, 30 January 2007

Peter Fagernäs

Esko Aho

Birgitta Johansson-Hedberg

Birgitta Kantola

Matti Lehti

Marianne Lie

Christian Ramm-Schmidt

Mikael Lilius

President and CEO

# Auditors' Report

## To the shareholders of Fortum Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Fortum Corporation for the period 1.1.–31.12.2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the parent company's financial statements, the report of the Board of Directors, and the administration.

The audit has been conducted in accordance with generally accepted auditing standards. In our audit we have examined the bookkeeping and accounting principles, contents and presentation sufficiently enough in order to evaluate that the financial statements and the report of the Board of Directors are free of material misstatements or deficiencies. In our audit of the administration we have evaluated if the actions of the members of the Supervisory Board and Board of Directors and the Managing Director of the parent company have legally complied with the rules of the Companies' Act.

## Consolidated financial statements

The consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Accounting Act, of the consolidated results of operations as well as of the financial position.

## Parent company's financial statements, report of the Board of Directors and administration

The parent company's financial statements and the report of the Board of Directors have been prepared in accordance with the Accounting Act and other applicable rules and regulations governing the preparation of financial statements and the report of the Board of Directors.

The consolidated financial statements and parent company's financial statements and the report of the Board of Directors give a true and fair view, as defined in the Accounting Act, of the group and parent company's result of operations as well as of the position. The report of the Board of Directors is consistent with the financial statements.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Supervisory Board and the Board of Directors and the Managing Directors of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the treatment of the distributable funds is in compliance with the Companies Act.

Espoo, 30 January 2007

Deloitte & Touche Ltd  
Authorized Public Audit Firm

Mikael Paul  
APA

# Statement by the Supervisory Board

The Supervisory Board has today in their meeting reviewed Fortum Corporation's income statement, balance sheet and notes to the financial statements for the year 2006 as well as consolidated financial statements, the Board of Director's proposal for the distribution of earnings, the Operational and Financial review by the Board of Director's and the auditors' report provided by the Company's auditors. The Supervisory Board has no comments to make on these.

The Supervisory Board recommends that the income statement, balance sheet and consolidated financial statements can be approved and concurs with the Board of Director's proposal for the allocation of profit.

The Supervisory Board states that its instructions have been followed and that it has received adequate information from the Board of Directors and the company's management.

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Espoo, 7 February 2007

Timo Kalli

Martti Alakoski

Lasse Hautala

Rakel Hiltunen

Mikko Immonen

Kimmo Kalela

Kimmo Kiljunen

Jari Koskinen

Oras Tynkkynen

Sirpa Paatero

Ben Zyskowitz

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Carnegie Investment Bank AB, Finland Branch, Helsinki  
Citigroup Smith Barney, London  
Crédit Agricole Cheuvreux Nordic, Stockholm  
Credit Suisse, London  
Danske Equities, Copenhagen  
Deutsche Bank, Helsinki  
Dresdner Kleinwort, London  
Enskilda Securities, Helsinki  
EQ Bank, Helsinki  
Evli, Helsinki  
FIM Securities, Helsinki  
Goldman Sachs, London  
Handelsbanken, Helsinki  
ING Bank, London  
JPMorgan, London  
Kaupthing Bank, Helsinki  
Kepler Equities, Frankfurt  
Lehman Brothers, London  
Mandatum, Helsinki  
Merrill Lynch, London  
Morgan Stanley, London  
OKO Bank, Helsinki  
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