

Annual Report 2006

Review of Operations

Energy for easy living.



Fortum Corporation Annual Report 2006 – Review of Operations

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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.

In 2006, Fortum's sales totalled EUR 4.5 billion and operating profit was EUR 1.4 billion. The company employs approximately 8,100 people. Fortum's shares are quoted on the Helsinki Stock Exchange.

Fortum



Continued growth

We will continue to seek growth in all feasible ways in our market areas.

Performance excellence

Our success in 2006 was a result of favourable hedging, successful portfolio management and operational efficiency.



Mitigating climate change

We invest in new CO₂-free power production and strive to keep our greenhouse gas emissions among the industry's lowest in Europe.

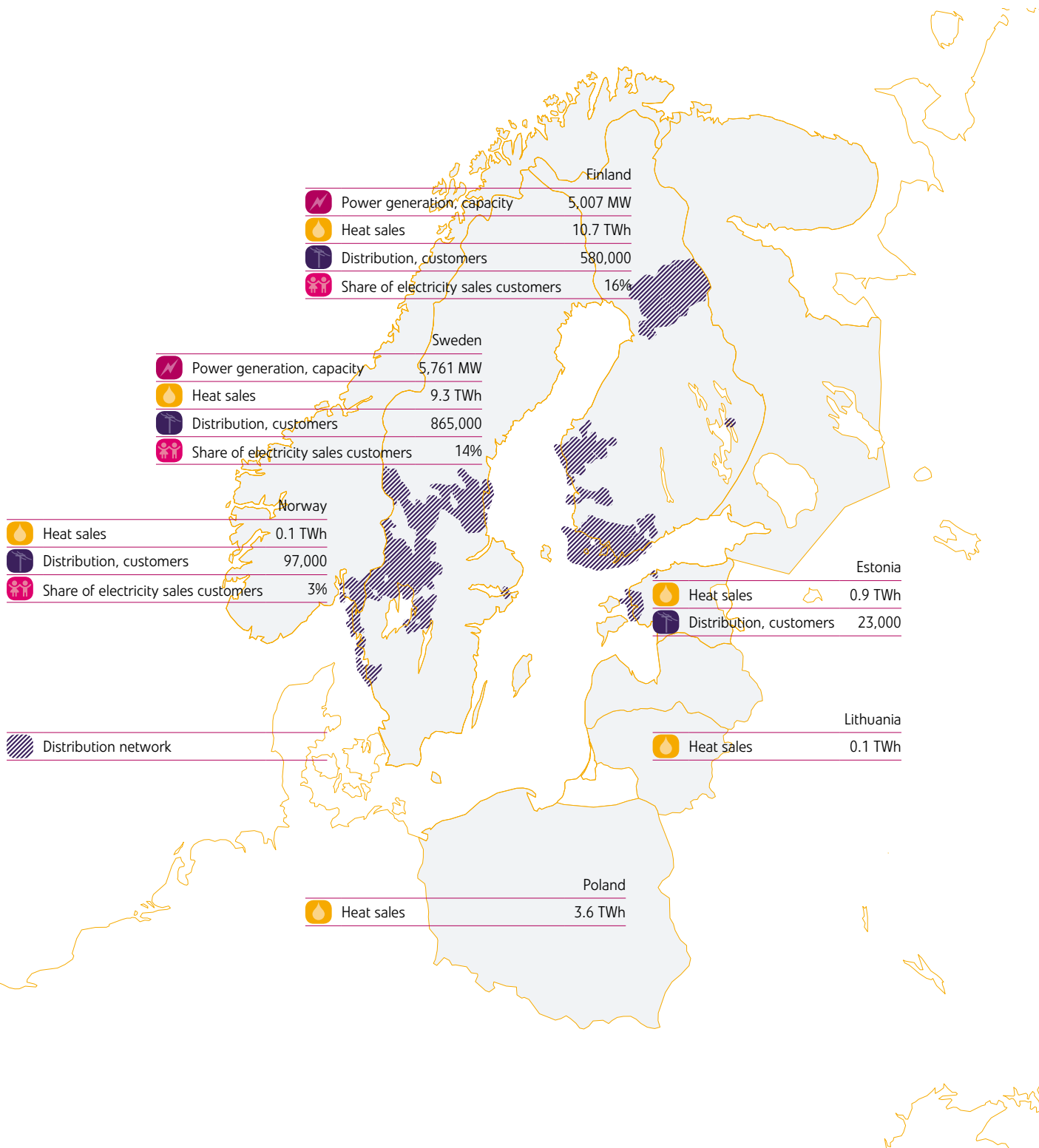
Encouraging individual initiative

Our company culture provides growth opportunities for motivated people.

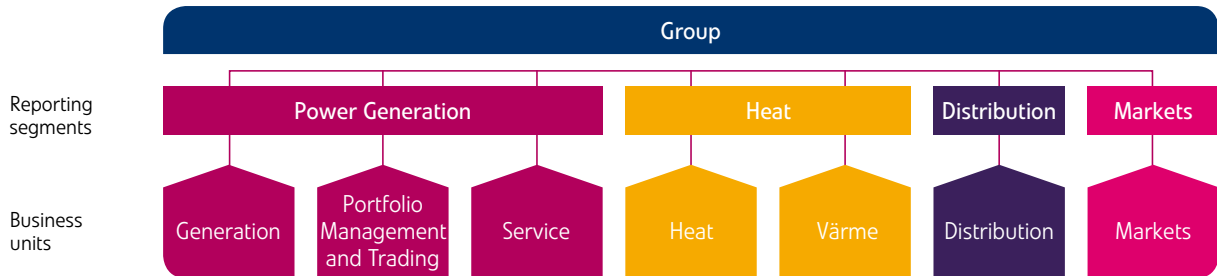


Fortum in brief

Fortum's competitiveness is characterised by a high level of operational efficiency and a broad customer base. In all our operations, we aim at benchmark business performance. Our goal is to create the leading power and heat company and become the energy supplier of choice in the chosen market areas.

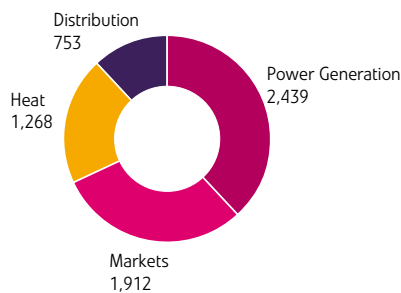


Group structure

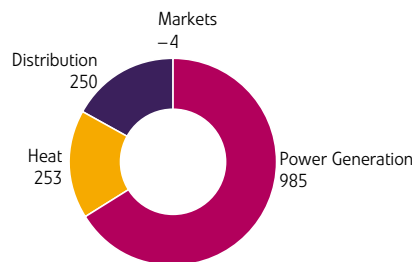


Business	Power Generation			Heat		Distribution	Markets
Sales	EUR 2,439 million			EUR 1,268 million		EUR 753 million	EUR 1,912 million
Comparable operating profit	EUR 985 million (66%)			EUR 253 million (17%)		EUR 250 million (17%)	EUR -4 million (-0%)
Business units	Generation	Portfolio Management and Trading	Service	Heat	Värme	Distribution	Markets
	Leading power plant efficiency 14% Nordic market share	Optimal operation of power plants Sale of electricity and financial operations at Nord Pool	Superior operation and maintenance services	Market leader in Finland Growth platform in the Baltics and Poland	Market leader in Sweden City of Stockholm has a 50% economic interest	Improving 99.9% network reliability 1.6 million customers	Biggest Nordic seller of eco-labelled electricity 1.3 million customers
Nordic market position	#2 Power Generation			#1 Heat		#1 Distribution	#1 Electricity sales

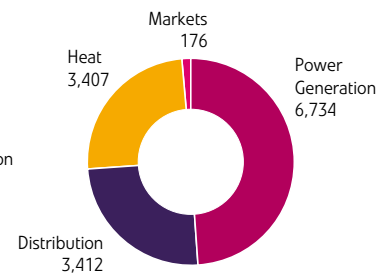
Sales, EUR million



Comparable operating profit, EUR million



Net assets, EUR million



Financial summary

In 2006, Fortum's sales increased, operating results improved and the financial position remained strong. The group's key financial targets, ROCE 12% and ROE 14%, were exceeded.

Financial summary, continuing operations

	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
Return on capital employed, %	13.4	13.5	11.4
Return on shareholders' equity, %	14.4	13.5	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 figures by segment, continuing operations

EUR million	Sales			Comparable operating profit			Comparable RONA%		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Power Generation	2,439	2,058	2,084	985	854	730	16.1	14.5	11.5
Heat	1,268	1,063	1,025	253	253	207	9.2	11.0	9.3
Distribution	753	707	707	250	244	240	8.3	8.6	8.3
Markets	1,912	1,365	1,387	-4	30	23	-0.8	16.4	17.1
Other	78	91	90	-47	-47	-52			
Eliminations	-1,959	-1,407	-1,458	-	-	-			
Total	4,491	3,877	3,835	1,437	1,334	1,148			

Key ratios per share

	2006	2005	2004
Earnings per share, total Fortum, EUR	1.22	1.55	1.48
Earnings per share, continuing operations, EUR	1.22	1.01	0.79
Earnings per share, discontinued operations, EUR	-	0.54	0.69
Dividend per share total Fortum, EUR	1.26 ²⁾	1.12 ¹⁾	0.58
Dividend per share continuing operations, EUR	0.73 ^{2) 3)}	0.58	N/A
Dividend per share additional in 2006 / discontinued operations in 2005, EUR	0.53 ²⁾	0.54	N/A
Payout ratio total Fortum, %	103.3 ^{2) 5)}	72.3	39.2
Payout ratio continuing operations, %	59.8 ^{2) 5)}	57.4 ⁴⁾	N/A
Payout ratio additional dividend in 2006 / discontinued operations in 2005, %	43.4 ^{2) 5)}	100.0 ⁴⁾	N/A

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

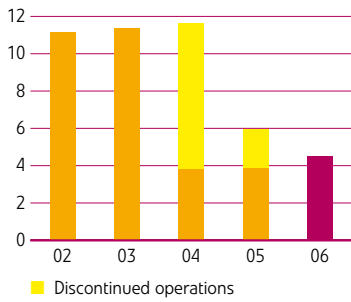
²⁾ Board of Directors' proposal for the Annual General Meeting in March 2007.

³⁾ In accordance with Group's dividend policy.

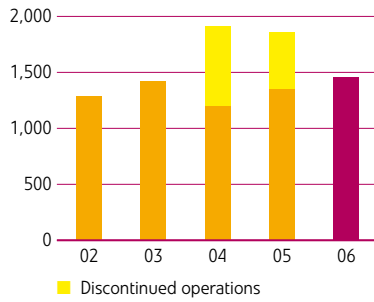
⁴⁾ 2005 payout ratio for continuing and discontinued operations are calculated based on the respective earnings per share from continuing and discontinued operations.

⁵⁾ Payout ratios for proposed dividends in 2006 are based on the total earnings per share.

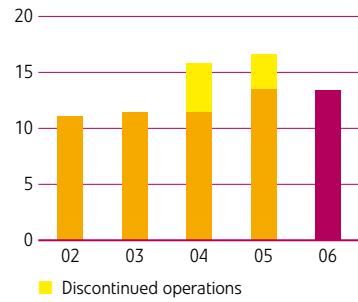
Sales, EUR billion



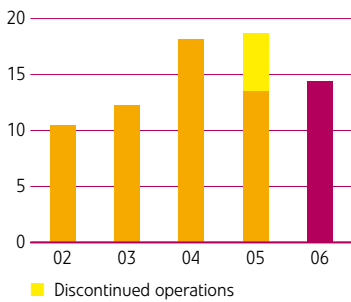
Operating profit, EUR million



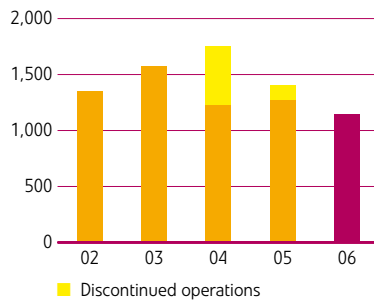
Return on capital employed, %



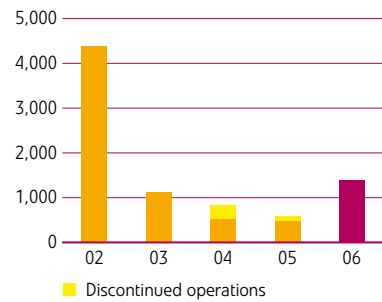
Return on shareholders' equity, %



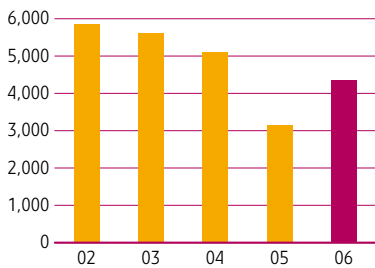
Net cash from operating activities, EUR million



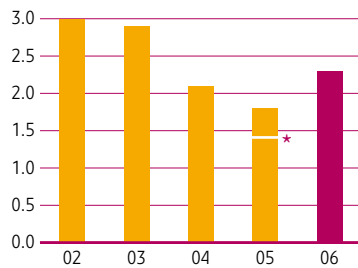
Capital expenditure and gross investments in shares, EUR million



Interest-bearing net debt, EUR million

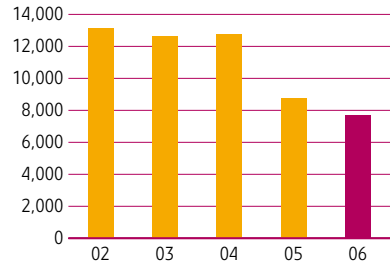


Net debt / EBITDA

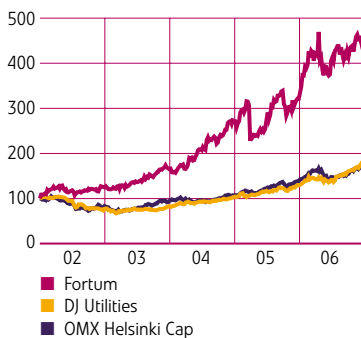


* Total Fortum

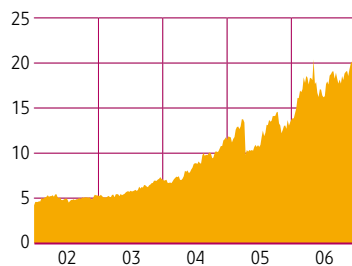
Number of permanent employees



Share quotations, index



Market capitalisation, EUR 1,000 million



2004, 2005 and 2006 under IFRS.
Years 2002–2003 presented according to Finnish Accounting Standards (FAS).

President and CEO's Review

Yet another good year in a challenging environment.

Last year was yet again successful for Fortum; all key indicators show substantial improvement.

Over the year, we successfully followed our growth strategy in the chosen market areas. In Finland, we closed the E.ON Finland (now Fortum Espoo) acquisition. Consequently, our Finnish electricity and district heating customer base grew substantially. We also continued to grow in the Baltic Rim area by acquiring a district heating company in Poland, a minority share in a district heating company in Lithuania as well as heat operations in Estonia and Latvia. Our presence was further strengthened in Russia as our ownership in the Territorial Generating Company No.1 (TGC-1) increased to over 25%. We are now the second-largest owner of TGC-1, which has generation assets of nearly 6,000 MW, i.e. half of Fortum's. Furthermore, TGC-1 plans to increase its production by 50% by 2015.

Another strong foothold in the St. Petersburg area is our 33% share in the district heat and electricity distribution company Lenenergo. Fortum continued to be well perceived as the only foreign strategic investor in the Russian power sector.

During most of 2006, the Nordic electricity prices were historically high. This was due to a significant deficit in the Nordic water reservoirs, volatility in the EU emission allowance prices and unplanned shutdowns in several Swedish nuclear power plants. Again, Fortum proved the importance of a versatile production portfolio as we were able to offset the lost nuclear capacity and deficit in hydro power with other types of generation.

Need for assertive energy policies

Policy making in the energy sector is a demanding undertaking, because of the need to balance the goals of competitiveness, sustainability and security of supply. Furthermore, as the electricity markets are converging, the effects of national policies spill over the country borders. Consequently, even if energy policy is primarily a competence of the member states, it is quite necessary for national governments to take the overall European development into consideration when defining the national way forward. 2006 saw examples where this did not occur. Instead, we have witnessed a development dominated by short-term national interests. In the Nordic area this has led to a stagnation of the further development of the region's common electricity market.



For energy companies in Central Europe and the Nordic countries alike, this environment has been politically challenging. The discussion around the Nordic electricity market continued throughout the year in Finland and Sweden, and several assessments of market functioning were executed in both countries.

Several studies have shown that the Nordic wholesale power market functions rather well. However further development is needed, e.g. in reducing bottlenecks between the grid areas and improving the co-operation between the Nordic Transmission System Operators. These measures targeting an even better functioning market were agreed among the Nordic energy ministers already in 2004, and their execution should be accelerated.

Another politically agreed goal, also strongly supported by Fortum, is a common Nordic retail market. Fortum will continue to promote equal treatment of different market actors as well as harmonised national rules and practices that are necessary to create a single Nordic electricity end-user market.

Whether the question is about the consumer or wholesale markets, decisions about the future must be done in light of a common Nordic power market and integrating European market.

The security of supply issue has been widely and repeatedly commented in the public discussion. The energy

industry is alleged to be unwilling to invest in new capacity. This is surprising in light of the facts of the matter. During recent years, the electricity sector has by far been the biggest investor of all industry sectors in both Sweden and Finland, and recent studies indicate that the trend will continue.

Furthermore, ensuring the future supply of electricity is one of Fortum's key growth opportunities. In the Nordic countries, the overcapacities inherited from the era of national electricity markets are gradually turning to a tighter demand/supply balance. In the coming years, there is a significant need for new capacity in the Nordic market. The industry has already committed to nearly 40 TWh of new power generation by 2020. Fortum alone has an investment programme of 2.8 billion euros, increasing our Nordic power generation by 1,500 MW, i.e. 10 TWh, of which 90% is non-emitting, in the next 5–6 years. Further opportunities are continuously investigated.

From the industry's point of view, the investment issue is highly political. Which production forms are acceptable and how can the licencing procedures become shorter and more predictable? When given the opportunity, Fortum is ready to extend its investment programme on a large scale.

Active work to mitigate climate change

Fortum welcomes the active discussion around climate change. The report on the economic impacts of climate change by Sir Nicholas Stern and the IEA world energy outlook to 2030 at the end of 2006, as well as the report by the Intergovernmental Panel on Climate Change in early 2007 all boosted the global discussion on climate change. These reports, together with the subsequent EU Energy Package published in January 2007, will guide the European development in coming years. Since the majority of greenhouse gases are emitted in the production and use of energy, this industry needs to assume an active role in climate change mitigation.

At Fortum, we have taken this responsibility seriously. During the 2000's we have invested 7 billion euros in CO₂-free hydro and nuclear capacity, increased the use of biomass fuels, and enhanced the efficient use of resources by promoting re-use and recycling of by-products and waste in power and heat production. Our CO₂-free capacity has almost doubled to more than 8,100 MW and the on-going investment programme will increase it further. Already today, we are among the lowest-emitting companies in Europe. In 2006, 84% of our electricity generation was CO₂-free.

In 2006, we joined efforts with the Russian RAO UES to utilise the Kyoto mechanisms in Russia. Through a Memorandum of Understanding, we confirmed an intention to collaborate in identification and development of joint implementation projects. The aim is to search for opportunities, develop, and carry out projects of potential greenhouse gas emission reductions in the frames of the

Kyoto Protocol mechanisms within RAO UES subsidiaries in Russia. In addition to environmental benefits, the cooperation will help to attract additional financing to the extensive investment programme on Russian power and heat sector modernization.

Also our R&D efforts are directed to promote sustainable development: improving the utilisation of bio and recycled fuels and developing know-how in zero-emission fossil fuel technologies, e.g. clean coal technologies.

Continuing on the chosen path

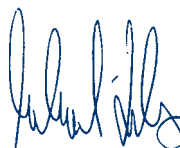
The EU strategy is to create an internal energy market, as a larger marketplace can provide more benefits to societies and their citizens. A common market also provides Fortum with good growth opportunities. We will continue our strategy to seek growth in all feasible ways in our market areas, with the European and Russian market development as the main drivers.

Fortum's Core Purpose – Our energy improves life for present and future generations – expresses our commitment to grow and act in a sustainable manner. For a utility company, it means helping customers in the smart use of electricity, including improved energy efficiency. Eco-labelled products and a reliable supply of electricity are already available to Fortum customers. Automated meter management, which is being installed for our Nordic customers, is a new important means of managing electricity consumption. It provides consumers with the possibility to follow their own consumption and price in real time and thus manage their energy bill. This smart use of electricity also brings clear environmental benefits.

Sustainability also means continuing our efforts towards non-emitting production and keeping our occupational safety at a world-class level. Our extensive safety programme has been successful, and during the past years the number of injuries has decreased substantially. Although the injury frequency decreased also in 2006, two fatal accidents were a severe setback. Despite our excellent trend, it is clear that we need to continue to focus on safety.

The EU Energy Package will inevitably concern all of us, as will the implications of the policies adopted. The firm targets for climate change mitigation and security of supply are crucial, but will bear a cost. In order to minimise these economic impacts to societies, a good dialogue between policymakers and market actors is vitally needed.

The year 2006 was turbulent, yet successful. Let me express my gratitude to all our stakeholders, especially to Fortum employees. I believe Fortum is in an excellent position to succeed also in 2007.



Mikael Lilius

Strategy

Fortum's Compass is the key management tool of Fortum. It is the link between the group and business units' strategies. All businesses have their own adapted versions of the compass.

Fortum's vision is to be the benchmark power and heat company. According to our strategy, we focus on the Nordic and the Baltic Rim area markets. To secure profitable growth there and become the leading power and heat company and the energy supplier of choice, we aim at benchmark business performance in all our operations.

Our strategic agenda consists of four focus areas

Performance excellence – aiming for world-class performance

- Make sustainability a success factor
- Efficiency and reliability in the whole energy chain
- Continuous people development

Growth

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

Promoting market-driven development of the electricity market

- Supporting and driving further Nordic harmonisation and infrastructure development
- Promoting integration towards Continental Europe
- Ensuring viability of regulated businesses

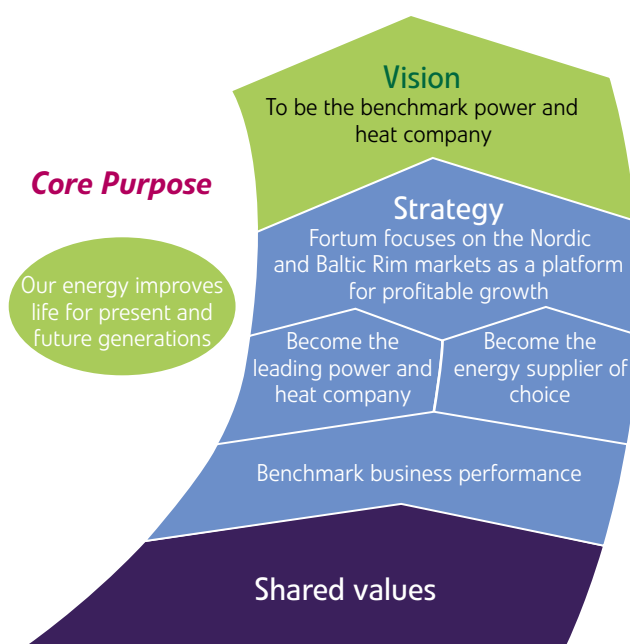
Best customer experience

- Driving a customer-focused sales and service culture in all our customer interfaces

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.



Core Purpose

Our energy improves life for present and future generations

Shared values

Excellent performance

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

Creativity and innovation

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

Co-operative spirit

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

High ethics

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

Strategy in action 2006

Progress in structural development and growth

- E.ON Finland (Fortum Espoo) acquisition finalised
- Capacity investment programme accelerated, including a new CHP plant to Espoo and a new peak load gas turbine plant to Inkoo, in Finland, a CHP plant to Częstochowa in Poland and a bio-fuel CHP plant in Stockholm, Sweden
- Installing of automated meter management to 835,000 distribution customers in Sweden until 2009
- Shareholding in the Territorial Generating Company No. 1 (TGC-1) was increased to over 25% through the purchase of 12.5% shares in St. Petersburg Generating Company
- District heating operations expanded through acquisition of a company in the city of Wrocław in Poland, a minority share in a company in the city of Klaipeda in Lithuania and Vattenfall's heat businesses in Estonia and Latvia
- Significant operation and maintenance (O&M) agreements: a six-year agreement for a new gas turbine power plant in Germany and a four-year agreement for

a new waste-to-energy power plant in the UK, and a technical audit contract with TGC-9 in Russia

- Industrial maintenance service business of Fortum Service divested

Further steps in sustainability

- Memorandum of Understanding with RAO UES to utilise the Kyoto mechanisms in Russia
- Two-million-euro investment in the Baltic Sea Region Testing Ground Facility carbon fund
- Included in the international DJSI World Indexes as the only Nordic power and heat company
- Named the most responsible electricity company and awarded 'Best in Class' recognition by Norwegian banking group Storebrand as a sign of qualifying as an investment target that best supports their environmental and social responsibility
- An honourable mention and placing among the top three in the EU environmental technology competition

Fortum's strategic route year 2000 onwards

Growth in core business and geographical focus	– Stora Enso's hydro and nuclear generation assets, Sweden and Finland – Länsivoima, Finland – Wesertal, Germany	– Decision to participate in the Olkiluoto 3 nuclear power unit – 30% stake in Lenenergo, Russia – 34% Stake in Hafslund, Norway – 100% of Birka, Sweden (50% acquired in 1999) – Shares in district heating companies in Estonia, Lithuania, Latvia and Poland	– E.ON Finland (now Fortum Espoo) – >33% stake in Lenenergo, Russia – 12.5% in St. Petersburg Generating Company, Russia – District heating in Poland, Lithuania, Estonia and Latvia	EUR 7.8 billion
	– Strategic focus on the Nordic and Baltic Rim areas – Begin restructuring non-core businesses – Strong focus on financial performance – Participation in World Bank Prototype Carbon Fund	– Pan-Nordic organisation – Birka transformation programme – Focus on leadership development – Included in the Dow Jones Sustainability Index	– Place on the global DJSI World maintained – Memorandum of Understanding with RAO UES on utilisation of Kyoto mechanisms in Russia – EUR 2 million in the Baltic Sea Region Testing Ground Facility carbon fund – Integration of Fortum Espoo	Shareholder value added: +EUR 21 billion ²⁾
Divestments non-core businesses and non-core geographical areas	– Power and heat in Hungary	– Power plant and transmission engineering – Power and Heat in Germany, UK, Hungary and Thailand – Oil in Oman and Norway – Wesertal, Germany	– North Transgas – Neste Oil – Hämeenlinna and Haapavesi power plants, Finland ¹⁾ – Industrial maintenance service business	EUR 6.3 billion
Established 1998	2000–2001	2002–2004	2005–2006	Development

¹⁾ As part of the Finnish Competition Authority's conditions for the E.ON Finland acquisition.

²⁾ Based on 20 February 2007 quotation.

Energy in focus – everywhere

In 2006, energy proved to be a challenge – and perhaps even more so than previously anticipated. Energy prices, security of supply and climate change took centre stage as hot topics in the Nordic area, the EU and globally.

10

Market development

Fortum Corporation Annual Report 2006 – Review of Operations

The analyses published late fall 2006 by the International Energy Agency (IEA) on the world energy outlook until 2030 and by Sir Nicholas Stern on the economic impacts of climate change depicted a highly challenging global energy future. According to the IEA, the global electricity demand is projected to double by 2030 and the total primary energy demand to increase substantially. Furthermore, the IEA foresees a huge need for investments in both the primary energy supply chain and in the power sector.

As the bulk of the additional primary energy was seen to originate from fossil sources, IEA estimated a 55% increase in global energy-related CO₂ emissions by 2030 given the existing policy framework. The IEA's outlook paints a dire picture for CO₂ emissions and the resulting climate challenge, which Stern in his report further elaborated from an economic point of view. Stern stated that actions are needed today in order to avoid the worst impacts of climate change; taking action now would be far cheaper than postponing them to a later date. Stern foresees an inevitable cost to climate change mitigation, however. The cost could be limited to 1% per year instead of 5–20% per year of global GDP if measures are taken immediately as opposed to no measures taken at all. The need for global action was further stressed by the report of the Intergovernmental Panel on Climate Change (IPCC) in February 2007.

Strong EU push towards an integrated European power market

EU legislation and the EU Commission strategy define the framework for the liberalisation and integration of the European power markets. A competitive Europe is the driver for this development and the role of energy is becoming increasingly important. Higher fuel prices, the price of CO₂ and a tightening supply/demand balance increased electricity prices throughout the EU in 2006. The growing dependence on imported fossil fuels together with an ageing infrastructure and a growing demand increased concerns about the internal security of supply.

EU focuses on three issues in its energy policy development: competitiveness of European industries, security of energy supply and sustainable development. Following the heavy criticism on the European electricity markets, the Commission continued to push for a more integrated and developed marketplace during the year. In February 2006, the Commission published its preliminary conclusions of the

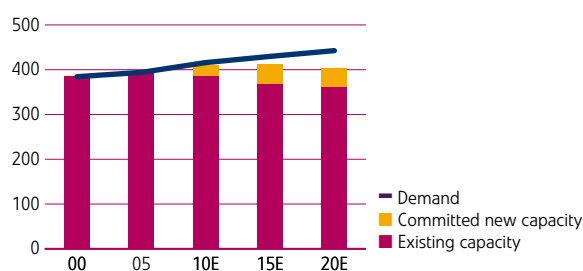
EU Energy Sector Inquiry kicking-off a discussion on a new liberalisation package.

The Green Paper for secure, competitive and sustainable energy for Europe was approved in March 2006 and was planned to be followed by more concrete proposals in early 2007.

In January 2007, the Commission presented its so-called Energy Package, in which it gave its views on the future climate change policies, actions to promote security of supply and competitiveness. The Commission proposes that the EU should adopt a unilateral CO₂ reduction target of 20% by 2020 compared to 1990 levels. If other industrialised countries would agree, the target for all of them should be 30%. Furthermore, a proposal on a binding target for the share of renewable energy, also 20% for 2020, was put forward. These were accompanied by a target for energy efficiency improvements as well as improved R&D actions. On the other hand, the Commission is showing a strong commitment to further push the development of the internal electricity market. This commitment is explained by the cost benefits of a larger marketplace. They will be needed in order to balance the inevitable costs of meeting the climate and security of supply targets.

In the context of the EU-Russia energy dialogue, reports on trade, investments, infrastructure and energy efficiency were finalised with only the latter containing a concrete action plan. In addition to the implementation of the energy efficiency plan, the future dialogue will touch on market development and energy strategies with the aim of increasing the level of information on the targets and actions by each party. The final decision to start negotiations to renew the bilateral partnership and co-operation agreement between the EU and Russia was not achieved by year end 2006. The intention is to include a large chapter on energy relations between the two in the new agreement

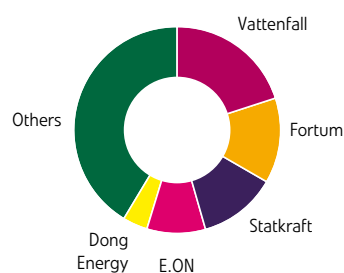
Electricity demand and supply in the Nordic market, TWh/a



Still a highly fragmented Nordic electricity market

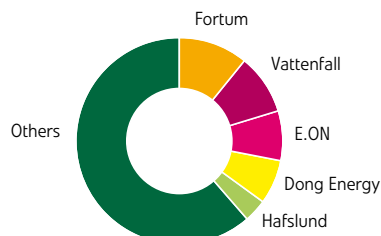
Generation

395 TWh
> 350 companies



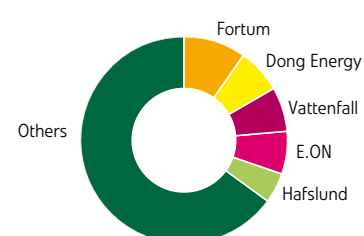
Distribution

14 million customers
~ 500 companies



Retail

14 million customers
> 450 companies



Source: Fortum, company data, shares of the largest actors, 2005 figures. Effects of structural changes taken into account.

Generation and consumption in the Nordic countries

Electricity consumption, TWh

	2006	2005
Finland	90	85
Sweden	146	147
Norway	121	126
Denmark	36	36
Total	392	394

Power generation by source, TWh

	2006	2005	2004	2003
Hydro	191	222	182	168
Nuclear	87	92	96	87
Other thermal	96	73	91	101
Wind	8	8	7	6
Total	381	395	376	362
Net import*	10	-1	12	17

* import-export

that will replace the current one, which expires at the end of 2007.

Nordic market recognised as forerunner but functionality still questioned

The Nordic electricity market continued to be a model when developing other regional markets inside the EU. Several studies during recent years have concluded that the Nordic market functions rather well. Politicians and authorities have a key role in setting the framework for energy market operations. Throughout 2006, politicians focused more on nationally-driven issues than on actively promoting further development of the Nordic power market. This phenomenon was further amplified by the parliamentary elections in Sweden and Finland.

In Finland, the Ministry of Trade and Industry ordered yet another assessment of the functionality of the power market and appointed the former head of the Finnish Competition Authority to carry out the study. The report, published in October, called for measures to ensure an adequate supply of electricity, to reduce the alleged market power of large actors, essentially Fortum in Finland, to renew the structures of Nord Pool and the Nordic transmission system operators (TSO) and to broaden the roles and mandates of the Energy Market Authority and competition authorities supervising the power market. Even though the proposals were initially widely discussed, no concrete actions were furthered based on them.

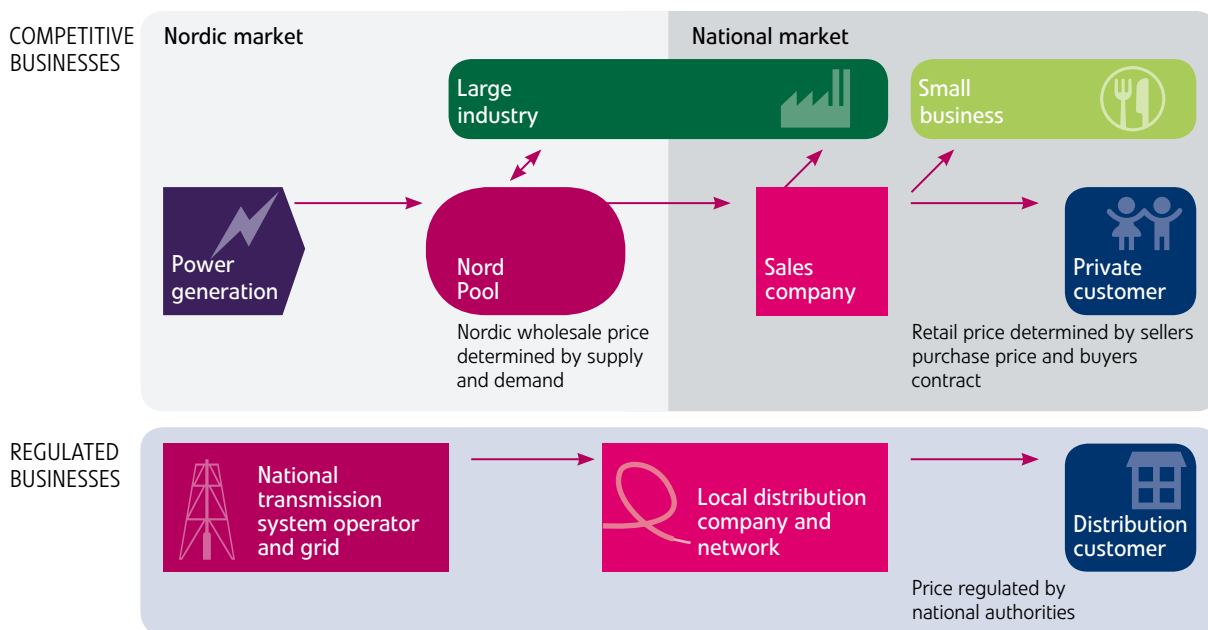
In Sweden, the government called for further regulation measures even though the Energy Market Authority STEM concluded proper market functioning in its report from March 2006. The Swedish energy minister also proposed setting up a separate industrial power market not eligible for small users. Later during the fall, a government investigator concluded that splitting the market would not result in lower power prices. The new Swedish government has not announced any initiatives aiming at changing the market set-up.

In December, the Swedish Competition Authority published its annual competition assessment on several markets, including energy. The report concentrated on the situation in Sweden and raised market concentration as one potential problem area. However, the report considered the obstacles for new investments in electricity production, for example nuclear and hydro, as the biggest challenge when it comes to the functioning of the electricity market.

Enhancing the functionality of the Nordic market

Market transparency is central for wholesale market functionality. It increases market liquidity and efficiency, makes market entry easier for new entrants, increases market trust and enables better market surveillance by the authorities. The EU Commission considers the Nordic market design a model for functioning power markets: the Nordic power exchange Nord Pool makes information on marketplace

Fortum and the electricity value chain



and price formation as well as information on transmission, generation and demand and its impact on market price publicly available. Strict rules on insider information are in use.

An efficient TSO operation is key for good functioning of the wholesale power market, i.e. access to the grid, pricing, handling of bottlenecks, grid investments including cross-border capacity and market information. According to the Commission, all European TSOs do not fulfil these requirements, especially when it comes to cross-border connections. The Nordic TSOs publish information on the power system, e.g. real-time production data and balancing power market information. Also, grid operations in the Nordic market are unbundled and the national TSOs work to further develop the regional market through their co-operation body, Nordel.

Following the Akureyri Declaration in 2004 by the Nordic energy ministers, Nordel was given the task of proposing actions to enhance the functionality of the Nordic power market. Nordel presented its first report in 2005 on the proposed actions: harmonisation of rules and practices, peak-load balancing rules, co-operation in extreme situations and grid investments according to a priority plan. A status report followed in April 2006. At the Nordic energy ministers meeting in September 2006, the importance of a harmonised Nordic power market was stressed. However, it was recognised that further work on all the issues initially proposed by Nordel would be needed. In 2007, Nordel will publish a new Nordic system development plan and a proposal for new Nordic grid investment projects.

The five priority grid projects proposed by Nordel in June 2004 support further Nordic integration and thus

enable a better functioning market. When completed, the projects will add over 2,200 MW of transmission capacity to reduce bottlenecks in the Nordic grid, excluding the capacity addition from the Mid to Southern Sweden line. Three of the projects are planned to be commissioned by 2010 and the remaining two by 2012, a two-year delay from the initial plan.

In addition to preparing enhancements for the Nordic grid, also integration to the Continental European markets proceeded in 2006. In January 2007, a 350-MW cable between Finland and Estonia was commissioned. An additional 750-MW connection has also been proposed. The NorNed link between Norway and the Netherlands by 2008, a pre-feasibility study on a 1,000-MW cable between Lithuania and Sweden, and the signing of an agreement in December on the Poland-Lithuania interconnection were all important steps towards further market integration. A negative decision by the Finnish Ministry of Trade and Industry on the 1,000-MW cable between Finland and Russia was made in late December 2006.

The EU promotes cross-border trade and infrastructure that is essential for developing an integrated European power market. Guidelines for TEN-E (Trans-European Energy Networks) were adopted in July 2006 with identification of 32 projects of European interest. Five projects within the Nordic market on further integrating the Nordic and Continental markets were included in the EU TEN-E projects. A priority interconnection plan was adopted in the beginning of 2007 as part of the EU Energy Package. This plan assesses the possibilities of the EU to further accelerate the building of new interconnections, which falls under the competence of the member states. Guidelines

for congestion management were adopted in October 2006 and implemented as of 1 January 2007.

The physical spot volumes in the Nordic power exchange Nord Pool continued to grow. The volume traded corresponded to 64% of the total Nordic demand in 2006. Also the over-the-counter (OTC) derivatives clearing volume grew somewhat whilst the financial derivatives volume was slightly below the 2005 level. In June, Nord Pool decided to offer an additional two years to the existing three year financial forward contracts. In September, Nord Pool began to offer intra-day trading of power between the Nordic and German markets.

Despite a reasonably well functioning wholesale market, the Nordic retail markets still remain national. The goal set by the Nordic regulators is to establish a Nordic retail market by 2010. Some progress was made during 2006, for instance through a proposal by the Nordic TSO's on a common balance service. Significant efforts are still needed, though, in terms of harmonisation and agreement on key procedures related to, for example, data structures and handling, supplier switching, metering and billing components. A proactive approach by the Nordic stakeholders to Automatic Meter Management (AMM) would make it a powerful tool to strengthen the link between the wholesale and retail markets and improve consumption information to the consumers, thus opening up to new opportunities for energy saving and efficiency.

EU emissions trading – getting prepared for the Kyoto period

The first phase of the EU ETS (Emission Trading Scheme) will be concluded by the end of 2007. Preparations for the Kyoto period 2008–2012 proceeded in the member states and the Commission during 2006, although the National Allocation Plans, NAPs, for the 2005–2007 period were not finalised until June 2006 when the Polish NAP was finally approved.

The Commission decided to postpone the revision of the Emissions Trading Directive, initially planned for mid-2006 until the end of 2007. The key reason for the delay was the Commission's reluctance to move ahead before all member states had submitted their draft NAPs for the Kyoto period. Key areas for foreseen revisions were a wider scope of the Directive, further harmonisation, especially the allocation methods with special attention given to auctioning, compliance and enforcement of implementation, and linking the EU ETS with emissions trading schemes of other countries.

The draft NAPs of the Member States for the Kyoto period were to be submitted to the Commission for adoption by June 2006. Typically in the plans, the manufacturing industry was allocated close to its expected need whilst the allocations to the energy industry were well below the foreseen need. All but two of the national allocation plans for the years 2008–2012 were submitted by year end. When reviewing the ten first draft plans submitted, the Commis-

sion adopted a strict line and required an average 6% cut. The Commission has also indicated that the remaining draft NAPs will be reviewed as rigorously as the first ten. This had a clear impact on the 2008 allowance prices.

The targets set in the EU Energy Package are the basis for the EU in the UN negotiations starting in 2007 on the post-2012 agreement. It is already clear that emissions trading will continue as the main instrument in the EU's climate policy.

Huge need for new capacity

The IEA report on the global energy outlook until 2030 suggests a remarkable need for investments in the energy sector, not only to fulfil the growing demand but also to upgrade the existing energy infrastructures. According to the IEA base case scenario, more than USD 20 trillion are needed to develop the global energy supply infrastructure by 2030. Of the total, more than USD 11 trillion would be needed to double the global power generation capacity, refurbish the existing power generation and distribution infrastructure and construct new power connections. For Europe alone, the IEA foresees a need for 928 GW of new capacity and USD 1,7 trillion in power infrastructure investments.

The total Nordic installed power capacity was 91,300 MW at year end 2005. In addition to modernising the existing generation fleet, new generation capacity is needed to cover the growth in demand and future capacity closures, mostly from ageing CHP plants but also from some closures of fossil fuel-fired condensing units.

Demand in the Nordic market is expected to grow to almost 450 TWh by 2020, i.e. on average somewhat less than 1% annually. In 2006, plans for new generation capacity in the order of 40 TWh by the year 2020 were in place for the area. Despite ongoing plans and projects to increase capacity, some 40 TWh of new generation is still needed to fill the supply gap until 2020. New generation capacity will require a long-term electricity price of above EUR 40/MWh to cover the capital and operating costs of the plant during its lifetime. As the lifetime of a power generation plant is typically 30 years or longer, a stable, consistent and predictable investment framework is essential for the investors.

Consolidation proceeded but mostly in Continental Europe

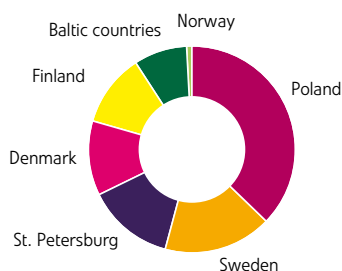
The Nordic electricity market is highly fragmented in a European comparison, with consolidation proceeding slowly. More than 350 power generators, some 500 distribution companies and over 450 electricity retailers still remain.

The European majors took actions to strengthen their positions as the future leading companies in Europe both through acquisitions and investments. The majors continued to aim for strong footholds in the gas market and to increase their investments in renewables. E.ON actively

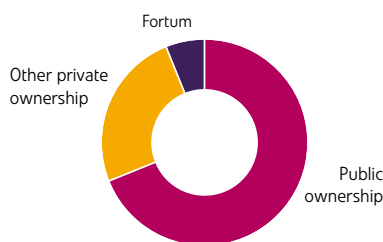
District heating in the Baltic Rim area

Market size

Total demand: ~300 TWh/a



Ownership structure, %



sought growth in the European utilities sector, e.g. through bidding on the Spanish Endesa. Iberdrola made an offer for Scottish Power, and Enel expressed its interest in growth. Also Gazprom and CEZ were actively seeking growth opportunities.

While free competition is the cornerstone of EU development, not least regarding the power sector, national protectionism was again present in the power play as governments took steps to prevent foreign acquisitions. Several countries acted to establish a strong national energy champion: in Spain, the competition authority set hurdles on the E.ON takeover of Endesa, and in France the merger of Suez and GdF proceeded. In Poland, the government reversed its policy regarding the state-owned power assets from earlier planned privatisation to vertical consolidation and retained state control.

Russian power reform moves ahead

The Russian economy continued to boom on high oil and gas prices. This also means growth in electricity demand and a need for new capacity. In 2006, the Government of the Russian Federation adopted a demand increase forecast of almost 500 TWh at minimum by the year 2015, compared to 939 TWh demand in 2005.

The power sector reform, launched to secure the vast future investments needed in the power sector and to increase sector efficiency, proceeded in 2006 with important steps in both the restructuring and liberalisation of the market. Restructuring of the energos, i.e. unbundling of the businesses into competitive businesses and regulated monopolies, and the formation of Territorial Generating Companies, TGCs, and Wholesale Generating Companies, WGCs, was for the most part implemented by end 2006. Also the reorganisation of RAO UES' asset ownership started with the first IPO of a restructured generating company, WGC-5, in October. WGC-5 and TGC-5 are the first companies planned to be spun off from RAO UES during the first part of 2007. Reorganising the RAO UES asset ownership is planned to be finalised by mid-2008. Additional share issues

are planned to take place in several WGCs and TGCs already during 2007, with TGC-1, in which Fortum has an approximately 25% stake, scheduled for July 2007.

A key enabler of the power reform is the liberalisation of the competitive businesses. In September 2006, the launch of a new wholesale market model, NOREM, signalled the political commitment to the reform. At this stage, the implicit price cap was removed and the spot price started to be determined by supply and demand at each moment.

As of 1 September 2006, all supply and demand was matched through the spot market. However, financial agreements with regulated prices, called vesting agreements, which cover most of the volume, still exist. These agreements reduce the effect of a liberalised power price on the business result of the generation and sales companies. The share of the vesting agreements is planned to be reduced gradually, and completely abolished by 2011, according to a proposed accelerated schedule, except for the residential sector. During 2007, the market is planned to be further developed by establishing a capacity market and a financial derivatives market.

The good progress of the Russian power sector reform, the huge investment need, the efficiency improvement potential and the strong demand growth outlook was reflected in the re-emerging interest in Russia by western companies. Most of the European majors expressed an interest to take part in the Russian power sector development.

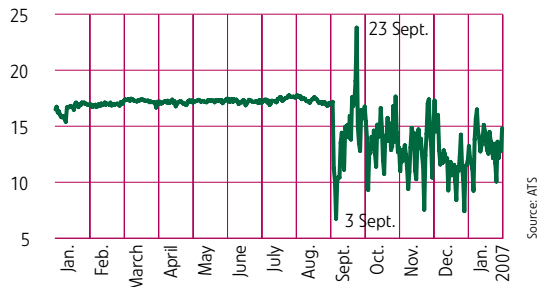
Continued growth in Poland and the Baltics

The annual power generation in Poland and the Baltic countries is some 170 TWh and district heating production is around 140 TWh. In all these countries, both the power and heat demand are expected to grow steadily with high annual growth rates on a European scale driven by continuing strong economic expansion.

In 2006, Poland reversed its earlier plans to privatise individual power assets and cancelled all pending processes. In March 2006, the government adopted a new programme

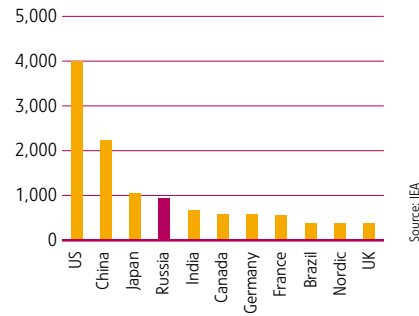
Russian power market

Electricity price* in day-ahead market in European part of Russia, EUR/MWh



* Excluding capacity tariff

The Russian power market is the fourth largest in the world, TWh, generation 2004



for the energy market in Poland, including the formation of four vertically integrated entities across the power value chain with assets from coal mining to power supply. The planned entities have an installed power generating capacity from 700 to more than 10,000 MW, electricity sales ranging from 15 to almost 30 TWh and roughly 2–5 million customers. Following the integration process, the consolidated entities will eventually be partially privatised. According to the current view, the state will continue to have a controlling stake in these companies.

In the Polish heat sector, the privatisation of the largest assets in the bigger cities has mostly been completed. Privatisation of smaller companies is either pending or not yet in the works. The privatisation of municipally-owned heating companies has slowed down, however.

The electricity market in Estonia and Latvia is dominated by vertically integrated incumbents. In Lithuania, power distribution and supply are partially privatised but generation is mostly under state control. The closure of the Ignalina nuclear power plant in Lithuania by the end of 2009 will have an important impact on the power balance in the area. The national power companies have formed a joint venture to build a new plant. The Baltic countries are proceeding in their market liberalisation as demanded by the EU Directive and are going for a full market opening on 1 July 2007 – except for Estonia, where a transition period until 2013 has been granted.

Accelerated investments

During the year Fortum announced new capacity investments increasing the company's Nordic investment programme to EUR 2.8 billion and 1,500 MW of new power generation capacity.

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Investments

Fortum Corporation Annual Report 2006 – Review of Operations

Globally, there is a huge need for investments in power generation to meet the growing demand and to replace retiring capacity. Demand in the Nordic market is expected to grow to almost 450 TWh by 2020.

In 2006, plans for new generation capacity in the order of 40 TWh by year 2020 were in place for the Nordic market. The nuclear upgrading plans in Sweden progressed; however, upgrades in Forsmark were postponed by one year to 2009–2011 following the problems at the plant during summer and fall 2006. The construction of the fifth nuclear unit in Finland went forward as well, but also here commission was delayed until 2011 instead of the initially planned 2009. Several combined heat and power (CHP), combined cycle gas turbine (CCGT) and wind park plans were moving ahead, however.

As a responsible market actor, Fortum continuously assesses opportunities to invest in new generating capacity. At year-end 2006, Fortum had an investment programme of EUR 2,800 million representing some 1,500 MW of new power generating capacity in the Nordic market.

As a minority owner, Fortum is participating in the upgrades of the Forsmark and Oskarshamn nuclear power plants in Sweden. Fortum's share of the planned capacity additions is estimated at 250 MW. The upgrades are scheduled to be completed by 2012, but some of them still require licences. In Finland, Fortum is participating in the country's fifth nuclear unit with an approximately 25% share representing some 400 MW in capacity.

Fortum has a hydropower refurbishing plan extending to 2015, however mostly to be completed by 2010. The plan covers several of Fortum's own or part-owned plants in Finland and Sweden and will result in some 150 MW of additional capacity.

Fortum is a leading company in district heating and CHP-production in the Nordic market. Fortum plans to build a biomass fuel-fired CHP-plant in Stockholm, Sweden, with an approximate production capacity of 140 MW of electricity and 300 MW of heat. The commissioning of the plant is scheduled by 2010. At year-end the proceedings for an environmental licence application were ongoing. In summer 2006, Fortum announced the construction of a new CHP plant in Espoo, Finland, after having acquired E.ON Finland (now Fortum Espoo) from E.ON. The unit is planned to have a production capacity up to 300 MW of electricity and 240 MW of heat at an estimated cost of EUR 200 million. An environmental licence was granted during the fall and the construction tenders were out at year-end. Scheduled commissioning is in late 2009.

In addition to investing in new CHP-capacity, Fortum continuously assesses the opportunities for fuel conversion in its existing plants towards more environmentally benign fuels. Fortum has several such plans underway.

In December 2006, Fortum announced the plan to build a peak load gas turbine power plant in Inkoo, Finland. The unit is scheduled to be in operation latest in 2009 with a capacity of up to 300 MW. An environmental licence application was submitted before year-end. The final investment decision is planned to be made during 2007.

In addition to investing in new power and heat generation in the Nordic market, Fortum also carries out investments in its other focus market areas. Fortum has a slightly over 25% share in the Territorial Generating Company No. 1 (TGC-1) in north-west Russia. TGC-1 is carrying out a huge investment programme in order to increase its electricity production capacity by 50% or over 3,000 MW by 2015. To raise additional financing for the investment programme, an additional share emission is planned for summer 2007.

Towards year-end 2006 Fortum announced a plan to invest in a new CHP plant in Częstochowa, Poland. The biomass fuel and coal-fired plant is scheduled to be in operation by the end of 2009 with a production capacity of 120 MW heat and 64 MW electricity. The estimated cost of the plant is EUR 95 million.

In early January 2007 Fortum also announced the plan of AS Fortum Tartu, owned by Fortum (60%) and AS Giga (40%), to construct a new CHP plant in Tartu, Estonia. The plant will have a production capacity of 52 MW heat and 25 MW electricity. It will utilise local biomass fuels and peat and replace natural gas-fired production. The cost estimate is EUR 60 million and the plant is scheduled for commissioning year-end 2008.

In addition to investments in power and heat generation, Fortum has a substantial, EUR 700 million investment plan to increase its distribution network reliability. Fortum is also investing EUR 240 million in Automated Meter Management (AMM). In the first phase, AMM will be implemented in Sweden with other Nordic countries to follow at a later stage. In total, Fortum made EUR 412-million operational investments during 2006. These investments aimed at compliance with future legislation and improved productivity and maintenance in current facilities.

To read on Fortum's investments in R&D and personnel development, please refer to pages 17 and 36 respectively.

New R&D programmes launched

In 2006, the activity level in research and development increased with the launch of several new programmes and with a focus shift towards long-term development initiatives.

The need for technology know-how is inherent in striving for sustainable, efficient and reliable power and heat generation. Modern technologies are also a central component in improving the reliability of electricity distribution and in the development of top-class operation and maintenance services. Furthermore, the role of technologies is becoming more prominent in the customer interface, especially with regard to the growing demand for solutions that optimise energy use.

Four focus areas in R&D

Fortum has identified four areas in which R&D is crucial to securing and strengthening the company's technological competitiveness in the future. Development efforts are concentrated in the following areas:

- **Enable growth** by creating investment opportunities in new production technologies; by creating new business opportunities; and by facilitating structural growth.
- **Promote sustainable development** by creating new investment opportunities in renewable energy sources; by improving the utilisation of bio and recycled fuels; and by developing knowledge in zero-emission fossil fuel power production.
- **Secure a long-term technology base** by conducting long-term technology scenario work and by accumulating early understanding and predicting of paradigm change in the energy business.
- **Support the company's current operations** by ensuring the technological expertise needed for Fortum to be a benchmark company within power and heat generation and distribution.

In 2006, Fortum initiated several new R&D programmes within the above mentioned focus areas. Compared with previous years, more programmes are now geared toward attaining a competitive edge in the long-term as opposed to mainly securing the competitiveness of current operations. Ongoing programmes are shown in the table below.

Efficiency through networking

Fortum wants to be in the forefront in understanding and applying new technologies profitably and has chosen a pragmatic approach to organising its R&D work.

A central characteristic to the approach is the forming of well functioning networks and partnerships with research organisations, engineering companies and technology vendors. Partnerships and participation in research programmes enable Fortum to accumulate valuable insights to energy technology development, which would require extensive investments if pursued internally.

Internal efforts are concentrated on carefully identified key areas in which Fortum strives to achieve a benchmark competence level. These areas are of strategic significance to Fortum, such as nuclear safety.

Mainstream R&D expenditure

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

		R&D focus area			
		Enable growth	Promote sustainable development	Secure long-term technology base	Support current operations
Fortum R&D programme	Production technologies for future	●	●	●	
	Zero-emission fossil power production	●	●		
	Biogrowth	●	●		
	Energy optimisation for customers	●	●		
	Growth in Russia	●	●		
	Nuclear and dam safety, nuclear materials, fuel, waste research etc.				●



Use energy to recharge yourself.

Segment reviews

Fortum boosted its growth through acquisitions and a capacity investment programme in 2006. Development efforts in the customer interface continued.

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 (CHP) 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. It also sells the electricity it generates at CHP plants. Fortum's distribution and regional network transmissions are reported in the Distribution segment.

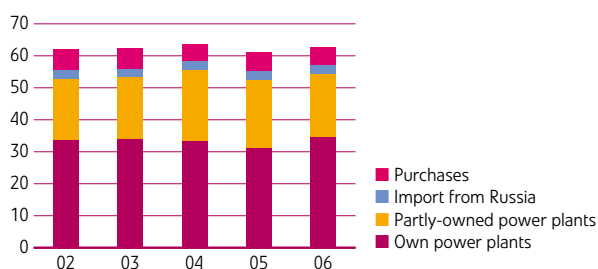
Fortum's power generation capacity, 31 December 2006, MW

	Finland	Sweden	Other	Total
Hydropower	1,454	3,148		4,602
Nuclear power	1,433	1,674		3,107
Combined heat and power	673	530	145	1,348
Condensing power	1,441	297		1,738
Other	6	112		118
Total	5,007	5,761	145	10,913

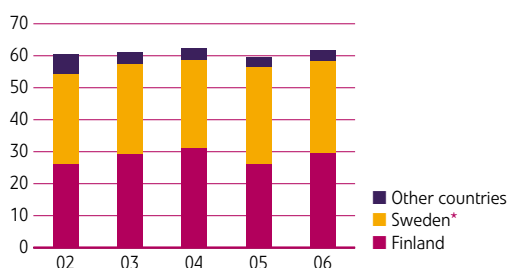
Fortum's power generation by source, TWh

	2006	2005
Hydropower	19.8	21.2
Nuclear power	24.4	25.8
Thermal power	10.2	5.3
Total	54.4	52.3

Fortum's total electricity procurement by type, TWh



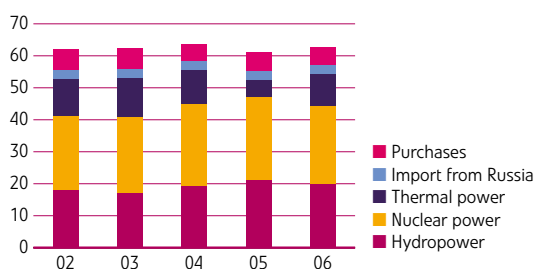
Fortum's total electricity sales by area, TWh



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

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

Fortum's total electricity procurement by source, TWh



Increased generation in a volatile environment

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Power Generation

Fortum Corporation Annual Report 2006 – Review of Operations

In a year characterised by large price variations and a challenging operating environment, Fortum increased its power generation and announced new capacity investments to pave the way to continued excellent performance.

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

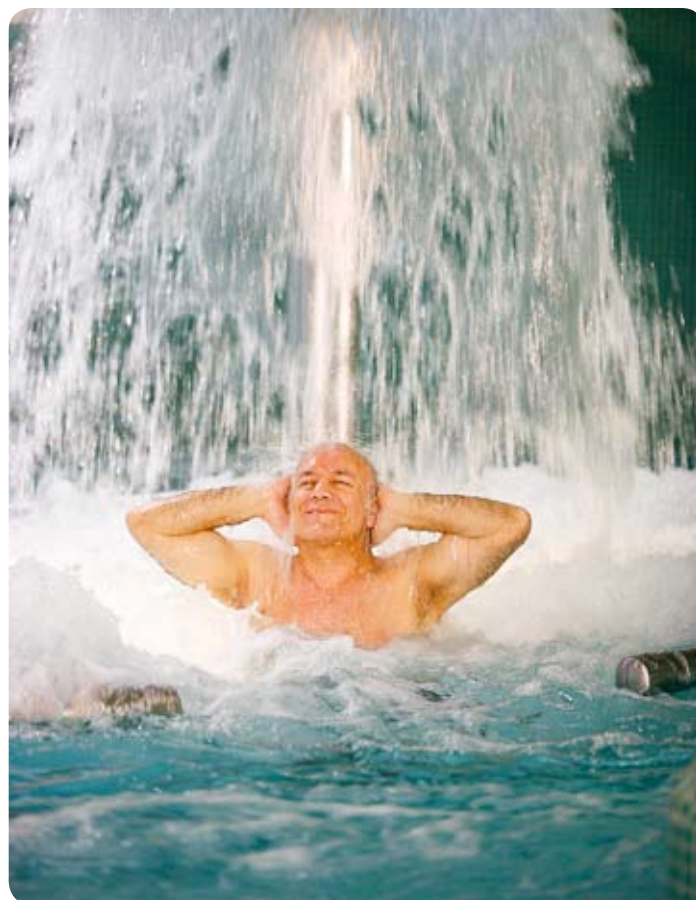
Power Generation plays a key role in Fortum's strategy of becoming the leading power and heat company in the Nordic and Baltic Rim areas. The focus is on securing a high level of power plant availability, upgrading production assets, and on operational excellence in physical and financial portfolio management. In addition to a long-term investment plan reaching beyond 2010, Fortum is looking for new investment opportunities in order to secure future capacity needs. In 2006, Fortum also strengthened its position in Russia as the Russian electricity market restructuring is proceeding.

The main performance driver in the power generation business is the wholesale price for electricity. The main factors affecting the wholesale price are the inflow to the Nordic water reservoirs, prices for emission allowances and fuels in the international markets as well as the overall supply and demand balance. The main factors affecting the price development in 2006 were a significant deficit in the Nordic water reservoirs for most of the year and volatility in the prices for emission allowances in the EU emissions trading scheme as well as the unplanned shutdowns in the Swedish nuclear power plants during the autumn.

Large variations in prices during the year

After a fairly normal hydrological year in 2005, 2006 started with a slight surplus in the Nordic water reservoirs. At the same time there was a deficit in the Nordic snow reservoirs due to low snow accumulation during the winter. The snow

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



Investments to increase power generation capacity will continue also in 2007. Fortum wants to keep all production methods available when making decisions on the future.

deficit, the cold first three months of the year and a dry summer caused the water reservoirs to decrease from a slight surplus at the beginning of the year to a significant deficit during the summer. The deficit peaked in August and was 30 TWh below the reference level. This deficit is about a third of the annual Nordic nuclear power production. Warm weather and thus low consumption combined with high precipitation helped to fill in the water reservoirs during the late autumn and early winter. At the end of December, the Nordic water reservoirs were 2 TWh below the reference level.

The average price for CO₂ emission allowances in the European emission trading scheme was about EUR 18 per tonne CO₂ in 2006, which is about the same as in 2005. The price fluctuated significantly over the year. In April, the price for CO₂ peaked at over EUR 30 per tonne and in early May, dropped to EUR 10 per tonne CO₂ following the release of realised emission data for 2005. During the summer prices levelled at about EUR 16 per tonne CO₂ to drop again during the autumn and early winter. At year-end, the price for emission allowances for 2007 stood at EUR 6.5 per tonne CO₂. The emission allowance price for the period 2008–2012 traded at EUR 18–20 per tonne. Coal prices increased moderately in 2006. Oil prices reached historically high levels during the summer but decreased during autumn. At

Key figures, EUR million

	2006	2005	Change %
Sales	2,439	2,058	19
power sales	2,059	1,682	22
other sales	380	376	1
Operating profit	980	825	19
Comparable operating profit	985	854	15
Net assets	6,734	5,954	13
Return on net assets, %	16.1	14.0	15
Comparable return on net assets, %	16.1	14.5	11
Gross investments	240	130	85
Average number of employees	4,147	4,374	-5

Segment's power generation by source, TWh

	2006	2005
Nuclear power	24.4	25.8
Hydropower	19.8	21.2
Thermal power	5.2	1.3
Total	49.4	48.3

the end of 2006 oil prices were on the same level as at the end of 2005.

Both the price development for emission allowances and the hydrological situation have affected the electricity prices in the forward market. Forward prices increased in early 2006 but dropped in early May with the falling emission allowance prices, while the dry hydrological situation drove the quotations again up during summer and early autumn. During the last quarter, the forward quotations dropped again due to improved hydrological situation and falling CO₂ prices. At the end of the year 2006, the quotations for 2007 ended at about EUR 37 and the quotations for 2008–2011 at about EUR 43 per MWh.

The average spot price for electricity in 2006 in the Nord Pool was EUR 48.6 (29.3) per megawatt-hour, or 66% higher than in 2005. The increase was due to the dryer hydrological situation and unplanned shutdowns at the Swedish nuclear power plants. The prices were historically high for the Nordic area.

Electricity prices in the Nordic area are also affected by the prices in Continental Europe and especially prices in Germany. The average German spot price in 2006 was slightly higher compared to the Nordic spot price. There were periods during the year when the Nordic price was above the German price. As the power flows are to the direction of the country with the higher prices, there was both import and export from the Nordic area to Germany during the year.

Increased power generation

The segment's power generation in 2006 was 49.4 (48.3) TWh, of which 48.3 (47.2) TWh originated in the Nordic countries. Of the segment's power generation in the Nordic countries, 19.8 (21.2) TWh, or 41% (45%), was based on hydropower, 24.4 (25.8) TWh, or 51% (55%), was based on

nuclear power, and 4.1 (0.2) TWh, or 8% (0.4%), was based on thermal power.

The decrease in hydropower generation was due to the weakened hydrological situation. The decrease in nuclear production was due to unplanned shutdowns in the Swedish Forsmark and Oskarshamn nuclear power plants in which Fortum is a minority owner. These shutdowns were caused by an incident at the Forsmark unit 1. High spot prices enabled increased usage of thermal power plants.

The unplanned shutdowns in the Swedish nuclear power plants caused Fortum a production loss of approximately 1.6 TWh in nuclear power generation. The availability of the Fortum-owned Loviisa and the Olkiluoto nuclear power plant, partly-owned by Fortum, in Finland remained high.

In 2006, 84% (93%) of Fortum's power generation was CO₂-free. The decrease was caused by higher use of thermal power, which compensated for lower hydropower and nuclear power production. At year end, the segment's power generating 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.

Power Generation's achieved Nordic power price (excluding pass-through sales) was EUR 37.1 (31.2) per MWh, 14% higher than the year before, mainly due to improved hedging prices and higher spot prices. The related sales volume was 49.4 (48.1) TWh.

In 2006, a new production tax for nuclear power in Sweden was applied and the property tax for hydropower plants both in Finland and Sweden was raised. These tax increases negatively affected Fortum's profits by about EUR 65 million.

Investing in new capacity

Fortum's investment programme includes refurbishment investments in several hydropower plants to increase capacity and maintain good plant availability. During 2006, Fortum completed three refurbishment projects. The currently most extensive hydro refurbishment project at the 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.

Capacity increases at existing nuclear power plants in Sweden are also an important part of the investment programme. Fortum, as a minority owner, will participate in the planned upgrades of the Oskarshamn and Forsmark power plants. Fortum's share of the added generation capacity is estimated to be 250 MW. The upgrades are subject to approval by the Swedish government and are scheduled for completion by 2012. In June, the Swedish government approved the 250-MW capacity increase for the Oskarshamn third unit, of which Fortum's share is slightly over 100 MW. This capacity increase is planned for 2008.

At the Loviisa nuclear power plant, work is ongoing to modernise the plant's automation system. All new automa-

tion systems will be in operation in 2014. In 2006, in addition to normal refuelling outages, a more detailed inspection was completed in the Loviisa 2 unit. In November, Fortum applied for an additional 20-year operating licence for the Loviisa power plant. The decision from the Ministry of Trade and Industry is expected during summer 2007. In December, Fortum signed a long-term agreement to purchase nuclear fuel from the Russian TVEL Corporation for Loviisa.

Fortum is participating in the fifth Finnish nuclear power unit, Olkiluoto 3, with a share of approximately 25%. The supplier (Consortium AREVA-Siemens) has reported to TVO, the company that is building and owns the new unit, that it should be ready for commercial operation at the turn of 2010–2011.

Fortum has 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.

Fortum completed an asset swap arrangement with Mälarenergi in January 2006. In the transaction, Fortum swapped the ownership of 17 small hydro plants and an 82.5% shareholding in Aroskraft AB against hydro and nuclear power generation that was leased to Mälarenergi.

Divestments required by the Competition Authority

In June, the Finnish Competition Authority set conditions for Fortum's E.ON Finland (now Fortum Espoo) acquisition. Fortum was to divest its Haapavesi power plant and its Hämeenlinna combined heat and power plant. Furthermore, Fortum was to lease out its 308-MW share of the Meri-Pori power plant until 30 June 2010 and to sell the equivalent of annual 1 TWh of constant generation capacity in the Finnish area until 31 March 2011. All of these conditions were met by the end of the year.

Moving forward on the Russian market

The Russian electricity market restructuring proceeded during 2006. This progress makes the Russian electricity sector an increasingly attractive business environment for Fortum. During 2006, Fortum strengthened its position in the Territorial Generating Company No. 1, TGC-1, the regional power generation company of north-west Russia.

Since October 2005, TGC-1 has operated based on a leasing model whereby TGC-1 leases and operates the generation and heat assets of its three owners Lenenergo, Kolenergo and Karelenenergo. In November 2006, the merger of the regional generation companies was finalised and TGC-1 was registered as a legal company.

In October 2006, Fortum acquired a 12.5% share of St. Petersburg Generating Company. This ownership combined with Fortum's 33% ownership in Lenenergo, entitled Fortum to a 25.7% share of TGC-1, which gives Fortum a blocking minority in the company. The other major owners of TGC-1 are RAO UES with 55.7% and Interros with 7.2%. At the end of December, the stocks started trading on the Russian Trading System stock exchange RTS.

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

Performance excellence in O&M

Service offers operation and maintenance (O&M) services for energy and electricity distribution companies. At Fortum, Service is the competence centre for the company's own power plant operation and maintenance, ensuring high availability and cost-efficient utilisation of the company's generation assets. Service is looking for growth in selected international O&M markets, for example the UK, Germany and Russia.

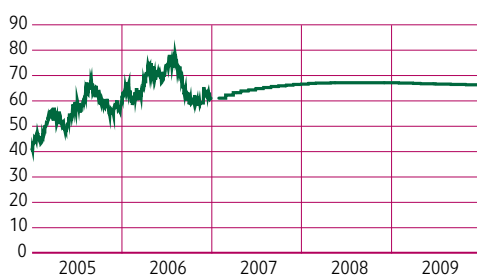
The availability and efficiency of Fortum's own power plants as well as that of those operated globally by Fortum is very good by international standards. In 2006, the operation-time energy availability (tgE) of power plants in Fortum's O&M fleet excluding hydropower was 95.3% (96.9 in 2005).

During 2006, Service redefined its focus mainly on operation and maintenance services for the energy industry as well as on specialist services. In October, Fortum Service completed the sale of its industrial maintenance business to funds managed by the equity investor CapMan. Some 900 employees transferred in connection with the deal.

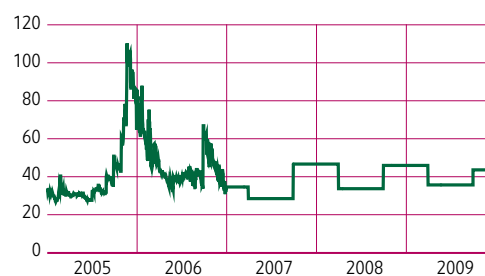
Service also divested its 40% holding in the energy consultancy Enprima Oy, as well as its subsidiary in Thailand.

In Russia, Fortum conducted technical audits and prepared proposals for improving the operational efficiency of the power plants of the Russian Territorial Generating

Oil price, USD/bbl



Gas price (UK), GBP/therm



Company No. 9, TGC-9. The audits were completed by the end of the year. Additionally, Fortum signed a consulting contract on refurbishing the hydropower plants of Svetogorsk and Lesogorsk at the river Vuoksi in Russia with TGC-1. The refurbishing work will continue for 8 to 10 years.

Fortum also signed a 6-year operation and maintenance contract with Knapsack Power GmbH & Co. in Germany. The contract covers an 800-MW combined cycle gas turbine plant situated in Hürth-Knapsack near Cologne that will begin commercial operation in summer 2007. The contract is the second of its kind and strengthens Fortum's position as a significant gas turbine plant operation and maintenance operator in Germany.

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

R&D for enhanced sustainability

The majority of Fortum's research and development is conducted in Power Generation. The work is aimed at securing the continuous and successful operation of Fortum's power plants and developing sustainable solutions for power generation. For more information on Fortum's R&D, turn to page 17.

All of the company's Nordic power generation operations have ISO 14001 environmental certification. Emissions reduction opportunities at Fortum's own facilities have been systematically reviewed. For example, in October, Fortum completed a project to change all burners at the Haapavesi peat-fired plant into low-NO_x burners. The new burners were designed using advanced mathematical modelling that

Fortum has developed in collaboration with VTT Technical Research Centre of Finland for use in power generation. At the same time, adjustments were made to plant processes to reduce dust emissions.

At the Loviisa nuclear power plant, the construction of a solidification facility for liquid low- and medium-active waste is proceeding and the new facility will be taken into use in 2007.

About 4 TWh, 20%, of Fortum's annual hydro production has been certified by Finnish and Swedish societies for nature conservation. Furthermore, Fortum has obtained Guarantees of Origin in the European energy certificate system to be sold to the European market.

Investments in new capacity continue

Fortum's investment programme to increase its power generation capacity will continue also in 2007. Planned investments in new power generation will be executed and additional investment possibilities will be studied. Fortum wants to keep all production methods available when making decisions on future capacity investments.

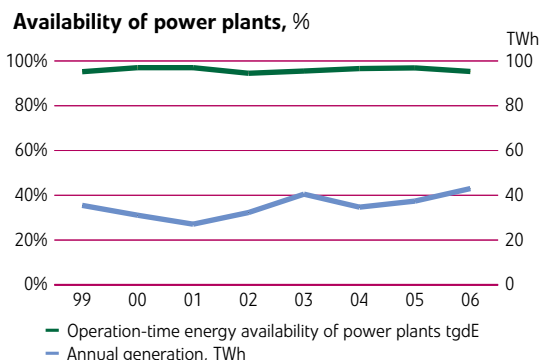
Fortum's Nordic electricity sales volume, TWh

	2006	2005
Sales	53.9	52.6
of which pass-through sales	4.5	4.5

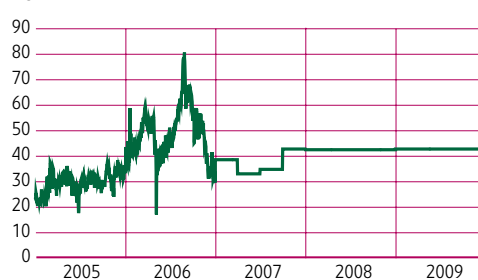
Nordic sales price, EUR/MWh

	2006	2005
Segment's power price*	37.1	31.2

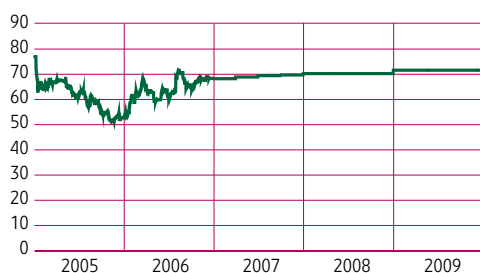
* For the Power Generation segment in the Nordic area, excluding pass-through sales.



Nordic wholesale electricity price on Nord Pool, EUR/MWh



Coal price, USD/t



CO₂ allowance price (EU), EUR/tCO₂



Growth in the customer base

Thanks to successful acquisitions, the number of district heating customers grew significantly. The usage of renewable fuels in heat production continued to increase.

Heat concentrates on district heating and cooling, industrial steam and waste-to-energy production, and on energy outsourcing services to industry. It owns and operates 21 (23) combined heat and power plants (CHP) and several hundred heat plants in the Nordic and Baltic countries as well as Poland. The segment consists of two business units: Värme, operating in Sweden, and Heat, operating in other markets. The City of Stockholm in Sweden has a 50% economic interest in Värme.

The segment's goal is to become the benchmark of the heat industry in the Nordic countries and the Baltic Rim area. Today, Heat is the leading heat provider in the Nordic countries and the primary district heating provider for Stockholm. It also has four district heating companies in Poland providing heating to around 30 cities and towns across the country. Heat is the competence centre for CHP production, waste incineration, district heating and outsourced energy services for local communities and industries.

Finnish operations grew significantly

The segment's heat sales totalled 24.7 (21.7) TWh. Finland and Sweden accounted for 10.7 (9.8) and 9.3 (9.5) TWh respectively, and the other countries for 4.7 (2.4) TWh. In the Nordic countries, industrial steam accounted for 5.2 (5.1) TWh and district heating for 14.9 (14.3) TWh. Power generation at CHP plants was 5.0 (4.1) TWh.

During the year, Fortum continued to leverage its growth platforms in the Nordic countries and in the Baltic Rim area with an emphasis on integrating and further developing the acquired businesses. As part of the integration process, Fortum delisted its subsidiary Fortum Wrocław S.A. from the Warsaw Stock Exchange in April.

Thanks to the acquisition of E.ON Finland (now Fortum Espoo), the number of Finnish district heating customers almost quintupled. Several new heat contracts were also signed with industrial customers in different markets.



Fortum is increasing its heat production capacity. New CHP plants are planned in Finland, Sweden, Poland and Estonia.

As a prerequisite set by the Finnish Competition Authority for the implementation of the E.ON Finland acquisition, Fortum sold its combined heat and power plant in Hämeenlinna, Finland, in October.

Environmentally benign investments

Fortum applied for an environmental permit for a new biomass fuelled CHP plant in Värtan, Stockholm. The planned production capacity is 300 MW heat and 140 MW electricity. The plant will cover around 25% of Stockholm's heat demand.

Fortum is also planning to build a new gas-fired CHP plant adjacent to the existing one in Espoo, Finland. The new plant's power production capacity will be approximately 260–300 MW and its district heating capacity around 200–240 MW. The plant is planned to be ready for production by the end of 2009.

In Poland, Fortum is investing in a new CHP plant in the city of Częstochowa. The plant can use up to 30% biomass fuels. The production capacity will be around 120 MW of heat and 64 MW of electricity. The plant will be ready by the end of 2009.

During the year, Fortum also modernised its coal-based heat plants in several regions in Poland. Thanks to the

Key figures, EUR million

	2006	2005	Change %
Sales	1,268	1,063	19
heat sales	976	834	17
power sales	198	145	37
other sales	94	84	12
Operating profit	264	269	-2
Comparable operating profit	253	253	0
Net assets	3,407	2,551	34
Return on net assets, %	9.6	11.6	-17
Comparable return on net assets, %	9.2	11.0	-16
Gross investments	773	211	366
Average number of employees	2,345	2,186	7

project, the energy efficiency of the plants and the air in the regions will improve considerably.

In Estonia, Fortum is investing in a new CHP plant in the city of Tartu. The new power plant will use peat and biomass as its main fuel, and it is expected to be in commercial use at the end of 2008.

The use of renewable fuels in heat production increased compared to 2005. The amount of heat produced with biomass fuels and thus meeting the eco-label criteria was 2,429 (2,031) GWh in Finland. In Sweden, the successful reduction of fossil fuels continued and the total amount of renewables was close to 75% of the fuel usage.

Certifications and international co-operation for sustainability

In 2005, Heat committed to acquiring environmental certificates for its operations in the Baltic Rim area by the end of 2006. In Poland, three of the five Fortum companies received the following environmental, quality and occupational safety certificates in July 2006: ISO 9001:2000, ISO 18001:2004 and OHSAS 18001:1999. The two remaining companies, acquired in late 2005, are to be ready for certification by the end of 2008.

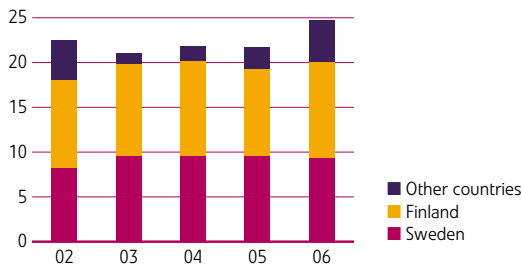
In Estonia, Fortum's subsidiary Fortum Termest was granted the same certificates in December 2006.

Fortum Värme became an active member of the Round Table on Sustainable Palmoil and of the WWF Global Forest and Trade Network. The first aims at promoting sustainable use of palmoil and the latter at eliminating illegal harvesting and at improving the management of threatened forests.

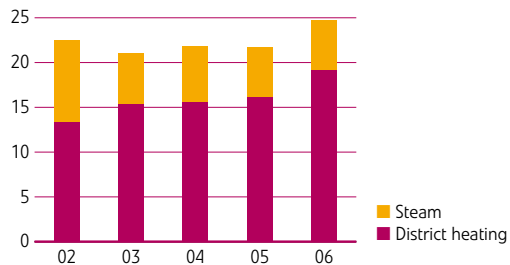
Growth and enhanced customer care

Heat will continue its growth investments and to enhance customer care in the selected markets also during 2007. New online services will be developed in order to further improve the quality of customer service. Heat also aims to increase the usage of biomass fuels in its plants.

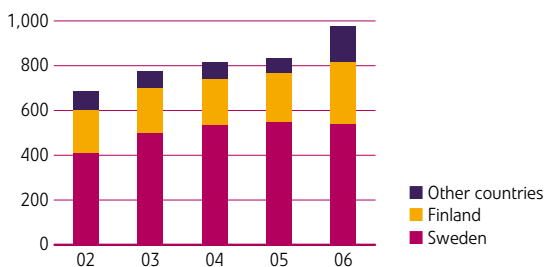
Segment's district heating and industrial steam sales by area, TWh



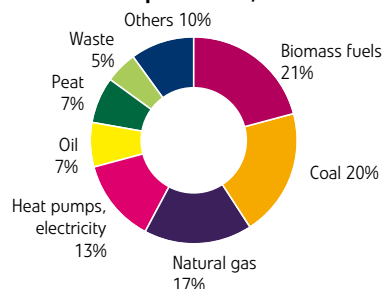
Segment's district heating and industrial steam sales, TWh



Segment's district heating and industrial steam sales by area, EUR million



Fortum's heat production, 25.8 TWh in 2006



Improving network reliability

Fortum continued its investments in network reliability and launched the delivery of automatic meter management in Sweden.

Distribution is responsible for a reliable and secure electricity supply with excellent service to its customers. Fortum owns and operates distribution and regional networks in Sweden, Finland, Norway and Estonia and distributes electricity to a total of 1.6 million customers.

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

The market share of electricity distribution, based upon volume transmitted in under 20 kV-distribution network, was 20% (14%) in Finland, 15% (14%) in Sweden, 3% (3%) in Norway and 3% (3%) in Estonia.

The acquisition of E.ON Finland (now Fortum Espoo) further strengthened Fortum's position as the leading Nordic distribution company. Distribution's volume in Finland increased by 6% and the customer base grew by some 162,000. Proximity to Fortum's other distribution networks is a clear benefit.

Reliability investments proceeded

Distribution is committed to continuous improvement of its network reliability. By 2011, Fortum will invest EUR 700 million in the Nordic networks. As part of this, the EUR 200 million Reliability Investment Programme launched in 2005 continued according to plan. The aim of the programme is to halve the average yearly outage time. Fortum's current network reliability is already over 99.9%.

In Sweden, 1,350 km of overhead lines were placed under ground or otherwise secured, and in Finland, some 50 remote-controlled substations were installed. These measures will speed up fault repair and ultimately reduce the average outage times experienced by customers.

In general, Distribution's operations developed favourably during 2006 with improved network reliability for the customers. Good weather conditions, together with



The reliability of Fortum's networks is over 99.9%.

reliability enhancement actions contributed to these good results.

Automatic meter management and improved two-way communication

Fortum invests in automatic meter management (AMM) in order to develop the Nordic electricity market. A standardised metering system is of utmost importance to the further integration of the Nordic market. A central characteristic of AMM is that it enables customers to be invoiced based on their actual electricity consumption and gives them the chance to monitor their consumption in real-time. Fortum believes that an improved understanding of electricity consumption through AMM will not only change individual consumption patterns, but will bring benefits to society at large.

Number of electricity distribution customers by area, 31 December 2006, thousands

	2006	2005
Sweden	865	860
Finland	580	410
Norway	97	97
Estonia	23	23
Total	1,565	1,390

Volume of distributed electricity in distribution networks, TWh

	2006	2005
Sweden	14.4	14.4
Finland	7.7	6.3
Norway	2.3	2.2
Estonia	0.2	0.2
Total	24.6	23.1

Key figures, EUR million

	2006	2005	Change %
Sales	753	707	7
distribution network transmission	636	592	7
regional network transmission	80	82	-2
other sales	37	33	12
Operating profit	252	251	0
Comparable operating profit	250	244	2
Net assets	3,412	3,021	13
Return on net assets, %	8.4	8.8	-5
Comparable return on net assets, %	8.3	8.6	-4
Gross investments	313	115	272
Average number of employees	983	1,008	-2

In May, Fortum signed a service agreement for the delivery of an AMM system in Sweden. In October 2006, Fortum started installing the new system to 835,000 distribution customers in its Swedish network areas. This means that all distribution customers will have automatic reading by 1 July 2009. The total value of the AMM procurement agreement is approximately EUR 240 million.

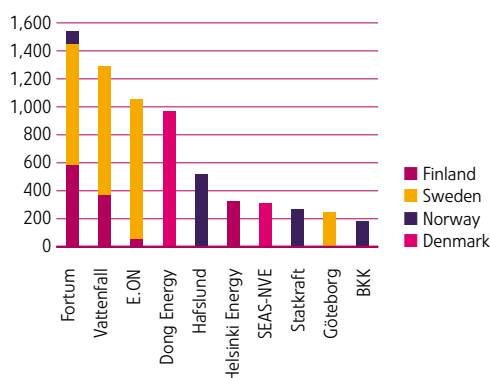
During the year Distribution put great emphasis on informing customers and communicating its reliability measures in Sweden and Finland. Fortum has responded to a growing customer demand for information about outages in its distribution network. Planned interruptions due to network construction and maintenance as well as outages caused by failure are shown in real-time on maps on Fortum's internet pages in Sweden and Finland. A similar service is being planned for Norway.

In Norway, Fortum implemented customer guarantees that ensure that a customer's electricity services are handled in a timely manner or the customer is entitled to compensation. Fortum is the country's only energy company to give these kinds of guarantees. Similar guarantees are already in place in Sweden and Finland.

Regulatory challenges remain at centre stage

Electricity distribution is considered and accepted as a strictly regulated business and is therefore supervised by national energy authorities. Models and principles for supervision differ from country to country. Judgements as to whether the tariffs applied are reasonable or not can be made either before implementation (ex-ante) or afterwards (ex-post). The EU-directive states that regulation should move towards ex-ante where this is not yet the case.

Largest Nordic distribution companies, thousand customers



Fortum's distribution business consists of

- the distribution and regional transmission of electricity and network asset management in Sweden, Finland, Norway and Estonia
- distribution network: 147,300 km of 0.4–20 kV cable and overhead lines and 52,600 distribution transformers
- regional network: 7,600 km of 20–220 kV cable and overhead lines

A special feature of the Finnish electricity market is that one single player is allowed a maximum 25% share of the electricity distributed in the 0.4 kV network across the country. At the end of 2006, Fortum's share stood at 21%.

In Sweden, the regulator has made decisions concerning the network prices for 2003 for a subsidiary of Fortum, Ekerö Energi. According to the decision the company should repay about EUR 1.9 million to its customers. Ekerö Energi has appealed the decision to court. The supervision of the prices for 2003 continues for Fortum areas, Stockholm and the West Coast. No decisions have been given yet. Additionally, the authority has decided on supervision of the network prices for 2004 for Stockholm, Hälsingland, Värmland, the West Coast and Ekerö Energi. Concerning 2005 there is a decision on supervision of Stockholm, the West Coast and Ekerö Energi. The authority has also revised the rate of return (WACC), and thus the potential sum to be repayed has been reduced.

In Finland, regulatory changes by the authority and a decision by the market court on the regulator's pricing principles had a positive effect on Fortum's pricing: only a very small over income is estimated for 2005 and only minor adjustments of tariffs will be needed in order to avoid over income for the period 2005–2007.

Nordic environment programme

As a part of Distribution's Nordic environment programme, the cleanup of contaminated soil in old pole impregnation facilities was finalised during 2006. Distribution continues its programme to equip substations situated in groundwater areas with oil leakage tanks.

A basic principle of Distribution is to avoid using the greenhouse gas sulphourhexafluoride (SF₆) as an isolation material in wiring equipment and use alternative solutions instead. In maintenance work and when rebuilding the network and transformer substations, dismantled material will be reused to the highest possible degree. Other dismantled material is screened, sorted out and reused as efficiently as possible.

In 2006, Distribution actively participated in developing Fortum's approach to promote sustainable development with the 'Energihjälpen' energy saving concept. To read more about the concept, please refer to page 29.

Continued focus on network reliability

Distribution will continue to improve its network through its Nordic Reliability Investment Programme and to implement a system for automatic meter management in Sweden in 2007. Fortum supports and promotes a harmonised Nordic approach to regulation, based on the principles set forth in the EU directive on common rules for the European integrated electricity market.

Leading seller of eco-labelled electricity

In a challenging market situation, Markets increased the number of customers also in 2006. To a growing extent, consumers prefer eco-labelled electricity products.

Markets sells electricity and energy services to consumers and business customers in Finland, Sweden and Norway. The segment buys all the electricity it sells to customers from the Nordic power exchange, Nord Pool. Markets also provides comprehensive services within energy portfolio management and energy efficiency.

Becoming the energy supplier of choice

Fortum's ambition is to become the energy supplier of choice in the Nordic market. Customer satisfaction surveys, activity tracking and other research have shown that the quality of customer service is one of the most significant drivers of customer satisfaction and loyalty. Therefore Markets has defined high-quality customer services as a key focus area. During the year, this work was recognised also externally and rewarded in the international European Utility Awards competition. Thanks to the focused product and service development work of Markets and Fortum's shared Customer Services Unit, Fortum placed second in the 2006 competition in the Customer Excellence category.

The range of energy services Markets offers both to consumers and business customers is among the widest in the Nordic countries. Household customers can choose between a convenient and eco-labelled current-price contract, a safe fixed-price contract or a flexible contract based on pricing directly from Nord Pool. A growing trend among consumers in 2006 was to choose the eco-labelled current-price alternative.

For business customers, Markets has developed a comprehensive set of solutions to secure both electricity procurement and price in accordance with the customer's own risk profile. These solutions range from fixed price contracts to professional portfolio and risk management services. Markets also offered its business customers environmentally benign electricity. The electricity sold to all Fortum Smart and Fortum Balance customers is 100% hydropower.

While competition on the market and the customer activity in changing electricity suppliers continued to increase during the year, Markets was chosen by many new customers – a confirmation of competitive customer offerings.



Fortum's competitive electricity offerings resulted in a positive customer inflow during 2006.

Electricity price and margin challenges

Markets sold 42.1 (40.2) TWh of electricity to a total of 1.3 (1.2) million customers in the Nordic countries. Electricity sales in 2006 increased compared to 2005, despite the expiration of some large customer contracts at the end of 2005. The acquisition of E.ON Finland (now Fortum Espoo) and successful customer recruitment campaigns both contributed to the positive trend.

The average retail price levels rose throughout the year in the Nordic countries. Both current- and fixed-price levels increased following the wholesale price development on Nord Pool. However, competition in the retail market has constantly been increasing and sales margins have been pressed, particularly in Finland. Despite this development, Markets has offered its customers competitive prices and was even able to cancel a planned price increase in Finland in November following the decreasing wholesale prices.

During the year, Fortum both lost and gained customers. By the end of the year, Markets' cumulative customer net flow was positive.

Fortum's vision to be the benchmark power and heat company and Market's strategic goal to become the energy supplier of choice require continuous development and substantial investments in modern customer, billing and

Key figures, EUR million

	2006	2005	Change %
Sales	1,912	1,365	40
Operating profit	-6	32	-119
Comparable operating profit	-4	30	-113
Net assets	176	228	-24
Return on net assets, %	-1.6	17.4	-109
Comparable return on net assets, %	-0.8	16.4	-105
Gross investments	14	10	40
Average number of employees	825	745	11

metering systems. During the year, Fortum faced challenges in implementing a new customer management and billing system in Sweden. Costs and provisions caused by the implementation had a negative effect on the segment's comparable operating profit.

Customer guarantees

Markets' goal is to have the most satisfied and loyal customers, and consequently customer satisfaction is regularly monitored. Feedback is obtained from various channels and a Nordic customer satisfaction survey is conducted annually. In 2006, customers were satisfied especially with Fortum's wide product selection, good service standard and the high know-how of personnel. Areas of improvement included the negative image of Fortum's price-quality ratio and capability to convey its strong commitment to sustainability.

Fortum's retail electricity customers are served by Markets' sales representatives as well as by the staff of Fortum's shared Customer Services Unit. This unit manages Fortum's Customer Center, provides billing and back office services, meter reading management and technical customer service.

Consumer interests are looked after by a Customer Ombudsman, an independent function reporting directly to corporate management. The Ombudsmen in Finland, Sweden and Norway follow-up customer service issues and help individual customers if they are not satisfied with the company's normal service and feedback processes. In 2006, the Ombudsmen helped to resolve a total of some 385 cases, around 300 in Sweden, 60 in Finland and 25 Norway.

The company's promise of customer service quality is expressed in the Customer Guarantees. They include financial compensation if the service is not up to standard. Services

covered include meter-readings, billing, change of supplier and overall customer service. To further improve customer services, Markets actively works together with industry organisations to simplify and speed up the dialogue between customers and their electricity providers.

Sustainable customer solutions

The importance of sustainable energy alternatives is growing and Markets is the leading provider of eco-labelled electricity in the Nordic countries. Fortum also governs a Nordic environmental fund. The fund's capital is based on the sale of electricity with the Bra Miljöval eco-label in Sweden. In 2006, the fund financed three projects to mitigate the impacts of hydropower generation.

Sustainable use of electricity is one of the strategic approaches in Markets' customer communication. In Sweden, Fortum successfully launched a new concept, Energihjälpen, which helps both large and small customers to cut down the total sum of their electricity bill through simple means and thereby also promote sustainable consumption. The lessons of the Swedish concept will be investigated and later applied in Finland. Helping customers to save energy is an investment in the future and may also become a vehicle for future growth.

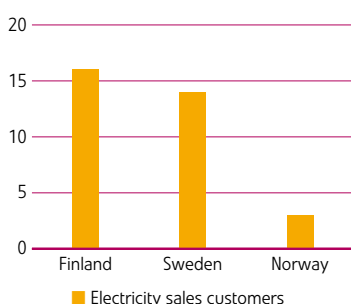
Automatic meter management will empower customers

Public interest in the electricity sales business has increased in the Nordic countries. Customers expect smooth market routines and competitive services. Saving energy will be an important trend in the future.

Metering is one of the cornerstones for the functionality of the market. Fortum has begun the rollout of a new automatic meter management (AMM) system in Sweden. AMM enables the remote collection of meter readings and ultimately leads to many significant improvements for customers. Invoicing is based on actual consumption, preliminary and settlement invoices will no longer be needed. Fortum's AMM system also enables a variety of features that exceed Swedish legislative requirements such as the possibility of real-time two-way communication and meter reading by the hour. Customers will also be able to access more detailed information about their electricity consumption patterns and costs.

Furthermore, the new system will give electricity providers the possibility to price electricity by the hour in the future. On an individual level, this means that customers will be better equipped to save energy and influence their costs by making simple changes in their electricity use. On a societal level it means that peak load consumption can be reduced, yielding significant environmental gains as the need for using reserve production capacity is reduced.

Fortum believes that empowering customers through AMM will improve Fortum's position and competitiveness as the leading customer-oriented electricity company.

Market share by Nordic country, %



*The power of positive energy.
The power of positive thinking.*

Better for people, better for the environment

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

Fortum's commitment to sustainable development is expressed in its Core Purpose and its shared values, which are some of the key elements of the Fortum Compass. A balance between economical, environmental and social aspects is therefore a guiding factor for all decision making and activity in the company. Good environmental and social performance, together with a reputation as a reliable business partner, help Fortum in achieving its strategic goal to become the energy supplier of choice.

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



Turning principles into action

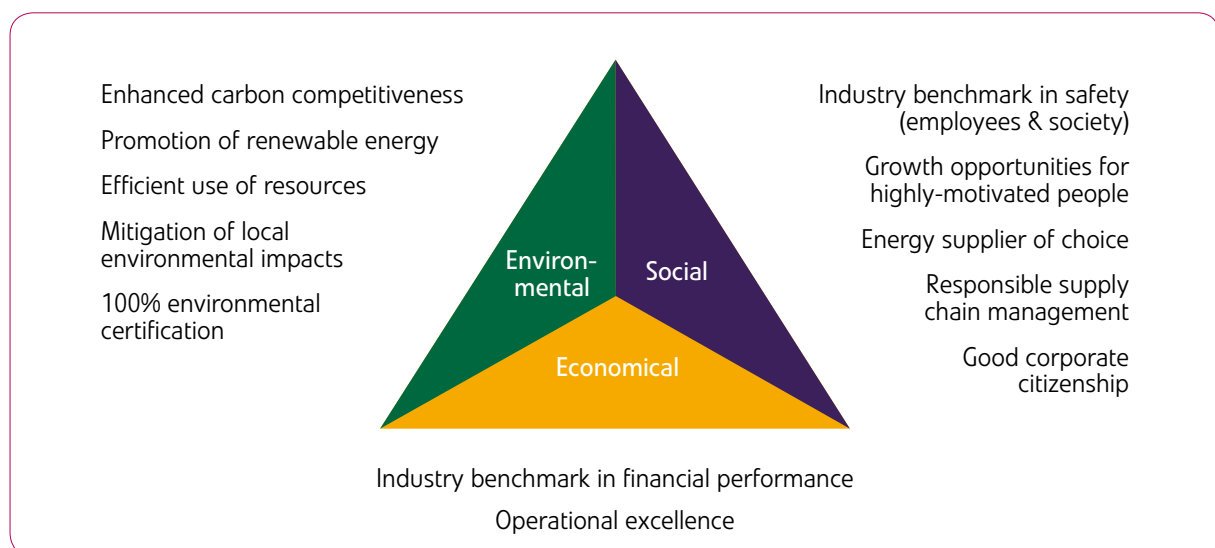
Fortum has adopted a Sustainable Development Policy to be applied throughout the entire group. The policy is based on our Core Purpose: *Our energy improves life for present and future generations.*

Our Sustainable Development Policy states that we:

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

We strictly comply with legal and regulatory requirements in all our operations. Our commitment to sustainable development is further elaborated in our Environmental and Safety Guiding Principles that are available on our website at www.fortum.com. We turn the principles into action by setting development targets on Fortum's Sustainable Agenda.

Sustainable Development Agenda



Focus on environmental performance

Fortum continuously improves its environmental performance to meet the objectives defined in its Sustainable Development Agenda.



Fortum is a pioneer in utilising the Kyoto mechanisms, which are important tools in the work against climate change.

Power and heat production inevitably creates various impacts on the environment. Sustainable development calls for proper control of these impacts to ensure good living conditions today and for future generations. Fortum takes the threat of climate change seriously and tries to improve its performance especially in this area.

Enhanced carbon competitiveness

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 g/kWh or under, and five-year average target 120 g/kWh or under. Fortum continuously monitors its performance and takes the actions required to maintain the desired position.

In 2006, 84% of the electricity generated by Fortum was free of carbon dioxide emissions. CO₂ emissions from Fortum's own power plants in 2006 totalled 11.0 million tonnes, some 70% higher than the previous year. The clear rise was caused by low production of hydro power in the Nordic market area and a consequential increase in use of condensing power plants. The specific CO₂ emissions of the company's total electricity generation, including wholly and partly-owned power generation, rose to 107 g/kWh, which is still among the lowest of the major European power companies and clearly below Fortum's target value.

In 2006, Fortum revised its position on climate change and emissions trading. In this new position, the short- and long-term aspects of the further development of the EU emissions trading scheme were highlighted and an outline for a roadmap towards a global solution in climate change mitigation was given. In Fortum's opinion, the medium-term solution should be based on global, all-inclusive emissions trading with auctioning as the allocation method.

Fortum has been a pioneer in utilising the Kyoto mechanisms. During 2006, we extended our activity in this area by investing EUR 2 million in the Baltic Sea Region Testing Ground Facility. During 2000 and 2002, Fortum invested a total of USD 6 million in the World Bank Prototype Carbon Fund. These funds invest in projects that aim to reduce

Key figures

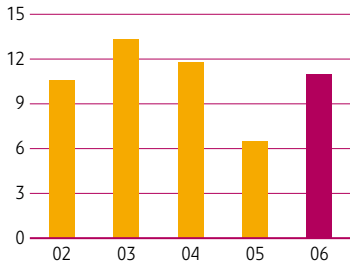
	2006	2005
CO ₂ emissions, t	11,000,000	6,500,000
SO ₂ emissions, t	15,300	9,600
NO _x emissions	16,500	10,600
CO ₂ emissions of power generation, g/kWh (own plants and partly-owned plants)	107	38
Overall efficiency of fuel use, %	73	80
Share of renewable energy sources in power generation, %	40	42
Share of carbon-free energy sources in power generation, %	84	93
Share of renewable energy sources in heat production, %	43	39
Utilisation of gypsum, %	94	98
Utilisation of ash, %	65	72
Utilisation of conventional waste, %	49	38

greenhouse gas emissions. Achieved emission reductions can be utilised in the EU emissions trading scheme as soon as an international registry system is in place.

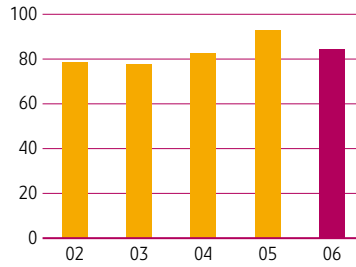
Promotion of renewable energy

Fortum's goal is to continuously develop hydropower generation and to increase the use of biomass and waste-derived fuels whenever technically and economically viable.

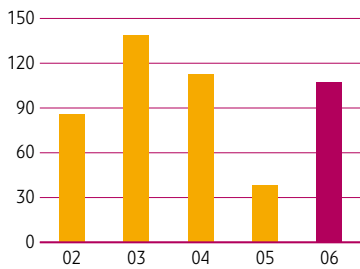
Carbon dioxide emissions, million tons



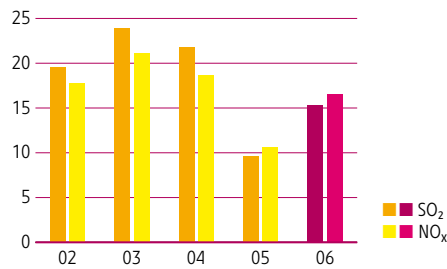
Share of carbon-free energy sources in power generation at own and partly-owned power plants, %



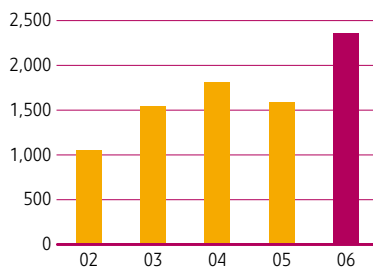
CO₂ emissions from power generation at own and partly-owned power plants, g/kWh



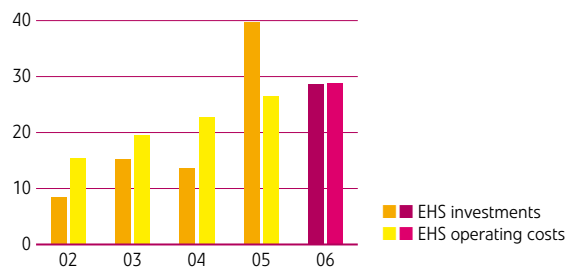
Sulphur and nitrogen emissions, 1,000 t



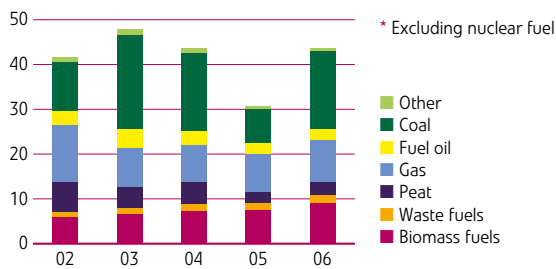
Particulate emissions, t



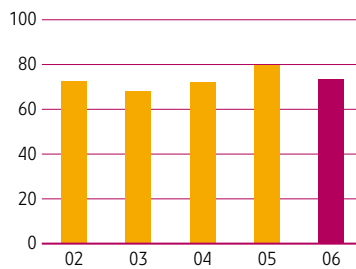
EHS investments and operating costs, EUR million



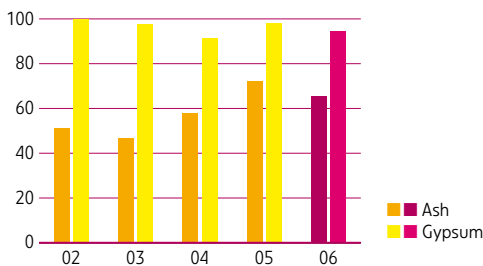
Fuel use*, TWh



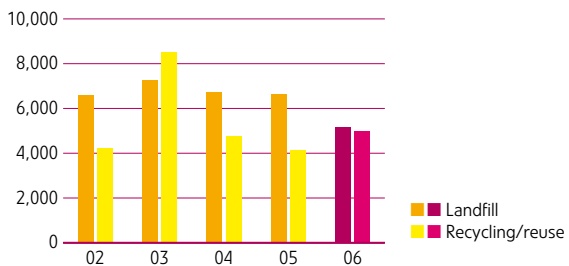
Fuel use efficiency, %



Utilisation of by-products, %



Conventional waste, t



Environmental indicators are unverified and minor changes are possible during a later assurance process. Compared to 2005, the figures for 2006 do not include Haapavesi and Hämeenlinna power plants, which were sold during 2006. On the other hand, the figures cover Fortum Ploc, Fortum Wrocław, Fortum Lietuva and Fortum Espoo, which were acquired during 2005 and 2006.

During 2006, the company completed refurbishment projects at three hydropower plants, resulting in 7.1 GWh of additional renewable electricity annually. This equals the annual electricity consumption of 350 one-family houses with electric heating. In Finland, Fortum took into use two new heating boilers using biomass fuels.

In 2006, hydropower and biomass fuels accounted for 40% of Fortum's electricity generation. Biomass fuels and heat pumps accounted for 43% of Fortum's total heat generation. The total use of biomass rose to 9.1 TWh, representing an increase of 22% from the previous year. During 2006, the company continued the planning process of a large-scale biomass-fuelled CHP plant in Stockholm and an application for an environmental licence was submitted to the authorities. In Finland, Fortum decided to invest into two new heating boilers using biomass and peat.

To ensure an ethically and environmentally sustainable supply of biomass fuels, Fortum has also become an active member of the WWF's Global Forest and Trade Network.

Efficient use of resources

Fortum promotes a responsible use of natural resources through systematic identification and implementation of measures to improve energy efficiency, the re-use and recycling of by-products and waste materials, as well as the use of waste-derived fuels in power and heat generation. Combined heat and power production (CHP) with high energy efficiency plays a significant role in Fortum's energy production. A decision was made to start plans for a new gas-fired CHP plant in Espoo. CHP and heat plants accounted for 76% of Fortum's non-nuclear fuel usage in 2006, while overall efficiency in fuel use decreased compared to the year before as a result of the increased use of condensing power plants.

The utilisation of gypsum from flue gas desulphurisation remained at a high level, whereas the utilisation of ash dropped to 65% due to increased ash volumes. The use of waste-derived fuels rose by 6% to 1.6 TWh, representing 3.7% of Fortum's non-nuclear fuel use.

Mitigation of local environmental impacts

Fortum mitigates the local environmental impacts around its facilities by applying proven, state-of-the-art technology and advanced operating and maintenance procedures. All the company's major power plants are equipped with technologies to reduce sulphur dioxide, nitrogen oxides and particulate emissions into the environment. In 2006, Fortum invested in enhanced air pollution control at the Haapavesi Power Plant. In hydropower generation, restoration projects are implemented in river systems to improve habitats for endangered species and to support the recreational use of waterways. During 2006, Fortum participated in conservation projects at the Gullspång and Klarälven rivers and Lake Sommen in Sweden and at the river Oulujoki in Finland.

100% environmental certification

Most of Fortum's business units and subsidiaries have certified their management systems in accordance with the ISO 14001 standard, and some units in accordance with ISO 9001/9002 and OHSAS 18001 as well. In 2006, new environmental, quality and safety certificates were granted to heating companies Fortum Heat Polska, Fortum DZT and Fortum Częstochowa in Poland and Fortum Termest in Estonia. Environmental and quality certificates were granted to Fortum Distribution in Estonia and to Fortum Markets in Norway. Furthermore, Fortum Service in Sweden, Finland and the UK was granted safety certificates. Today, certificates cover approximately 95% of Fortum's business volume. The newly acquired businesses will develop readiness for certification within three years of acquisition.

Investing in the environment

In 2006, Fortum invested a total of EUR 29 (40) million in improving environmental and safety performance. These investments mainly relate to air-pollution control, dam safety and radioactive waste management. Environment, Health and Safety (EHS) related operating costs amounted to EUR 29 (27) million, covering e.g. air-pollution control, soil protection, effluent treatment, waste management and occupational safety.

Fortum's production facilities meet the current regulatory requirements. Some new requirements will be imposed in 2008 along with the implementation of EU environmental legislation for large combustion plants. Most of the required actions have already been taken and no major investment needs are foreseen in the near future.

Environmental liabilities under control

Fortum strives to systematically identify environmental and safety risks. An internal EHS assessment procedure is applied to all significant acquisitions and other projects. Fortum has evaluated the liabilities relating to past operations and has made the necessary provisions for any future remedial costs concerning environmental damage. Fortum's management is not aware of any cases that might have a material impact on the company's financial position. Of the provisions for liabilities and charges included in the financial statements for 2006, EUR 13 million is for environmental liabilities. Such liabilities primarily relate to contaminated soil cleanup projects.

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

Being a good corporate citizen

Fortum's corporate citizenship is clearly manifested in the company's Core Purpose: "Our energy improves life for present and future generations."

In this context, the word 'energy' means more than the energy we produce and sell. The strive to be a good corporate citizen is present in every aspect of our business.

Our **customers** want us to provide them with the products and services that best match their individual needs, at a reasonable price. We continuously develop our business to meet these expectations, and at the same time, we hope to promote sustainable energy use.

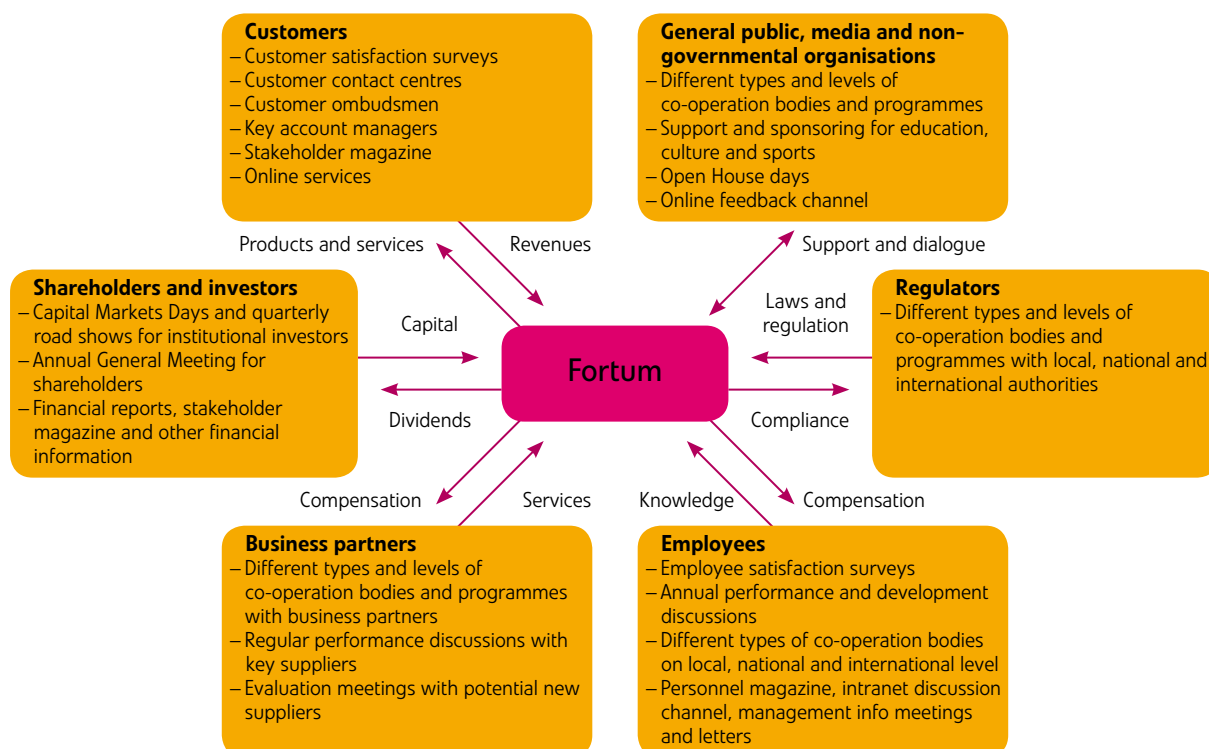
The **general public** wants us to operate in a manner that is good for society and the environment. We contribute to the society by paying taxes, being a responsible employer and a good neighbour and by supporting charitable causes. We work actively to maintain an open dialogue. We strive to reduce the environmental impact of our activities by modernising our facilities, and we co-operate closely with national and local environment authorities and organisations. We support research and development programmes related to our business and donate considerably to charity. To read about Fortum's economic impact, turn to page 40.

Our **employees** want to work for a company that takes care of its employees and a company they can be proud of. We strive to promote well-being through safe and stimulating working conditions. We respect the culture and values of individuals and groups, and we promote equality.

Our **business partners** want us to be a reliable partner with high ethics. They appreciate a good price/quality ratio, which improves the customer satisfaction both for them and Fortum.

At the end of 2006, the Finnish state owned 50.8% of Fortum and international investors 35.4%. The rest is owned by Finnish institutions and about 50,000 private **shareholders**. All owners expect us to achieve our financial targets and to provide a good return on their investment. Our share is quoted on the Helsinki Stock Exchange and the share price is affected by investor decisions. If Fortum makes a profit, shareholders are paid dividends according to our dividend policy, which corresponds to a payout ratio of 50% to 60% on the average.

Relationships with stakeholders



People development in an evolving business

A rapidly changing organisation posed new opportunities and challenges to Fortum employees.



The majority of employees participated in a workshop to discuss their teams' behaviour and how it reflects Fortum's shared values and brand.

In 2006, Fortum employed an average of 8,910 (8,939) people. At the end of the year, the number of personnel was 8,134 (8,955) of which 7,681 (8,769) were permanent employees. Out of the permanent employees, 3.7% were part-time. Altogether there were 373 redundancies as result of mergers and reorganisations. A major restructuring in Poland caused 292 of them.

Women represented 23% (22%) of the total workforce and accounted for 34% (32%) of corporate and business unit management. In Finland, a new comprehensive survey and plan for promoting the equality between men and women was published in 2006.

Acquisitions and divestments shape the organisation

After finalising the acquisition of E.ON Finland (now Fortum Espoo) in June, around 340 employees were integrated into Fortum's organisation during the autumn. At the same time, the Hämeenlinna power plant with 26 employees and the Haapavesi power plant with 50 employees were sold in Finland. During the autumn, Fortum divested its industrial maintenance services business involving some 930 employees. A centralisation of customer services and certain distribution operations was started in Finland. However, the overall geographical structure of Fortum remains almost the same as the previous year. Finland and Sweden are home to 77% of the employees.

Growth opportunities for motivated people

As the business environment and Fortum's operations evolve, new competence requirements – and individual growth opportunities – emerge. Job rotation between business units, countries and functions plays a key role in supporting people to evolve. At Fortum, job rotation and workforce planning in the units are supported by group-wide career and development planning processes. A yearly development discussion and an individual development plan are every Fortum employee's right.

In 2006, internal recruitment had 207 (229) vacancies, and there were 215 (176) transfers between units. Fortum will continue to focus on job rotation and diversity also in management teams. One third of all business unit management team members accepted a new position in 2006.

Improved job satisfaction

At Fortum, the annual job satisfaction survey is a central tool when developing the working environment and motivating people to improve the way of working and co-operation within the company. The employee response rate in the 2006 survey was again excellent at 82%.

The results showed improvements especially in the following areas: managerial work, working atmosphere, innovativeness of actions and mental well-being of employees. In addition, the overall work community index increased again by two points and is now at a very good level.

Number of employees by segment, 31 December 2006

	2006	Change % (05-06)	2005	2004
Power Generation	3,347	-22.7	4,330	4,377
Heat	2,290	-4.3	2,393	2,146
Distribution	1,032	9.1	946	1,079
Markets	901	17.2	769	709
Other operations	564	9.1	517	583
Total	8,134	-9.2	8,955	8,891

Key figures

	2006	Change % (05–06)	2005	2004
Average number of employees	8,910	–0.3	8,939	8,592
Number of employees at 31 Dec.	8,134	–9.2	8,955	8,891
of whom permanently employed	7,681	–12.4	8,769	8,664
Female, %	23		22	25
Women in management positions, %	34		32	24
Training days per person	4.0	8.1	3.7	3.0
Training expenditure, EUR mill.	7.5	–30.0	10.8	7.0
Health care expenditure*, EUR per person	445	–1.5	452	425
Expenditure on recreation and leisure activities*, % of salaries paid on working time	0.4		0.4	0.4
Lost workday injury frequency (number of injuries resulting in absence of more than one day per million hours worked)	3.7	–22.9	4.8	5.9
Fatalities	2	0	2	2

* Finland

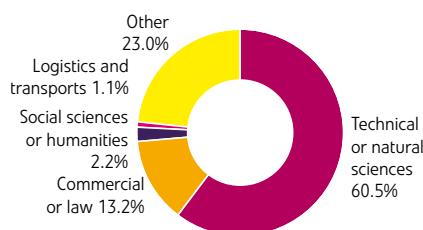
The results also show that attention paid to previous years' development areas is paying off – almost all of these areas are continuing to improve. Areas that have not shown adequate improvement from last year included the equal distribution of individual workloads and employees' perception on the possibility to affect their own work. The performance and development discussion process continues to be a development area as well. Detailed development plans based on the survey results are done in the business units and monitored thoroughly also at the corporate level.

Systematic management development

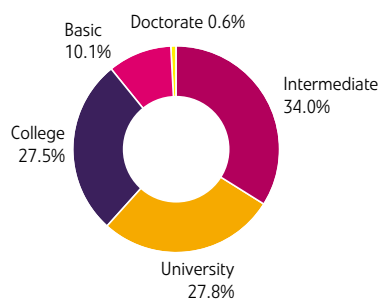
Since 2002, Fortum has consistently developed and implemented a management training strategy. During 2006, the development of internal management training took a step forward with the introduction of two new programmes while the existing training programmes continued as well.

The first new programme, Master, is a series of independent modules concentrating mainly on managers' day-to-day practical people management and development challenges. The programme aims at harmonising and ensuring the quality of managerial work. To further support this goal, the IT system for human resource management will be extended to include special manager's functionalities from the first half of 2007.

Field of education, 31 December 2006, %



Level of education, 31 December 2006, %



Number of employees by country, 31 December 2006

	2006	Change % (05–06)	2005	2004
Sweden	3,321	–4.1	3,463	3,412
Finland	2,976	–14.4	3,476	3,605
Poland	990	–16.6	1,187	924
Estonia	280	–6.7	300	427
Norway	261	–2.6	268	286
Other countries	306	17.2	261	237
Total	8,134	–9.2	8,955	8,891

The other new programme, Leading Fortum Forward, brings management teams together for a business-oriented learning process. The programme aims at developing management's leadership skills, improving strategy implementation and strengthening teamwork.

A total of 353 employees participated in Fortum's own management development programmes. In addition to corporate-level initiatives, people development was also promoted within the business units. Investments in people development during 2006 amounted to EUR 7.5 (10.8) million. Fortum employees spent an average of 4.0 (3.7) days in training.

Making the Fortum Compass alive

Fortum's management tool, Fortum Compass, describes the key elements that are needed to steer individuals, teams and the whole company with the same purpose towards the same vision. The shared values of the company build the base for all actions.

Working with the Compass and building a shared understanding of it was emphasised heavily in 2006. The majority of Fortum employees participated in a workshop to discuss their teams' behaviour and actions and how they reflect Fortum's shared values and brand. An important topic in these workshops was also Fortum as a member of society. The teams sought concrete improvement areas and activities for issues of priority. At the same time, the understanding of the company's shared values and strategic targets and their connection to the daily work increased.

Competitive remuneration to reach strategic targets

Fortum's remuneration strategy is aimed at supporting the company's strategic targets by strengthening a strong performance culture and building Fortum's position as an attractive employer. Fortum's goal is to offer competitive remuneration in each country of operation while maintaining cost efficiency. Benchmark studies conducted in 2006 in Sweden and Finland, for example, confirmed Fortum's remuneration to be competitive in both countries.

In addition to a base salary, a big majority of Fortum employees are covered by an annual performance-based bonus system. Individual bonus targets are set to support strategic business objectives and are mutually agreed between employee and superior in an annual performance discussion at the beginning of the year.

The final annual bonus is based on the financial results of the Group and each business unit and on the individual or team performance. Consequently, the average bonus payments in 2005 (paid in 2006) varied between units and individuals. On average, approximately 3-8.5% of the annual salary of a Fortum employee was paid as a bonus in 2006.

The Fortum Personnel Fund has been in operation since 2000 and it covered 3,659 Finnish employees in spring 2006



The number of occupational accidents decreased to 3.7 and was clearly below our target value of 4.0 injuries per one million working hours.

when it paid a total of EUR 2.9 million in shared profit to its members.

For more information on the Group's remuneration, please refer to pages 47–49.

A safe workplace for all

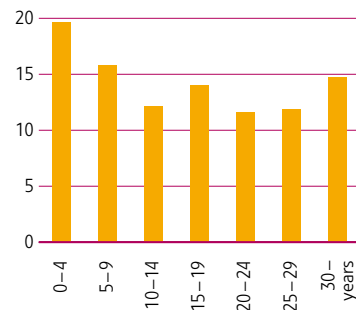
Fortum's goal is to provide a safe workplace for all employees. To attain this goal, a comprehensive safety development effort continued in 2006. The focus was on behaviour-based safety training as well as on the implementation of Fortum's Safety Handbook and related procedures throughout the company. Nearly 4,000 safety walks carried out by the company's management and supervisors also raised the general awareness and commitment to occupational safety.

Over 90% of Fortum employees have participated in safety trainings by the end of 2006. A corporate-wide data base system was introduced to facilitate the systematic recording and handling of occupational accidents and other safety-related incidents and improvement proposals.

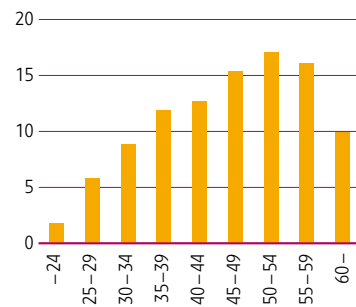
In 2006, there were 55 occupational accidents leading to an absence of more than one working day. This means 3.7 injuries per one million working hours, which is below Fortum's target value of 4.0 for 2006. The target for 2007 is less than 2 injuries per million working hours.

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. Improving risk assessment practises and adherence to given instructions are key challenges in meeting the zero accidents goal.

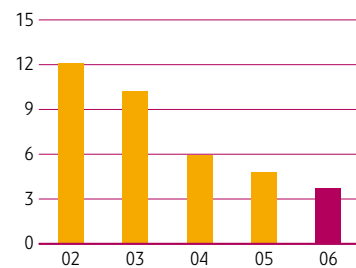
Duration of employment, 31 December 2006, %



Age distribution, 31 December 2006, %



Lost workday injury frequency, injuries/mill. hours worked



Safety key figures

	2006	2005
Injury frequency (number of injuries/ million hours worked)	3.7	4.8
Number of safety observation tours	4,000	1,500
Number of improvement proposals and near-miss reports	1,950	1,650

The economic impacts

Fortum's business creates economic well-being in societies through the monetary flows between the company and its stakeholders.

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

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

Serving customers in the Nordic countries and the Baltic Rim area

Fortum serves 1.3 million electricity sales customers and distributes electricity to 1.6 million households and businesses in its market area. Furthermore, the company provides customers with heating and cooling as well as operation and maintenance services. In Stockholm, Fortum also provides town gas. Income from customers from continuing operations in 2006 amounted to EUR 4,516 (3,983) million. Electricity sales in Finland represented 33% (31%) of the national consumption, while in Sweden the corresponding figure was 20% (21%). The percentage was considerably lower in all other markets served.

International supplier network

Fortum's business is primarily the refining of natural energy sources into electricity and heat. Almost half of the income from customers was paid to suppliers of goods and services. In 2006, cash payments to suppliers totalled EUR 2,290 (1,672) million. Of this, Finnish, Swedish and Russian suppliers accounted for the main part.

Employees in 15 countries

The number of employees in 2006 averaged 8,910 (8,939). The vast majority, 90%, of Fortum employees work in Finland, Sweden and Poland, but the remaining 10% are spread across in 12 different countries. The total value of wages, salaries, remunerations and indirect employee costs paid by Fortum to its employees was EUR 508 (481) million.

Share value increased

Fortum had more than 50,000 shareholders at the end of 2006. The Finnish State owned 50.8% (51.5%), while interna-



States and municipalities benefit from the income taxes paid by Fortum employees on their salaries.

tional investors held 35.4% (33.2%). A proposal was made to the Annual General Meeting that Fortum should pay a total dividend of EUR 1,119 (987) million, or EUR 1.26 (1.12) per share to the shareholders for the financial year 2006. During the year, the price of Fortum's shares on the Helsinki Stock Exchange increased by 36%.

Tax income to the community

In 2006, Fortum paid EUR 374 (298) million in taxes from continuing operations. States and municipal governments also benefit from the income taxes paid by Fortum employees on their salaries. Furthermore, Fortum paid a total of EUR 72 (63) million in environmental taxes and charges relating to its fuel use and emissions.

Investments in growth

In 2006, Fortum acquired E.ON Finland (now Fortum Espoo) and majority holdings in two Polish district heat companies. In Russia, the company increased its share in Territorial Generating Company No. 1 to slightly over 25 percent. Fortum's future growth investments totalled EUR 972 (182) million, and cash from divesting activities amounted to EUR 125 (56) million.

Support for research, education, culture and sports

The Fortum Foundation distributed a total of EUR 510,000 to support energy sector research and development work. Also, during the year Fortum continued its co-operation with a number of schools and universities.

In Finland, Fortum made donations totaling approximately EUR 280,000 to various charitable causes. These included those aiding children and young people, environmental projects and culture.

Fortum was the main partner of WWF's Children's Environmental programme in Finland and made an additional EUR 100,000 donation to John Nurminen Foundation's Clean Baltic Sea project.

The main cultural support included Folkoperan in Stockholm, the Finnish Chamber Orchestra as well as the WeeGee exhibition center in Finland.

Fortum's main sponsorship projects within sports were the Swedish Athletic Association, Finnish Alpine Ski Team and Skiföreningen in Norway.

Examples of Fortum's sponsorship programmes and donations to charitable causes

Sports:	Alpine World Cup events at Levi and Åre
	Football Club Honka
	Finlandia Junior Games and Stafettkarnevalen
	Finnish Alpine Ski Team
	Finnish Paralympic Committee
	Holmenkollen Ski Association
Culture:	Swedish Athletics Association
	Finnish Chamber Orchestra
	Folkoperan
	Jean-Baptiste Vuillaume violin
	Millennium Technology Prize
WeeGee Exhibition Centre	
Society:	The Finnish Children and Youth Foundation's project in Russian Carelia
	Keep the Archipelago Tidy
	Red Cross, informal carers programme
	WWF Naturewatch

Fortum's economic impact, EUR million

	2006	2005
Customers	4,516	3,983
Income from customers on the basis of products and services sold, and financial income		
Suppliers	-2,290	-1,672
Cash payments to suppliers of raw materials, goods and services		
Employee compensation	-508	-481
Wages, salaries, remunerations and other indirect employee costs		
Funders compensation	-1,180	-767
Dividends, interest and financial expenses paid to investors		
Taxes	-374	-298
Income taxes paid by Fortum		
Usage of assets	-412	-291
Investments in fixed assets		
Deficit/Surplus cash continuing operations	-248	474
Cash from divesting activities	125	56
Income from divestment of business activities or plants		
Future growth investments	-972	-182
Investments made to expand business operations		
Proceeds/Return from/to funders	464	-1,022
Proceeds/Payments of liabilities from/to funders		
Cash flow from discontinued operations	-	1,317
Net change in cash	-631	643



*Collect your thoughts and feelings.
Make good decisions every day.*

Corporate governance

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

The company complies with the Corporate Governance Recommendation for Listed Companies in Finland with the exception that Fortum's Board of Directors' Nomination and Compensation Committee does not assist the Annual General Meeting in the nomination process of members to the Board of Directors. For this, the Annual General Meeting has established a Shareholders' Nomination Committee. Fortum prepares annual financial statements and interim reports conforming to Finnish legislation. They are published in Finnish, Swedish and English. The International Financial Reporting Standards (IFRS) were adopted in 2005.

Furthermore, Fortum complies with the Rules of the Helsinki Stock Exchange.

Governing bodies

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

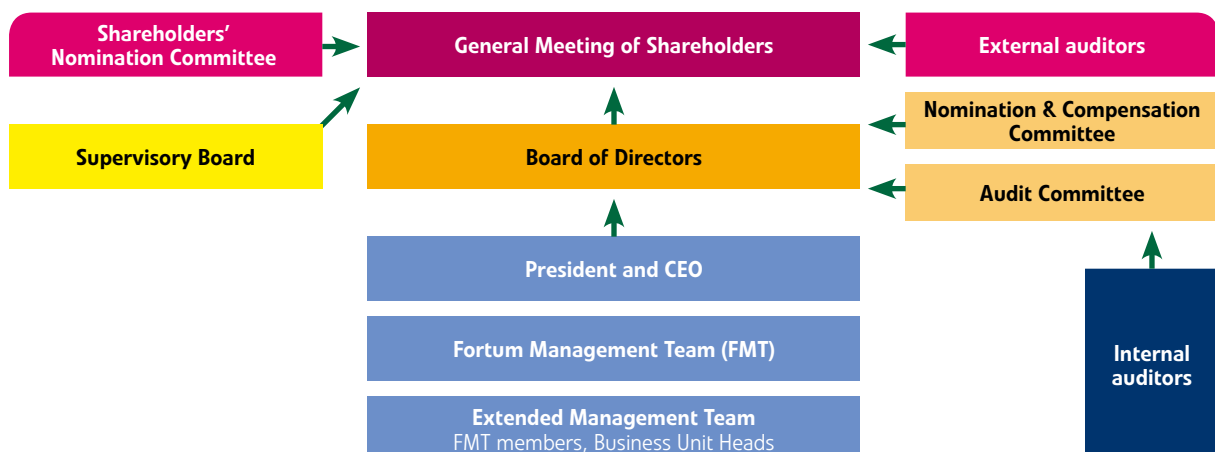
Day-to-day operational responsibility at the Group level rests with the President and CEO assisted by the Fortum Management Team, and at business unit level with each unit's head assisted by a management team (see corporate structure on page 3).

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

General Meeting of Shareholders

The right of shareholders to make decisions over company matters is exercised at an appropriately convened General Meeting of Shareholders by those shareholders present, or by their authorised representatives. In accordance with the Articles of Association, a notice to convene the General Meeting of Shareholders is issued by the Board of Directors. The notice is delivered no more than two months and no less than 17 days before the General Meeting of Shareholders by publishing the notice in two newspapers chosen by the Board of Directors. The Annual General Meeting is held once a year, at the latest in June. The duties of the Annual General Meeting are, among other things, to approve the parent company and consolidated income statement and balance sheet, agree on the amount of dividends, appoint the members of the Supervisory Board and the Board of Directors and decide on their compensation, and elect the auditor. An Extraordinary General Meeting of Shareholders shall be held whenever the Board of Directors finds cause for such a meeting or when provisions of the law rule that such a meeting must be held.

The shareholders who are registered as shareholders in the company's shareholder register, which is maintained by the Finnish Central Securities Depository Ltd, 10 days prior to the meeting are entitled to attend the General Meeting



of Shareholders. Shareholders who hold their shares under the name of a nominee can be temporarily registered in the company's shareholder register to allow attendance at the General Meeting of Shareholders.

To take part in the General Meeting of Shareholders, the shareholder shall register with the company at the latest by the date mentioned in the notice convening the meeting, and which may be no more than 10 days before the meeting. If a shareholder wishes to bring up a matter for consideration by the General Meeting of Shareholders, he/she shall present the matter in writing to the Board of Directors early enough for the matter to be included in the notice convening the meeting.

A dividend as decided by the General Meeting is paid to shareholders who, on the date of record for dividend payment, are registered as shareholders in the company's shareholder register.

Shareholders' Nomination Committee

By decision of Fortum's Annual General Meeting in 2006, a Shareholders' Nomination Committee was appointed to assist the Annual General Meeting. The Committee's duty is to prepare proposals concerning Board members and their compensation for the following Annual General Meeting. The Committee consists of the representatives of the three largest shareholders and the Chairman of the Board of Directors as an expert member. Those three shareholders, whose share of the total votes of all shares in the company is the largest as of 1 November preceding the Annual General Meeting and whose ownership is registered in the book-entry system, are entitled to appoint the members representing the shareholders on the Committee. Should a shareholder not wish to use its right to nominate, this right will be passed on to the next biggest shareholder.

In November 2006, the following persons were appointed to the Shareholders' Nomination Committee: **Markku Tapio** (Chairman), Director General, Ministry of Trade and Industry; **Harri Sailas**, President and CEO, Ilmarinen Mutual Pension Insurance Company; and **Jorma Huuhtanen**, Director General, Social Insurance Institution.

In its meeting on 30 January 2007, the Shareholders' Nomination Committee decided to propose to the Annual General Meeting, which will be held on 28 March 2007, that the following persons are elected to the Board of Directors: Mr Peter Fagnäs as chairman, Ms Birgitta Kantola as deputy chairman and Mr Esko Aho, Ms Birgitta Johansson-Hedberg, Mr Matti Lehti, Ms Marianne Lie and Mr Christian Ramm-Schmidt as members.

Supervisory Board

The Supervisory Board is responsible for overseeing that the shareholders' interests are safeguarded. The main tasks of the Supervisory Board are to supervise the administration of the company, to submit its statement on the financial statements and the audit report to the Annual General Meeting,

and to discuss proposals on matters that involve a substantial downsizing or expansion of the business or a material modification to the organisation.

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

The Supervisory Board comprises a minimum of six and a maximum of 12 members; in February 2007 there were 11 members. The Supervisory Board meetings are also attended by employee representatives who are not members of the Supervisory Board. More than half of its members must be present to constitute a quorum. In 2006, the Supervisory Board met five times. Average attendance at these meetings was 72%.

At the 2006 Annual General Meeting, the following persons were elected to the Supervisory Board for a one-year term of office:

Mr **Timo Kalli**, born 1951, Member of Parliament, Chairman

Ms **Rakel Hiltunen**, born 1940, Member of Parliament, Deputy Chairman

Mr **Martti Alakoski**, born 1953, Second Vice Chairman of City Council of Kurikka

Mr **Lasse Hautala**, born 1963, Member of Parliament

Mr **Mikko Immonen**, born 1950, Member of Parliament

Mr **Kimmo Kalela**, born 1941, Industrial Counsellor

Mr **Kimmo Kiljunen**, born 1951, Member of Parliament

Mr **Jari Koskinen**, born 1960, Member of Parliament

Ms **Sirpa Paatero**, born 1964, Member of Parliament

Mr **Oras Tynkkynen**, born 1977, Member of Parliament

Mr **Ben Zyskowitz**, born 1954, Member of Parliament

The employee representatives on Fortum's Supervisory Board were Mr **Jouni Koskinen**, Mr **Tapio Lamminen** and Ms **Satu Viranko**.

Shares held by the members of the Supervisory Board on 31 December 2006

	Shares	Change
Rakel Hiltunen	200	200
Kimmo Kalela	2,200	-1,000

Compensation for Supervisory Board service

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

On 16 March 2006, the Annual General Meeting confirmed the following remuneration for Supervisory Board service:



Fortum's Annual General Meeting will be held on 28 March 2007 in Helsinki, Finland.

Compensation for Supervisory Board service, EUR/month

	2006	2005	2004
Chairman	1,000	1,000	1,000
Deputy Chairman	600	600	600
Members	500	500	500
Meeting fee	200	200	200

Total compensation for Supervisory Board paid by Fortum, EUR

	2006	2005	2004
Chairman	13,200	12,800	10,200
Deputy Chairman	8,400	8,000	8,600
Other members	63,500	67,800	66,900

Board of Directors

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

It also decides on the Group's key operating principles, confirms the company's annual operating plan, annual financial statements and interim reports, decides on major investments, confirms the company's shared values and operating principles and oversees their implementation, appoints the President and CEO of the company, appoints deputies and the immediate subordinates to the President and CEO and decides on their remuneration, confirms the Fortum Management Team and the Group's organisational and operating structure at senior management level, and defines the company's dividend policy.

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

At the 2006 Annual General Meeting, the following persons were elected to the Board of Directors:

- Mr **Peter Fagernäs**, born 1952, Chairman
- Ms **Birgitta Kantola**, born 1948, Deputy Chairman
- Mr **Esko Aho**, born 1954
- Ms **Birgitta Johansson-Hedberg**, born 1947
- Mr **Matti Lehti**, born 1947
- Ms **Marianne Lie**, born 1962
- Mr **Christian Ramm-Schmidt**, born 1946

For more information on the Directors, please refer to pages 56–57.

In 2006, the Board of Directors met ten times, of which two were teleconferences. Average director attendance at all Board meetings was 88.6%. In addition to steering and supervising the company's operational and financial development, the main items during the year were Fortum's strategy, electricity market development and matters related to the acquisition of E.ON Finland Oyj. The Board also addressed issues relating to business development in Russia.

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

Shares held by members of the Board of Directors on 31 December 2006

	Shares	Change
Peter Fagernäs	30,591	0
Christian Ramm-Schmidt	1,000	n.a.

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

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

The Board of Directors has approved a working order to govern its work. The main contents of the working order have been summarised below.

The Board of Directors' working order

The main tasks of the Board of Directors

- Strategic development and steering of the company's business and fields of activity
- Ensuring that the business complies with the relevant rules and regulation, the company's Articles of Association and instructions given by the Supervisory Board
- Defining the dividend policy
- Ensuring that the accounting and financial administration are arranged appropriately
- Appointing the top management
- Reviewing the central risks and instructing the President and CEO concerning the risks
- Confirmation of the annual operating plan and budget
- Approving interim reports, the annual report and financial statements
- Taking care of the duties of the company's Board of Directors specified in the Companies Act
- Deciding on major investments
- Nominating members to the Board Committees

Assessment of the Board of Directors' work

- Annual self-assessment

Procedures of Board Meetings

- Convened according to a previously agreed schedule to discuss specified themes and other issues and whenever considered necessary
- Chairman decides on the agenda based on proposals by the President and CEO and the secretary to the Board
- Chairman shall convene a meeting to deal with a specific item, if requested by a member of the Board or the President and CEO
- Dealing with the reports of the Board committees and the President and CEO
- Materials shall be delivered to the members 5 days before meetings

The Board Committees

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

the right to participate in the committee meetings. The secretary to the Board of Directors acts as the secretary to the committees.

The Board has approved written charters for the committees. The main contents of these rules are outlined below.

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

In 2006, the Audit Committee was chaired by Birgitta Kantola and its members were Birgitta Johansson-Hedberg and Christian Ramm-Schmidt. The Committee met five times in 2006.

The main items during the year included the review of the Audit Committee's charter, the IFRS accounting matters, the internal audit plan and reports, the auditor's plan and discussion on findings, a review of the company's risk management and interim report reviews as well as self-assessment of the Committee work.

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

In 2006, the Nomination and Compensation Committee was chaired by Peter Fagernäs and its members were Esko Aho, Marianne Lie and Matti Lehti. The Committee met four times during 2006. The main items included management performance evaluations and compensation issues, as well as long-term incentive programmes in Fortum.

Assessment of the Board of Directors

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

Compensation for Board service

The Annual General Meeting 2006 confirmed the following compensation for Board service:

Compensation for Board service, EUR/year

	2006	2005	2004
Chairman	55,000	55,000	49,500
Deputy Chairman	42,000	42,000	38,500
Members	30,000	30,000	27,500
Fee/meeting	500	500	500

The members are entitled to travel expense compensation in accordance with the company's travel policy. Board members are not offered stock options, warrants or participation in other incentive schemes. There is no pension plan for non-executive directors.

Total compensation for Board of Directors paid by Fortum, EUR

	2006	2005	2004
Chairman	63,000	60,925	56,100
Deputy Chairman	50,500	48,725	44,200
Other members of the Board	189,500	179,875	156,525

President and CEO

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

The performance of the President and CEO is evaluated annually by the Board of Directors. The evaluation is based upon objective criteria that include the performance of the company and the achievement of goals previously set for the President and CEO by the Board's Nomination and Compensation Committee. The evaluation is used by the Committee to determine the level of the President and CEO's compensation to be recommended to the Board of Directors for approval. In the event that Fortum decides to give notice of termination to the President and CEO, he is entitled to compensation equalling 24 months' salary.

For further information regarding the compensation of the President and CEO, please refer to page 48 in the Financials.

Fortum Management Team

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

The Fortum Management Team, among other things, sets the strategic targets, prepares the Group's annual business plans, follows up on the results, plans and decides on investments, decides on mergers, acquisitions and divestments, reviews the key day-to-day operations and the implementation of operational decisions. For Fortum Management Team members and their individual responsibilities, please refer to pages 58–59.

Shareholding, Fortum Management Team

Shares	31 Dec. 2006	31 Dec. 2005	Change
Lilius Mikael	170,050	150,050	20,000
Frisk Mikael	14,900	14,900	0
Karttinen Timo	30,000	18,870	11,130
Kuula Tapio	50,050	50,050	0
Laaksonen Juha	20,000	20,000	0
Lundberg Christian	30,000	20,000	10,000
Teir-Lehtinen Carola	23,000	17,970	5,030

Remuneration policy

Fortum offers a competitive compensation package for senior executives and other management in order to attract and retain key resources. This package is structured to offer competitive but not excessive base salaries, purposeful benefits, challenging short-term incentives and deferred share-based long-term incentives. The compensation package for each executive is determined according to the Group's remuneration policy. The policy takes into account the company's financial performance and external market data from independent sources, in particular, remuneration levels for similar positions among peer companies. The remuneration policy is determined by the Board of Directors.

Annual 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 large 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 Nomina-

Compensation for the President and CEO and the Fortum Management Team, EUR

	2006	2005	2004
Salaries and fringe benefits			
President and CEO	795,844	769,164	732,312
Other Management Team members	1,415,023	1,460,323	1,521,137
Performance bonuses			
President and CEO	384,582	365,700	336,864
Other Management Team members	584,615	708,777	561,031
Total			
President and CEO	1,180,426	1,134,864	1,069,176
Other Management Team members	1,999,638	2,169,100	2,082,169

Stock options held by the Fortum Management Team on 31 December 2006

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

tion 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 unit responsibilities, the scheme is structured to reflect also the performance of their business unit as well as that of the Group. The criteria for evaluating an executive's personal performance are mutually agreed between the executive and his/her superior in an annual performance discussion at the beginning of each year.

The annual performance bonuses paid to the Fortum Management Team, including the President and CEO, in 2006 amounted to EUR 969 197, which is 0.27% of the total salaries and remuneration paid in the Group. For more information about the Annual Bonus System, please refer to page 38.

Long-term incentives

Fortum's Long-Term Performance Share Arrangement for key personnel was launched in 2003 and supports the achievement of the Group's long-term goals by attracting and retaining key personnel.

The Long-Term Performance Share Arrangement is a performance-based, long-term incentive (LTI) arrangement intended for the top management and key personnel of the Fortum Group. A new performance share plan under the arrangement starts annually if approved by the Board of Directors and runs for a six-year period. At present, approximately 150 managers, all of whom have been elected by the Board of Directors, are participants in at least one of six on-going annual LTI plans. 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 2006–2011 LTI plan is for non-stock option holders only.

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

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

The first annual share plan began in 2003 and was based on the 2002 financial results. In spring 2005, at the end of the earning period, share rights belonging to the first plan were granted to the participants. The shares, based on these share rights, will be delivered to the participants in spring 2008. In 2006, the earning period of the consecutive plan (2003–2008) ended and share rights belonging to this plan were granted to the participants. The approximate net number of shares with adjustments for 2005 and 2006 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 respectively are as follows:

Approximate net number of shares to be delivered to Fortum Management Team under LTI

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

Fortum does not have any stock option programmes, where the subscription periods have not yet started. The subscription periods for the last stock option schemes (2001B and 2002B) began during 2006.

For more information about the stock option programmes, please refer to pages 65–66 in the Financials.

Pension

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

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

Pension foundation

Fortum has one pension foundation, the Fortum Pension Fund for employees in Finland only, which was closed in 1991. The fund offers certain supplementary pension benefits to people within the sphere of its operations. The most important of these are the overall guaranteed pension of 66% and the reduced retirement age of 60 for women and some men. At the end of 2006, the number of employees covered by the fund was 1,260.

In addition to the persons covered by the pension fund, there are some three hundred other Fortum employees who have various additional pension benefits based on the systems of their previous employers. These benefits are insured by insurance companies. The clear majority of these persons are employees of the previous E.ON Finland (now Fortum Espoo).

Pensions in Sweden

In Sweden, the majority of Fortum's employees are covered by statutory retirement pension benefits and an additional collective agreement-based supplementary pension scheme, ITP. In addition, approximately 240 key persons are members of Birkaplanen, an alternative ITP-based pension scheme, which guarantees a defined pension of the final pensionable salary at the time of retirement. Birkaplanen was closed to new entrants in 2003.

In 2006, Fortum therefore launched a new alternative ITP-based pension scheme, ÖVER 10, for key persons earning more than 10 income base amounts. The scheme is contribution-based and offered to both existing and new employees. A limited number of employees in Sweden are also covered by separate pension schemes, due to earlier agreements with former employers.

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. Persons included in the Group's Long-Term Performance Share Arrangement are not eligible to be members of this fund. Members of the personnel fund are the permanent and fixed-term employees of the Group. The membership of employees joining the company starts at the beginning of the next month after the employment relationship has been ongoing for six months. Fund membership terminates when the member has received his share of the fund in full.

The profit-sharing received by the fund is distributed equally between the members. 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 fund's latest financial year ended at 30 April 2006 and the fund then 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 financial results of 2005. The combined amount of member's shares in the fund was EUR 25.2 million.

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

Insider guidelines

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

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

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

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

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

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

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

Internal audit

The Fortum Corporate Internal Audit is responsible for assessing and assuring the adequacy and effectiveness of internal controls in the company. Further, it evaluates the effectiveness and efficiency of various business processes, the adequacy of risk management and e.g. compliance with laws, regulations and internal instructions. The Standards for the Professional Practice of Internal Audit form the basis for its work.

The Corporate Internal Audit is independent of business and other units in Fortum. It reports to the Audit Committee of the Board of Directors and administratively to the CFO. The purpose, authority and responsibility of the Corporate Internal Audit is formally defined in its charter. The charter and the annual audit plan are approved by the Audit Committee.

External audit

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

Fortum Corporation's Annual General Meeting on 16 March 2006 elected Authorised Public Accountant Deloitte & Touche Oy as auditor, with Authorised Public Accountant Mikael Paul having the principal responsibility.

The fees invoiced and expected to be invoiced by the independent auditors for professional services rendered for the audit of Fortum's 2005 annual financial statements and other services through 31 December 2006, were as follows:

Total compensation for external auditing paid by Fortum, EUR 1,000

	2006	2005	2004
Audit fees	950	1,065	1,346
IFRS assignments	–	237	713
Tax assignments	–	287	426
Other	180	389	546
Total	1,130	1,978	3,031

Risk management

Active risk management plays a key role in ensuring that Fortum can deliver on its financial targets. Its purpose is also to help secure the execution of the group strategy.



Fortum hedges its electricity prices by entering into electricity forwards and futures contracts. 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.

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.

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 President and 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 President and 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 are organisationally segregated from decision-making functions and are 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 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 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 service 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.

Description of risks

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 the 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, CO₂ 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.

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, CO₂ 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 2008. These hedge ratios may vary significantly depending on Fortum's actions on the electricity derivatives markets. 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.

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.

CO₂ price risks

The European Union has established an emissions trading scheme to limit the level of CO₂ emissions. Part of Fortum's power and heat generation is subject to requirements under the trading scheme.

Fortum manages its exposure to CO₂ allowance prices through the use of CO₂ forwards and by ensuring that the costs of allowances are taken into account during production planning.

Fuel price risks

Heat and power 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 biofuels such as wood pellets and palm oil.

Exposure to fuel prices is to some extent limited because of Fortum's flexible generation possibilities, which allow 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 cases, customer contracting. Fixed-price purchases can be either for physical deliveries or in the form of financial hedges.

Proprietary trading risks

Fortum is trading electricity forwards, futures, options, and CFD's (contract for differences) mainly on the Nord Pool market and CO₂ 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 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 risks

Fortum's business is capital intensive and the Group has a regular need to raise financing. Fortum has a diversi-

fied 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 (3,946 million) and the interest-bearing net debt was EUR 4,345 million (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 12-month period amounted to EUR 442 million (828 million), cash and marketable securities amounted to EUR 157 million (788 million), and the amount of undrawn committed credit facilities was EUR 1,314 million (1,314 million). On top of the committed credit facilities, Fortum had, at year end, access to approximately EUR 2.2 billion (3.5 billion) of uncommitted credit facilities. More details of the financing position are given in Note 3 of the Financial Statements.

Interest rate risks

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 affect 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 (1.3 years). Approximately 66% (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 the 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 the net interest expense for the coming 12 months, was EUR 18 million. For detailed information, see Note 3 of the Financial Statements.

Currency risks

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. The Group's transaction and translations exposures on 31 December 2006 are reported in Note 3 of the Financial Statements.

Counterpart risks

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' credit-worthiness 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.

Operational risks

Operational risks are defined as the negative effects resulting from inadequate or failed internal processes, people and systems or 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. Quality and environmental management systems are a tool for achieving this objective, and Fortum has several certifications including ISO 9001 and ISO 14001. Technical risks are managed within maintenance investment planning.

The Group Insurance Policy governs the management of insurable operational risks. The objective of insurance management is to optimise loss prevention activities, self retentions and insurance coverage in a long-term cost-efficient manner. Fortum has established Group-wide insurance programmes for risks related to property damages, business interruption and liability exposures.

Risks at production facilities

Operational events at power and heat generation or electricity distribution facilities can lead to physical damages, business interruptions, and third-party liabilities. In Sweden, third-party liabilities from dam failures are strictly the plant owner's responsibility. Together with other hydro power producers, Fortum has a shared dam liability insurance program in place that covers Swedish dam failure liabilities up to SEK 7,000 million. Operational risks in production facilities are mitigated by continuous maintenance, condition monitoring, and other operational improvements.

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

Nuclear risks

Fortum owns the Loviisa nuclear power plant, and has minority interests in one Finnish and two Swedish companies with nuclear plants. In the Loviisa power plant, assessment and improvement of nuclear safety is a continuous process which is performed under the supervision of the Radiation and Nuclear Safety Authority of Finland (STUK). In Finland and Sweden, third-party liability relating to nuclear accidents is strictly the plant operator's responsibility and must be covered by insurance. As the operator of the Loviisa power plant, Fortum has a statutory insurance policy of roughly EUR 240 million per nuclear incident. Similar insurance policies are in place for the operators where Fortum has a minority interest.

Environmental, health and safety risks

Operating power and heat generation and electricity distribution facilities involves the use, storage and transportation of fuels and materials that can have adverse effects on the environment. Operation and maintenance of the facilities exposes the personnel to potential safety risks. Environmental and safety risks are regularly evaluated through internal and external audits and risk assessments,

and corrective and preventive actions are launched when necessary.

Environmental, health and safety risks arising in investments are systematically evaluated in accordance with Fortum's Investment Evaluation and Approval Procedure. The EHS Assessment Guidelines were updated for this purpose during 2006. EHS-related responsibilities and liabilities are defined in the contract documents for acquisitions and divestments. Environmental risks and liabilities in relation to past actions have been assessed and necessary provisions made for future remedial costs.

Political and regulatory risks

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

Legal and compliance risks

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. Segregation of duties and internal controls are enforced to minimize the possibilities of unauthorised activities.

IT and information security risks

Information security risks are managed centrally by the corporate security and IT functions. Business-specific risks are managed within the business and service units. Corporate policies define guidelines and set procedures for reducing risks and managing IT and other information security incidents. The main objective is to ensure high availability and fast recovery of IT systems.

Board of Directors (31 Dec. 2006)



Peter Fagernäs and Birgitta Johansson-Hedberg

Peter Fagernäs

Chairman, born 1952, Master of Laws
Chairman of the Nomination and Compensation Committee

Main occupation:

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

Primary work experience:

Chairman of the Board, Pohjola Group Plc
Chairman of the Board, Conventum Plc
CEO, Conventum Plc
Member of the Board, Merita Bank
CEO, Prospectus Oy

Various positions at Kansallis-Osake-Pankki

Simultaneous positions of trust:

Member of the Board of Finnlines
Plc and Winpak Ltd., Canada

Independent member of Fortum's
Board of Directors since 2004



Esko Aho, Marianne Lie and Matti Lehti

Esko Aho

Born 1954, Master of Political Sciences
Member of the Nomination and Compensation Committee

Main occupation:

President of the Finnish National Fund for
Research and Development (Sitra)

Primary work experience:

Prime Minister of Finland 1991–1995
Member of Parliament 1983–2003
Leader of the Centre Party 1990–2002
Lecturer at Harvard 2000–2001

Simultaneous positions of trust:

Chairman of a group of experts on European
innovation policy 2005–2006

Independent member of Fortum's
Board of Directors since 2006

Birgitta Johansson-Hedberg

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

Main occupation:

Director

Primary work experience:

President and CEO, Lantmännen
President and CEO, Förenings Sparbanken
Resident Director for Scandinavia, Wolters Kluwer

Simultaneous positions of trust:

Member of the Board of Sveaskog, Chairman of the Board of
the University of Umeå and Member of Aktiemarknadsnämnden

Independent member of Fortum's
Board of Directors since 2004



Birgitta Kantola and Christian Ramm-Schmidt

Birgitta Kantola

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

Main occupation:

Director

Primary work experience:

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

Simultaneous positions of trust:

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

Independent member of Fortum's Board of Directors since 2001

Matti Lehti

Born 1947, PhD (Econ)

Member of the Nomination and Compensation Committee

Main occupation:

Chairman of the Board of TietoEnator Corporation

Primary work experience:

President and CEO and member of the Board, TietoEnator Corporation, Tietotehdas Oy and TietoGroup
Deputy Managing Director, Rautakirja Oy

Simultaneous positions of trust:

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

Independent member of Fortum's Board of Directors since 2005

Marianne Lie

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

Member of the Nomination and Compensation Committee

Main occupation:

Director General, Norwegian Shipowners Association (NSA)

Primary work experience:

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

Simultaneous positions of trust:

Chairman of the Board of Punkt Ø, Member of the Board of Kverneland ASA and Arendals Fossekompagni ASA

Independent member of Fortum's Board of Directors since 2005

Christian Ramm-Schmidt

Born 1946, B.Sc. (Econ.)

Member of the Audit Committee

Main occupation:

Senior Partner of Merasco Capital Ltd.

Primary work experience:

President of Baltic Beverages Holding Ab (BBH)
President of Fazer Biscuits Ltd., Fazer Chocolates Ltd., Fazer Confectionery Group Ltd.
Director, ISS ServiSystems Oy

Simultaneous positions of trust:

Chairman of the Board of Derbes Brewery (BBH), Kazakhstan, Member of the Board of Oy Chips Ab, Bang & Bonsomer Oy, Orkla CIS Holding Ltd, Tradeka Group Ltd, MDC Education Group and Sarbast Plus Brewery (BBH), Uzbekistan

Independent member of Fortum's Board of Directors since 2006

Group management (31 Dec. 2006)



Mikael Lilius and Juha Laaksonen

Mikael Lilius

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

Previous positions:

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

Simultaneous positions of trust:

Huhtamäki Oyj, Chairman of the Board
Sanitec Oy, Chairman of the Board
Hafslund ASA, Member of the Board

Mikael Frisk

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

Previous positions:

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



Tapio Kuula, Timo Karttinen and Mikael Frisk

Timo Karttinen

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

Previous positions:

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

Design Engineer, Energy Business
Unit, Imatran Voima Oy, 1991

Simultaneous positions of trust:

Fingrid Oyj, Member of the Board
Association of Finnish Energy Industries, Vice
Chairman of the Executive Board
Gasum Oy, Member of the Supervisory Board
AS Eesti Gaas, Member of the Supervisory Board
Fortum Wrocław S.A., Chairman of the Supervisory Board
Confederation of Finnish Industries, Trade
Policy Committee, Member



Christian Lundberg and Carola Teir-Lehtinen

Tapio Kuula

Senior Vice President since 2005

Born 1957. MSc (Eng), MSc (Econ)

Member of the Management Team since 1997

Employed by Fortum since 1996

Previous positions:

President, Fortum Power and Heat Oy, 2000–

President, Power and Heat Sector, Fortum Corporation, 2000

Executive Vice President, Fortum Power and Heat Oy, 1999

Executive Vice President, Member of the Board, Member of the Management Team, Imatran Voima Oy, 1997

Simultaneous positions of trust:

Fingrid Oyj, Chairman of the Board

Kemijoki Oy, Chairman of the Board

Teollisuuden Voima Oy, Chairman of the Board

OKG Aktiebolag, Vice Chairman of the Board

OAO TGC-1, Vice Chairman of the Board

OAO Lenenergo, Vice Chairman of the Board

OAO TGC-9, Member of the Board

Varma Mutual Pension Insurance Company,

Member of the Supervisory Board

National Board of Economic Defense, Member

Confederation of Finnish Industries,

Energy Committee, Member

Juha Laaksonen

Chief Financial Officer since 2000

Born 1952. BSc (Econ)

Member of the Management Team since 2000

Employed by Fortum since 1979

Previous positions:

Corporate Vice President, M&A, Fortum Corporation, 2000

Executive Vice President, Finance & Planning,

Fortum Oil & Gas Oy, 1999

CFO, Neste Oyj, 1998

Corporate Controller, Neste Oyj, 1997

Simultaneous positions of trust:

Neste Oil Oyj, Member of the Board

Teollisuuden Voima Oy, Member of the Board

Kemijoki Oy, Member of the Supervisory Board

Tapiola General, Member of the Supervisory Board

Christian Lundberg

Senior Vice President since 2005

Born 1956

Member of the Management Team since 2003

Employed by Fortum since 2003

Previous positions:

President, Fortum Markets, 2003

Regional Director Nordic/Baltic Services Microsoft, 2001

Regional Director MS Nordic/Baltic Microsoft, 2000

General Manager MS Sweden Microsoft, 1997

Simultaneous positions of trust:

Svensk Energi, Member of the Board

EnergiFöretagens Arbetsgivareförening, Vice Chairman

Carola Teir-Lehtinen

Senior Vice President, Corporate

Communications, since 2000

Born 1952. MSc (Chem)

Member of the Management Team since 2000

Employed by Fortum since 1986

Previous positions:

Corporate Executive Vice President, Environment,

Health and Safety, Fortum Corporation, 1998

Corporate Vice President, Environment and

Product Safety, Neste Oy, 1992

Environmental Protection Manager, Neste Oy, 1986

Simultaneous positions of trust:

Stockmann Plc, Member of the Board

Aker Yards Plc (Norway), Member of the Board

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, 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 be read also on Fortum's website at www.fortum.fi, www.fortum.se and www.fortum.com.

Fortum management serves analysts and the media with regular press conferences, which are web cast to the company's internet 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

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

Equity analysts covering Fortum

ABG Sundal Collier, Oslo
ABN Amro, Helsinki
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
Raymond James Euro Equities, Paris
Société Générale, Paris
UBS, London
Valuatum, Helsinki
Öhman, Helsinki

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*Let's make the
good energy go around!*

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