

Annual Report 2007

Financials



Investor Information

Annual General Meeting

The Annual General Meeting (AGM) of Fortum Corporation will be held on Tuesday, 1 April 2008, at 1.00 p.m., at Finlandia Hall, Mannerheimintie 13 e, Helsinki. Registration of shareholders who have notified the Company of their attendance will begin at 11.45 a.m.

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 at +358 (0)10 452 9460, by fax at +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 power of attorney must arrive by 4.00 p.m. (Finnish time), 25 March 2008.

Payment of dividends

The Board of Directors proposes to the AGM that a dividend of EUR 1.35 per share be paid for the financial period 2007. Of this total dividend, EUR 0.77 per share is to be paid from Fortum's recurring earnings. An additional dividend of EUR 0.58 per share is proposed in order to steer Fortum's capital structure towards the target. The record date for dividend payment is 4 April 2008, and the proposed dividend payment date is 11 April 2008.

Publication of results

- Interim report for January–March will be published on 24 April 2008
- Interim report for January–June will be published on 17 July 2008
- Interim report for January–September will be published on 22 October 2008

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.com.

Fortum management serves analysts and the media with regular press conferences, which are webcasted 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. Additional information about shares and shareholders is presented in the Fortum Share and Shareholders section in Operating and Financial Review in

 Financials.

Fortum share basics

Listed on OMX Nordic Exchange Helsinki
Trading ticker: FUM1V
Number of shares, 30 January 2008: 886,935,660
Sector: Utilities

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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@partners.fortum.com

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



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Fortum's Annual report 2007 consists of two separate volumes: the Review of Operations and the Financials. Sustainable development is reported in the Review of Operations.

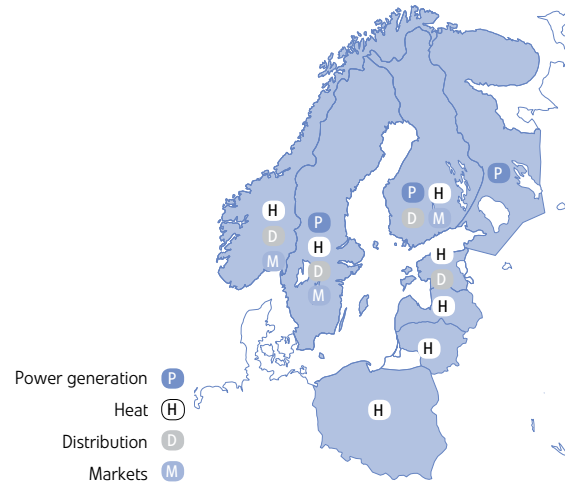


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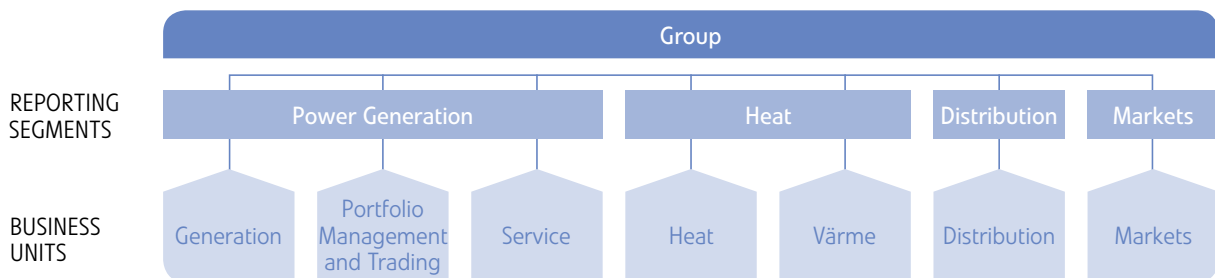
Fortum in Brief

Fortum is a leading energy company in the Nordic countries and other parts of the Baltic Rim area. Activities cover the generation, distribution and sale of electricity and heat as well as the operation and maintenance of power plants. Fortum makes sure that sustainable energy services are available today and tomorrow.

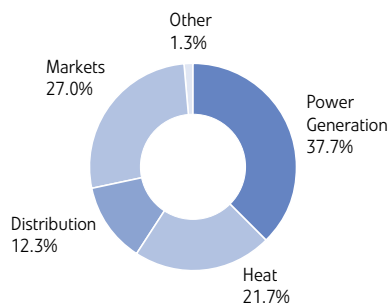
Fortum's businesses are divided into four reporting segments. Power is generated in plants owned or partly owned by Fortum in the Power Generation segment and in combined heat and power plants in the Heat segment. Power Generation sells the electricity it generates through the Nordic power exchange Nord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



Group structure

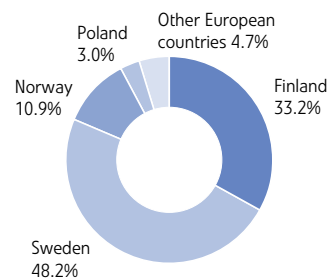


Sales¹⁾

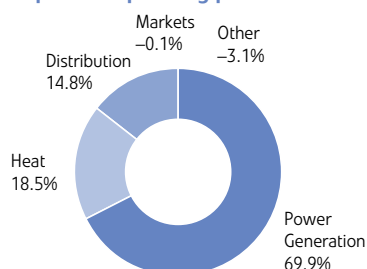


¹⁾ Percentages based on sales before eliminations.

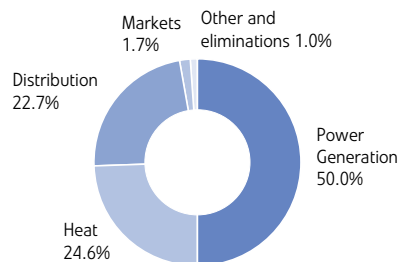
Sales by market area



Comparable operating profit



Net assets



Fortum share

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

Reporting Standards (IFRS) were adopted in 2005. At 31 December 2007 market capitalisation was EUR 27,319 million.

Fortum's financial targets

Fortum communicated in 2006 to have a prudent and efficient capital structure which at the same time allows the implementation of its strategy. The defined target capital structure is Net debt to EBITDA in the range of 3.0 to 3.5. Fortum also revised target on return on shareholders' equity in line with the company's targeted capital structure. The new target was increased from 12% to 14% or higher. The target for return on capital employed remained at 12% or higher.

Group financial targets, continuing operations

	Target	2007 adjusted ¹⁾	2007	2006	2005
ROCE, %	12%	14.0	16.5	13.4	13.5
ROE, %	14%	15.8	19.1	14.4	13.5
Capital structure: Net debt/EBITDA	3.0–3.5x	2.2	1.9	2.3	1.8

¹⁾ Adjusted for REC and Lenenergo gains.

Financial summary, continuing operations

EUR million or as indicated	2007 adjusted ¹⁾	2007	2006	2005
Sales		4,479	4,491	3,877
EBITDA		2,298	1,884	1,754
Operating profit		1,847	1,455	1,347
Comparable operating profit		1,564	1,437	1,334
Profit for the period attributable to equity holders		1,552	1,071	884
Capital employed		13,544	12,663	11,357
Interest-bearing net debt		4,466	4,345	3,158
Net debt/EBITDA	2.2	1.9	2.3	1.8
Return on capital employed, %	14.0	16.5	13.4	13.5
Return on shareholders' equity, %	15.8	19.1	14.4	13.5
Capital expenditure and gross investments in shares		972	1,395	479
Net cash from operating activities		1,670	1,151	1,271

¹⁾ Adjusted for REC and Lenenergo gains.

Key ratios per share

	2007	2006	2005
Earnings per share, total Fortum, EUR	1.74	1.22	1.55
Earnings per share, continuing operations, EUR	1.74	1.22	1.01
Earnings per share, discontinued operations, EUR	–	–	0.54
Dividend per share total Fortum, EUR	1.35 ¹⁾	1.26	1.12 ³⁾
Dividend per share continuing operations, EUR	0.77 ¹⁾	0.73	0.58
Dividend per share additional in 2006 and 2007/ discontinued operations in 2005, EUR	0.58 ¹⁾	0.53	0.54
Payout ratio total Fortum, %	77.6 ^{1) 2)}	103.3 ²⁾	72.3
Payout ratio continuing operations, %	44.3 ^{1) 2)}	59.8 ²⁾	57.4 ⁴⁾
Payout ratio additional dividend in 2006 and 2007/ discontinued operations in 2005, %	33.3 ^{1) 2)}	43.4 ²⁾	100.0 ⁴⁾

¹⁾ Board of Directors' proposal for the Annual General Meeting in 1 April 2008.

²⁾ Payout ratios for 2006 and 2007 are based on the total earnings per share.

³⁾ In addition to cash dividend Fortum distributed approximately 85% of Neste Oil Corporation shares as dividend in 2005.

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

10 years Financial and Share Key Figures and their definitions are presented in the Financial Statements, see pages 88–90, and 94–95.



Segment information

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

units are grouped into business segments in the external reporting.

Operational key figures are presented in the Financial Statements, see pages 91–93 and Note 5 Primary segment information.



Operating profit excluding non-recurring items, fair value changes of derivatives not getting hedge accounting and nuclear fund adjustment

Comparable operating profit plus profit from associated companies divided by comparable net assets

Key figures by segment, continuing operations

EUR million	Sales			Comparable operating profit			Comparable RONA%		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Power Generation	2,350	2,439	2,058	1,093	985	854	17.7	16.9	14.5
Heat	1,356	1,268	1,063	290	253	253	9.2	9.2	11.0
Distribution	769	753	707	231	250	244	7.5	8.3	8.6
Markets	1,683	1,912	1,365	-1	-4	30	-0.6	-0.8	16.4
Other	81	78	91	-49	-47	-47			
Eliminations	-1,760	-1,959	-1,407	-	-	-			
Total	4,479	4,491	3,877	1,564	1,437	1,334			

Quarterly sales by segments, continuing operations

EUR million	Q1/2007	Q2/2007	Q3/2007	Q4/2007	2007	Q1/2006	Q2/2006	Q3/2006	Q4/2006	2006
	Power Generation	641	522	502	685	2,350	643	560	569	667
Heat	479	252	186	439	1,356	480	229	178	381	1,268
Distribution	225	172	166	206	769	219	162	162	210	753
Markets	519	351	331	482	1,683	547	400	436	529	1,912
Other	19	22	19	21	81	20	20	19	19	78
Eliminations	-543	-360	-344	-513	-1,760	-566	-423	-418	-552	-1,959
Total	1,340	959	860	1,320	4,479	1,343	948	946	1,254	4,491

Quarterly comparable operating profit by segments, continuing operations

EUR million	Q1/2007	Q2/2007	Q3/2007	Q4/2007	2007	Q1/2006	Q2/2006	Q3/2006	Q4/2006	2006
	Power Generation	328	218	184	363	1,093	293	208	195	289
Heat	137	36	-3	120	290	126	35	-3	95	253
Distribution	78	53	50	50	231	81	53	39	77	250
Markets	-14	3	11	-1	-1	0	2	2	-8	-4
Other	-17	-12	-4	-16	-49	-14	-12	-8	-13	-47
Total	512	298	238	516	1,564	486	286	225	440	1,437

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

Quarterly information is available on Fortum's website www.fortum.com/investors/financial-information.

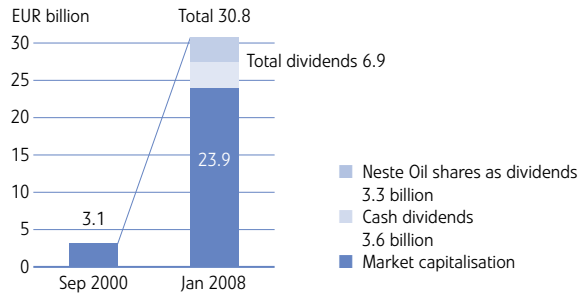


Creating shareholder value

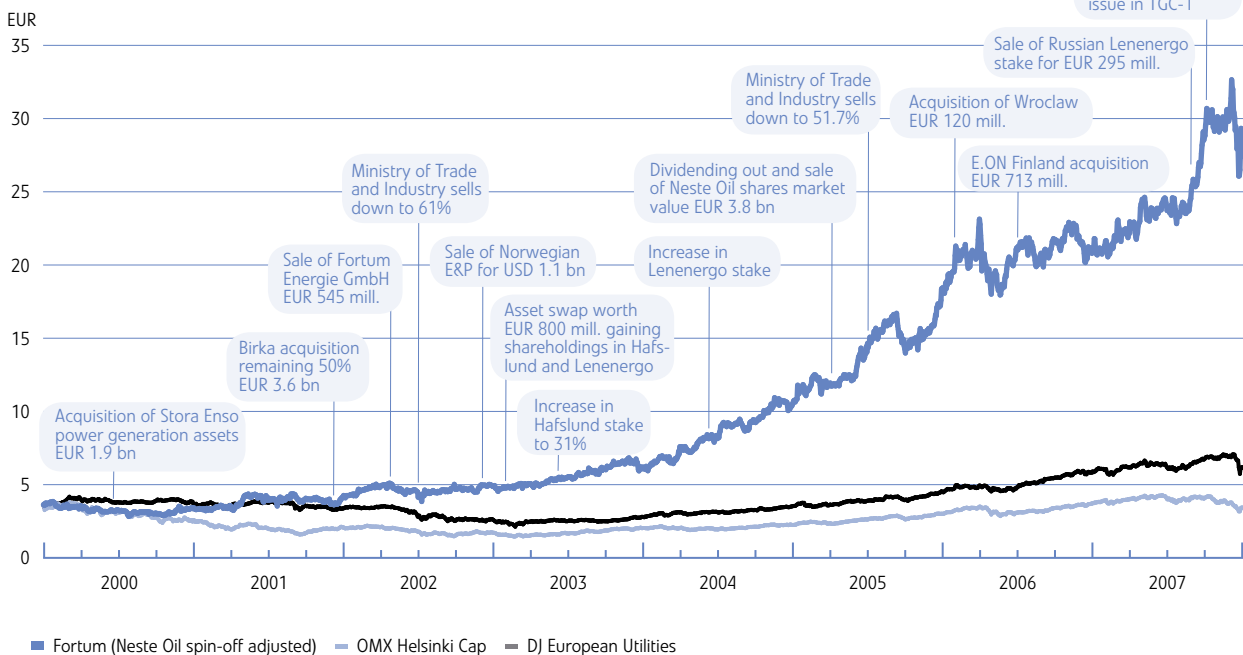
Fortum's share outperformed its European utility peers during 2007. Fortum's share price appreciated 43% during the year, while Dow Jones European Utility Index increased 18% and OMX Helsinki cap index increased 8%.

Fortum has continuously carried out structural and operational development according to its strategy. Since 2000 Fortum has made acquisitions totalling EUR 8 bn and divestments EUR 7 bn. Since 2000 the share price increased by approximately 800%.

Shareholder value increase, totally EUR 27.7 billion



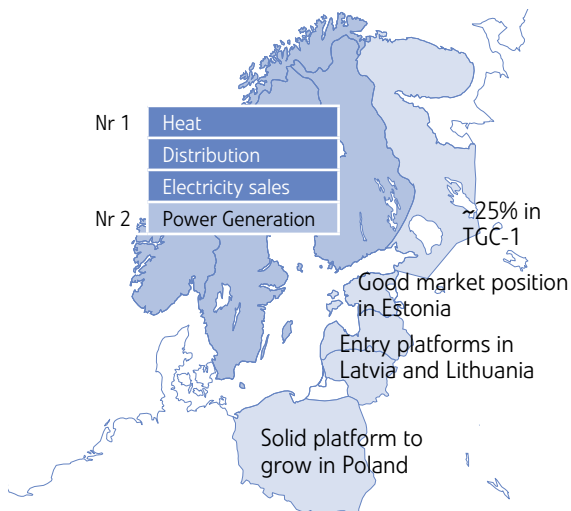
Share price performance



During the 2000s – successful strategy delivery

In the Nordic countries, Fortum is currently number one or the second largest in its core business areas. While in Poland, the Baltic countries and Russia, the company actively investigates growth opportunities. Implementation of the Nordic 1,300 MW power and heat generation growth investment program continued and several

power supply agreements with large customers were made. Fortum continued to develop its end customer power offerings for increased customer value with special focus on AMM (Automated Meter Management). In addition, Fortum is investing in new CHP plants in Poland and Estonia.



The Nordic investment programme

- Olkiluoto 3, Finland, nuclear
- Nuclear upgrades, Sweden
- Suomenoja, Finland (CHP)
- Värtan, Sweden (bio CHP)
- Järvenpää, Finland (bio CHP)
- Brista, Sweden (waste CHP)
- Refurbishing of existing hydro assets
- Wind power, Sweden

Total ~1,300 MW

EUR 3 billion, 10 TWh of which ~90% CO₂-free

In addition

- Automated meter management (EUR 240 million)
- Security of supply in distribution (EUR 700 million)

Operating and Financial Review

Financial Performance

The year 2007 was characterised by high precipitation and mild winter temperatures. Throughout the year, a strong hydrological situation combined with low CO₂ emission allowance prices led to low Nordic spot prices. Despite the challenging market conditions, Fortum improved its performance compared to previous year. The company's financial position remained strong. Net cash from operating activities improved to EUR 1,670 (1,151) million.

Key financial figures, continuing operations

EUR million or as indicated	2007	2006	2005
Sales	4,479	4,491	3,877
Operating profit	1,847	1,455	1,347
Operating profit, % of sales	41.2	32.4	34.7
Comparable operating profit	1,564	1,437	1,334
Profit before taxes	1,934	1,421	1,267
Profit for the period attributable to equity holders	1,552	1,071	884
Earnings per share, EUR	1.74	1.22	1.01
Net cash from operating activities	1,670	1,151	1,271
Shareholders' equity per share, EUR	9.43	8.91	8.17
Capital employed	13,544	12,663	11,357
Interest-bearing net debt	4,466	4,345	3,158
Average number of shares, 1,000s	889,997	881,194	872,613

Key financial ratios, continuing operations

	2007 adjusted ²⁾	2007	2006	2005
Return on capital employed, %	14.0	16.5	13.4	13.5
Return on shareholders' equity, % ¹⁾	15.8	19.1	14.4	13.5
Net debt/EBITDA	2.2	1.9	2.3	1.8

¹⁾ 2005 return on equity for continuing operations is calculated based on profit for the period from continuing operations divided by total equity at the end of the period. Profit for the period from discontinued operations has been subtracted from total equity as at 31 December 2005.

²⁾ Adjusted for REC and Lenenergo gains

Financial ratios, total Fortum

EUR million or as indicated	2007	2006	2005 ^{*)}
Sales	4,479	4,491	5,918
Operating profit	1,847	1,455	1,864
Operating profit, % of sales	41.2	32.4	31.5
Earnings per share, EUR	1.74	1.22	1.55
Return on capital employed, %	16.5	13.4	16.6
Return on shareholders' equity, %	19.1	14.4	18.7
Equity to assets ratio, %	49	48	49

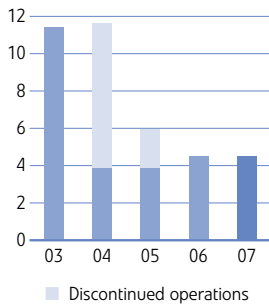
^{*)} 2005 Fortum's oil operations have been disclosed as discontinued operations until March 31, 2005, when the Annual General Meeting of Fortum decided to distribute approximately 85% of the share in Neste Oil as dividend. The remaining shares were sold in April 2005.

In the first-quarter, Fortum booked a gain of EUR 180 million after its associated company, Hafslund ASA in Norway, had sold shares in Renewable Energy Corporation (REC). This corresponds to EUR 0.20 per share in Fortum's first-quarter result. In the third-quarter, Fortum sold its stake in the Russian JSC Lenenergo for EUR 295 million. This resulted in a gain of EUR 232 million which corresponds to EUR 0.26 per share in Fortum's third quarter result.

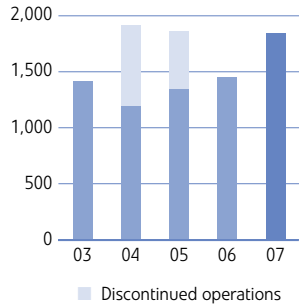
Fortum participated in the share issue of the Russian Territorial Generating Company 1 (TGC-1) in the third-quarter and maintained its 25.7% ownership. The total value of Fortum's subscription was EUR 243 million.

In 2007, the Power Generation segment's achieved Nordic power price was EUR 39.7 (37.1) per megawatt-hour (MWh), up by 7% from previous year and clearly higher than the average spot price of electricity in Nord Pool, the Nordic power exchange. This was mainly thanks to Fortum's consistent hedging strategy. The average spot price of electricity in Nord Pool was EUR 27.9 (48.6) per megawatt-hour (MWh), approximately 43% lower than the same period previous year.

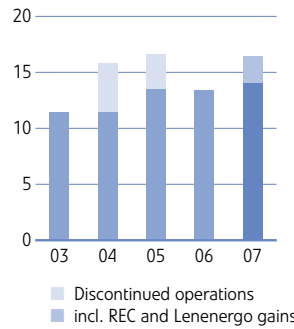
Sales, EUR billion



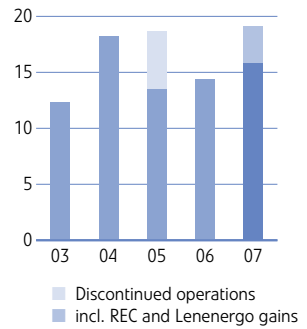
Operating profit, EUR million



Return on capital employed, %



Return on shareholders' equity, %



Market conditions

According to preliminary statistics, the Nordic countries consumed 397 (393) terawatt hours (TWh) of electricity in 2007, an increase of about 1% from previous year.

The year 2007 started with the Nordic water reservoirs being at the long-term average level. Throughout the year, the Nordic water reservoirs were above the long-term average. At the end of December, the Nordic water reservoirs were 8 TWh above the long-term average and 11 TWh above the corresponding level in 2006.

During year 2007, the average spot price for power in Nord Pool was EUR 27.9 (48.6) per megawatt-hour, or 43% lower than in 2006. The low spot price was due to the strong hydrological situation and low CO₂ emission prices for 2007.

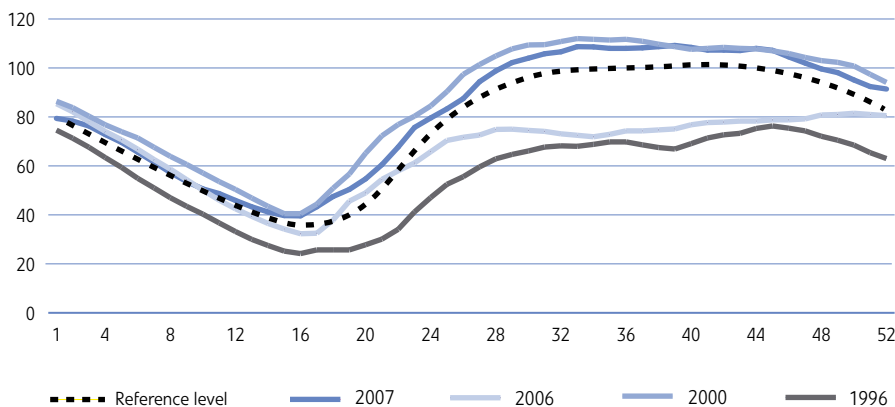
During year 2007, the average market price for CO₂ emissions was EUR 0.7 (18.5) per tonne, or 96% lower than in the previous year.

During the second half of 2007, coal prices increased dramatically. Oil prices increased during most of the year and reached historically high levels, peaking close to 100 US dollars per barrel towards the end of the year.

In Germany, the average spot price for the fourth quarter was higher compared to the Nordic area, resulting in a net export from the Nordic area to Germany.

Nordic Water Reservoirs

Weekly filling as energy, TWh



Total power and heat generation figures

Fortum's total power generation during 2007 was 52.2 (54.4) TWh, of which 51.1 (53.2) TWh was in the Nordic countries, representing 13% (14%) of the total Nordic electricity consumption.

At year end, Fortum's total power generating capacity was 10,920 (10,913) MW, of which 10,775 (10,768) MW was in the Nordic countries. At year end, Fortum's total heat production capacity was 11,223 (10,883) MW, of which 9,381 (9,239) MW was in the Nordic countries.

During the year 2007, approximately 89% (84%) of the generated power was CO₂-free. A preliminary estimate for CO₂ emissions from Fortum's own power plants in 2007 totals 10.4 (11.0) million tonnes, 0.6 million tonnes lower than in the previous year. The emissions subject to EU's emissions trading scheme were to about 9.8 (10.6) million tonnes. Both figures include Fortum's 308 MW share of the Meri-Pori power plant that was leased out in January 2007. The average volume of emission allowances allocated to Fortum's installations in various countries totalled approximately 8.1 million tonnes per year during 2005–2007.

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

Fortum's total power and heat generation

TWh	2007	2006	2005
Power generation	52.2	54.4	52.3
Heat generation	26.1	25.8	25.1

Fortum's own power generation by source, total in the Nordic countries

TWh	2007	2006	2005
Hydropower	20.0	19.8	21.2
Nuclear power	24.9	24.4	25.8
Thermal power	6.2	9.0	4.2
Total	51.1	53.2	51.2

Fortum's own power generation by source, total in the Nordic countries

%	2007	2006	2005
Hydropower	39	37	42
Nuclear power	49	46	50
Thermal power	12	17	8
Total	100	100	100

Total power and heat sales figures

Fortum's total power sales were 59.7 (61.6) TWh, of which 58.5 (60.2) TWh were in the Nordic countries. This represents approximately 15% (15%) of Nordic electricity consumption during January–December. Heat sales in the Nordic countries amounted to 20.4 (20.1) TWh and in other countries to 6.7 (6.7) TWh.

Fortum's total electricity^{*)} and heat sales

EUR million	2007	2006	2005
Electricity sales	2,370	2,437	2,002
Heat sales	1,096	1,014	867

Fortum's total electricity sales^{*)} by area

TWh	2007	2006	2005
Sweden	27.6	28.5	30.4
Finland	29.0	29.6	26.0
Other countries	3.1	3.5	3.3
Total	59.7	61.6	59.7

Fortum's total heat sales by area

TWh	2007	2006	2005
Sweden	9.2	9.3	9.5
Finland	11.1	10.7	9.8
Other countries ^{**)}	6.8	6.8	4.5
Total	27.1	26.8	23.8

^{*)} Nord Pool transactions are calculated as a net amount of hourly sales and purchases at the Group level.

^{**)} Including the UK, which is reported in the Power Generation segment, other sales.

Financial results

Sales from continuing operations, by segment

EUR million	2007	2006	2005
Power Generation	2,350	2,439	2,058
Heat	1,356	1,268	1,063
Distribution	769	753	707
Markets	1,683	1,912	1,365
Other	81	78	91
Eliminations	-1,760	-1,959	-1,407
Total	4,479	4,491	3,877

Comparable operating profit from continuing operations, by segment

EUR million	2007	2006	2005
Power Generation	1,093	985	854
Heat	290	253	253
Distribution	231	250	244
Markets	-1	-4	30
Other	-49	-47	-47
Total	1,564	1,437	1,334

Operating profit from continuing operations, by segment

EUR million	2007	2006	2005
Power Generation	1,125	980	825
Heat	294	264	269
Distribution	465	252	251
Markets	12	-6	32
Other	-49	-35	-30
Total	1,847	1,455	1,347

Group sales were EUR 4,479 (4,491) million.

Group operating profit totalled EUR 1,847 (1,455) million. Comparable operating profit increased by EUR 127 million to EUR 1,564 (1,437) million. The Power Generation and Heat segments contributed to the increase.

The gain on the sale of Lenenergo shares increased third-quarter operating profit by EUR 232 million. The gain was booked in the Distribution segment's operating profit.

Profit before taxes was EUR 1,934 (1,421) million.

The Group's net financial expenses increased to EUR 154 (103) million. The increase is mainly attributable to a higher average level of debt and a lower, EUR 7 (30) million, change in the fair value of derivatives.

The share of profit of associates and joint ventures was EUR 241 (69) million. The biggest contributor was Hafslund ASA in Norway. In the first quarter, Hafslund announced that it had completed the sale of 35 million shares in Renewable Energy Corporation (REC) at NOK 138 per share. As a consequence, Fortum booked a gain of EUR 180 million, corresponding to EUR 0.20 per share, in its first-quarter result. After this transaction, Hafslund still owns 70.4 million shares in REC.

Hafslund is showing the fair value change in the REC shareholding through the income statement, while Fortum is showing the fair value change in equity. The cumulative fair value change booked in Fortum's equity and based on the remaining number of shares reported by Hafslund was approximately EUR 790 million at the end of December 2007.

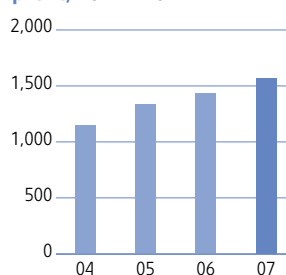
Fortum received EUR 145 million in dividends from Hafslund in the second quarter. EUR 123 million of the dividends was due to the sale of REC.

Minority interests accounted for EUR 56 (49) million. The minority interests are mainly attributable to Fortum Värme Holding, in which the City of Stockholm has a 50% economic interest.

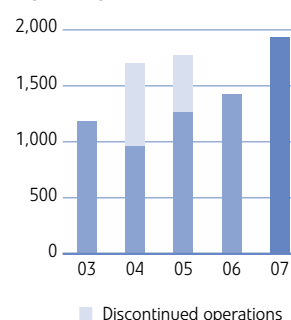
Taxes for the period totalled EUR 326 (301) million. The tax rate according to the income statement was 16.9% (21.2%), mainly due to the high share of profit of associates and the capital gain from the sale of Lenenergo shares. Excluding the share of profits of associates and Lenenergo sales gains, the tax rate was 22.3% (22.3%).

The profit for the period was EUR 1,608 (1,120) million. Fortum's earnings per share were EUR 1.74 (1.22). Return on capital employed was 16.5% for the year (13.4% for 2006), and return on shareholders' equity was 19.1% for the year (14.4% for 2006). Return on capital employed and return on shareholders' equity, excluding REC and Lenenergo sales gains, were 14.0% and 15.8%, respectively.

Comparable operating profit, EUR million



Profit before taxes, EUR million



Segment reviews

Power Generation

The business area comprises power generation and sales in the Nordic countries and the provision of operation and maintenance services in the Nordic area and selected international markets. The Power Generation segment sells its production to Nord Pool. The segment includes the business units Generation, Portfolio Management and Trading (PMT), and Service.

EUR million	2007	2006	2005
Sales	2,350	2,439	2,058
– power sales	2,019	2,059	1,682
– other sales	331	380	376
Operating profit	1,125	980	825
Comparable operating profit	1,093	985	854
Net assets (at period-end)	7,148	6,734	5,954
Return on net assets, %	19.2	16.1	14.0
Comparable return on net assets, %	17.7	16.9	14.5
Gross Investments	390	240	130
Average number of employees	3,475	4,147	4,374

In 2007, the segment's power generation in the Nordic countries was 46.1 (48.3) TWh, of which about 20.0 (19.8) TWh or 43% (41%) was hydropower-based, 24.9 (24.4) TWh or 54% (51%) nuclear power-based, and 1.2 (4.1) TWh or 3% (8%) thermal power-based. Although the availability of the Swedish nuclear power plants increased slightly compared to 2006, the prolonged outages and unplanned shutdowns had a negative effect of approximately 1.3 TWh to the nuclear power production. Less thermal power was generated due to the low spot price. In January–December, approximately 95% (89%) of the segment's power generation was CO₂-free.

At year end, the segment's power generation capacity totalled 9,560 (9,540) MW, of which 9,420 (9,400) MW was in the Nordic countries and 140 (140) MW in other countries.

Power generation by area

TWh	2007	2006	2005
Sweden	26.0	27.1	28.4
Finland	20.1	21.1	18.8
Other countries	1.1	1.2	1.1
Total	47.2	49.4	48.3
Nordic sales volume, TWh	51.8	53.9	52.6
of which pass-through sales	5.2	4.5	4.5

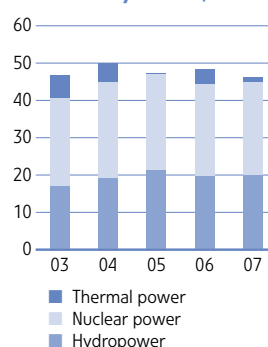
Sales price

EUR/MWh	2007	2006	2005
Generation's Nordic power price*	39.7	37.1	31.2

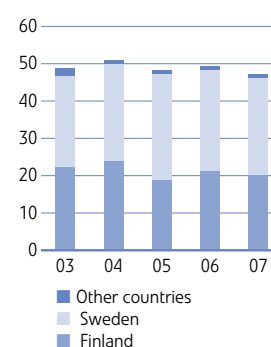
*1 For the Power Generation segment in the Nordic area, excluding pass-through sales.

Fortum Generation's achieved Nordic power price (excluding pass-through items) was EUR 39.7 per megawatt-hour in 2007, up by 7% from a year ago, while the average spot price in Nord Pool was EUR 27.9, down by 43% from

Segment's power generation in the Nordic countries by source, TWh



Segment's power generation by area, TWh



2006. The related sales volume was 46.6 (49.4) TWh for the whole year.

The comparable operating profit was higher than previous year. The segment's achieved Nordic power price was higher due to the higher hedge prices. Also increased hydropower and nuclear power generation volumes contributed positively. Poor performance in Fortum Service, and the one-time effect from higher nuclear waste management costs reported in the third quarter, decreased comparable operating profit.

In 2007, Fortum's total CO₂ emissions subject to ETS were 9.8 million tons, which exceeded Fortum's CO₂ emission allowance allocation for the year by 1.3 million tons. However, the Power Generation segment benefited from the insightful timing of CO₂ allowance forward sales. Sales contracts made during or before the first quarter 2006 with a December 2007 delivery date contributed EUR 32 million in the fourth quarter results.

Fortum's legal nuclear waste management liability is calculated according to the Nuclear Energy Act and will be decided by the Ministry of Employment and the Economy in early 2008. The future costs will increase mainly due to the new technical solution related to filling material for the tunnels in the final repository. The legal liability increased by approximately EUR 130 million. Fortum is obligated to contribute the funds in full to the State Nuclear Waste Management Fund to cover the legal liability. Fortum was granted periodising of the payments to the fund over six years. The decision was made by the Council of State in December 2007. Fortum booked a one-time effect from higher nuclear waste management costs in its third quarter results.

In July 2007, the Finnish Government granted new operating licences to Loviisa nuclear power plant units 1 and 2. The licences were applied for by Fortum Power and

Heat Oy in November 2006. For Loviisa 1, the new licence is valid until the end of 2027, and for Loviisa 2, until the end of 2030. The current licences, which were granted in 1998, expire at the end of 2008. Fortum's Loviisa power plant has produced nuclear power for thirty years.

In 2007, Fortum's Loviisa nuclear power plant exceeded the 8 TWh production limit for the second time in the history of the plant. Unit 2 reached an all-time high with over 4 TWh. The combined capacity factor for the two units at the Loviisa power plant was high, 95.4%.

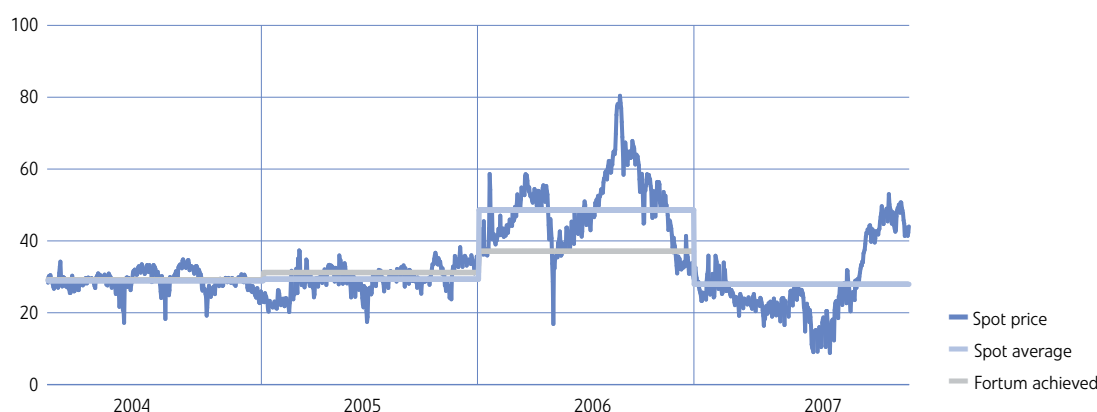
In June 2007, Fortum submitted to the Finnish Ministry of Trade and Industry the Environmental Impact Assessment

(EIA) programme regarding a new nuclear power plant possibly to be built at Hästhölmens island in Loviisa. The Ministry gave its statement about the programme in October. Fortum compiles the actual EIA report based on this programme and the statements received about it. The EIA report will be submitted to the Ministry by summer 2008.

Fortum is participating in the project to build the fifth Finnish nuclear power unit (Olkiluoto 3) with a share of approximately 25%. Teollisuuden Voima (TVO), the company that is building and owns the unit, has been informed by the supplier (consortium Areva-Siemens) that the unit will start operation in summer 2011.

Nord Pool power price 2004–2007, EUR/MWh

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



Heat

The business area comprises heat generation and sales in the Nordic countries and other parts of the Baltic Rim. Fortum is a leading heat producer in the Nordic region. The segment also generates power in the combined heat and power plants (CHP) and sells it to end-customers mainly by long-term contracts as well as to Nord Pool. The segment includes the business units Värme, operating in Sweden, and Heat, operating in other markets

EUR million	2007	2006	2005
Sales	1,356	1,268	1,063
– heat sales	1,053	976	834
– power sales	202	198	145
– other sales	101	94	84
Operating profit	294	264	269
Comparable operating profit	290	253	253
Net assets (at period-end)	3,507	3,407	2,551
Return on net assets, %	9.3	9.6	11.6
Comparable return on net assets, %	9.2	9.2	11.0
Gross Investments	327	773	211
Average number of employees	2,302	2,345	2,186

Heat sales by area

TWh	2007	2006	2005
Sweden	9.2	9.3	9.5
Finland	11.1	10.7	9.8
Other countries	4.8	4.7	2.4
Total	25.1	24.7	21.7

Power sales

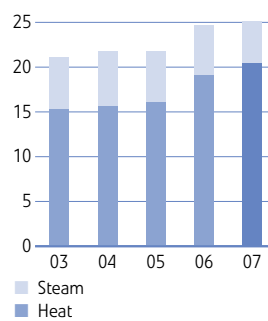
TWh	2007	2006	2005
Total	5.0	5.0	4.1

The segment's heat sales during the year totalled 25.1 (24.7) TWh. Power sales at combined heat and power plants (CHP) totalled 5.0 (5.0) TWh.

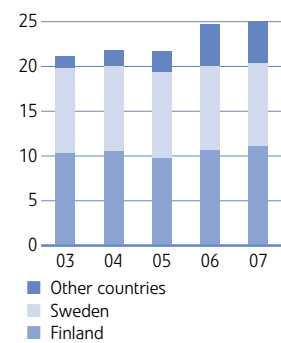
The comparable operating profit of the Heat segment in the year 2007 was EUR 37 million higher than previous year. An efficient fuel mix had a positive impact on the results in Sweden. Also the acquisition of Fortum Espoo (E.ON Finland) and efficiency improvements in Poland improved the results.

The number of district heating customers increased in 2007, thanks to successful new sales in all markets.

Segment's district heating and industrial steam sales, TWh



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



Distribution

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

EUR million	2007	2006	2005
Sales	769	753	707
– distribution network transmission	648	636	592
– regional network transmission	81	80	82
– other sales	40	37	33
Operating profit	465	252	251
Comparable operating profit	231	250	244
Net assets (at period-end)	3,243	3,412	3,021
Return on net assets, %	14.5	8.4	8.8
Comparable return on net assets, %	7.5	8.3	8.6
Gross Investments	237	313	115
Average number of employees	1,060	983	1,008

In 2007, the volume of distribution and regional network transmissions totalled 26.0 (24.6) TWh and 18.1 (18.1) TWh, respectively.

Electricity transmissions via the regional distribution network totalled 14.9 (15.0) TWh in Sweden and 3.2 (3.1) TWh in Finland.

Volume of distributed electricity in distribution network

TWh	2007	2006	2005
Sweden	14.3	14.4	14.4
Finland	9.2	7.7	6.3
Norway	2.3	2.3	2.2
Estonia	0.2	0.2	0.2
Total	26.0	24.6	23.1

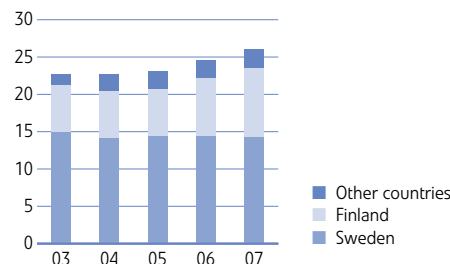
Number of electricity distribution customers by area

Thousands	31 Dec 2007	31 Dec 2006	31 Dec 2005
Sweden	871	865	860
Finland	591	580	410
Norway	98	97	97
Estonia	24	23	23
Total	1,584	1,565	1,390

The comparable operating profit of the segment was 231 million EUR for the whole year, EUR 19 million lower than previous year. The main reason for the decrease in 2007 compared to previous year was the EUR 13 million costs caused by the storms in the first half of the year. The new customer and billing system in Sweden continued to cause extra costs in 2007. Also automatic meter installations in Sweden and the one-time price adjustment during the last quarter in Finland decreased operating profit. The acquisition of Fortum Espoo (E.ON Finland) contributed positively to the segment.

The after-tax gain of EUR 232 million from selling the holding in JSC Lenenergo has been booked in Distribution segment's third-quarter operating profit.

Volume of distributed electricity in distribution networks by country, TWh



Markets

Markets is responsible for retail sales of electricity to a total of 1.3 million private and business customers as well as to other electricity retailers in Sweden, Finland and Norway. Markets buys its electricity through Nord Pool.

EUR million	2007	2006	2005
Sales	1,683	1,912	1,365
Operating profit	12	-6	32
Comparable operating profit	-1	-4	30
Net assets (at period-end)	247	176	228
Return on net assets, %	6.9	-1.6	17.4
Comparable return on net assets, %	-0.6	-0.8	16.4
Gross investments	3	14	10
Average number of employees	936	825	745

In 2007, Markets electricity sales totalled 39.6 (42.1) TWh.

In 2007, the segment was unable to achieve a positive comparable operating profit. This was partly due to retail sales in Finland where consumer prices lagged behind Markets' procurement prices (Nord Pool wholesale power prices).

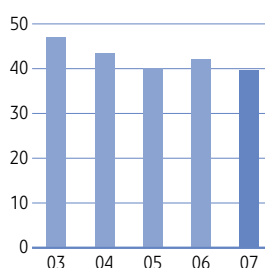
The new customer and billing system in Sweden continued to cause extra costs in 2007.

Despite the tight price competition, Fortum's customer net flow in Finland was clearly positive in 2007, mainly due to increasing sales of environmentally labelled electric-

ity products. Fortum is the market leader on the Nordic market in selling environmentally labelled electricity. Markets Nordic customer net flow in 2007 was slightly negative due to tightened competition especially in Sweden.

The SKI (Svensk Kvalitetsindex) customer satisfaction survey in Sweden and EPSI (Extended Performance Satisfaction Index) in Finland showed that the customer satisfaction among Fortum's customers improved clearly in 2007.

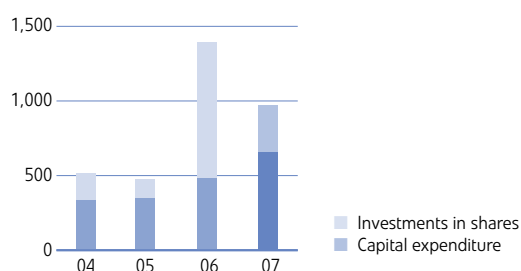
Sales, TWh



Capital expenditures, investments and divestments of shares, continuing operations

EUR million	2007	2006	2005
Capital expenditure			
Intangible assets	11	21	11
Property, plant and equipment	644	464	335
Total	655	485	346
Gross investments in shares			
Subsidiaries	18	765	87
Associated companies	295	124	47
Available for sale financial assets	4	21	-
Total	317	910	134

Capital expenditure and gross investments in shares continuing operations, EUR million



Capital expenditures and investments in shares in January-December totalled EUR 972 (1,395) million. Investments, excluding acquisitions, were EUR 655 (485) million.

Power Generation

In September, Fortum participated in the share issue of the Russian TGC-1, subscribing to new shares in the company. The total value of Fortum's subscription was approximately EUR 243 million. With this subscription, Fortum maintained its 25.7% stake in TGC-1 and its position as the second largest shareholder of the company.

Heat

In July 2007, Fortum acquired the district heating company EC Wojkowice in Poland. The annual heat sales of the company total some 64 GWh and electricity sales 320 MWh. The company has 34 employees.

The CHP projects in Suomenoja, Finland, in Częstochowa, Poland, and in Tartu, Estonia, are proceeding. The preparations are continuing for the CHP plants in Värtan and Brista in Sweden and in Järvenpää, Finland.

The ownership of Vattenfall's heat operations in Pärnu, Estonia and Riga, Latvia, were transferred to Fortum in January and February, respectively.

In November, Fortum Värme received environmental permit for the biofuel-based CHP plant in Värtan. The environmental permit also covers the installation of flue gas condensers in the existing units at the Värtan plant and this work is already on-going.

Financing

EUR million	2007	2006	2005
Interest expense	-220	-176	-203
Interest income	76	50	46
Fair value gains and losses	7	30	40
Other financial expenses	-17	-7	-18
Finance costs – net	-154	-103	-135
Interest-bearing liabilities	4,893	4,502	3,946
Cash and cash equivalents	427	157	788
Interest-bearing net debt	4,466	4,345	3,158

At year end, the interest-bearing net debt stood at EUR 4,466 (4,345) million, resulting in a total increase in net debt of EUR 121 million for the year. The increase in net debt is primarily linked to capital returns and ongoing investment programme. In April Fortum paid dividends amounting to EUR 1,122 million. Net debt to EBITDA, excluding the nonrecurring gains, was 2.2 at the end of the year.

The Group's net financial expenses for the full year 2007 were EUR 154 (103) million. The increase is mainly attributable to higher average net debt and somewhat higher average interest rates in 2007. However, net financial expenses include fair value gains on financial instruments of EUR 7 (30) million.

The average interest rate of Fortum's interest bearing gross debt (including derivatives) in 2007 was 4,3% (4,1%).

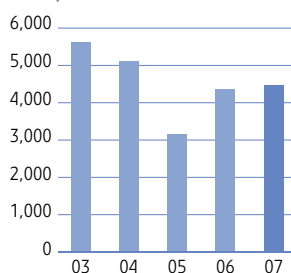
Group liquidity remained good. Year-end cash and

Distribution

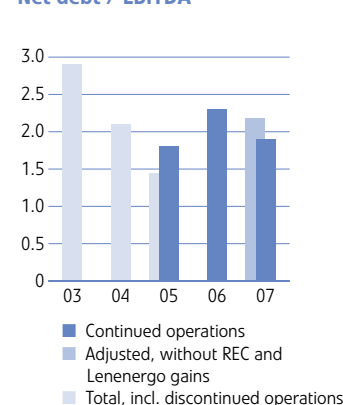
Fortum sold its slightly over 1/3 stake in JSC Lenenergo for approximately EUR 295 million. The decision to sell the Lenenergo shares is in line with Fortum's strategy in Russia to invest primarily in generation assets. The current business of Lenenergo is electricity distribution in the City of St. Petersburg and the Leningrad region.

The investments in automatic meters in Sweden amounted to EUR 64 million in 2007.

Interest-bearing net debt, EUR million



Net debt / EBITDA



marketable securities totaled EUR 427 (157) million. In addition, the Group had a total of EUR 1.4 (1.3) billion available for drawings under committed credit facilities, including the EUR 1.2 billion syndicated revolving credit facility due in 2011 and bilateral overdraft facilities which are renewed on an annual basis.

During the year Fortum raised approx. EUR 850 million in new long-term financing to finance capital returns, maturing loans and the ongoing investment programme. The tenors of these financing arrangements varied between 5 and 10 years and consisted of a SEK 6.1 billion (approx. EUR 660 million) bond issue as well as bilateral loan contracts of SEK 1.75 billion (approx. EUR 190 million).

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

Research and development

Research and development (R&D) is important to Fortum's competitiveness and plays a key role in the company's strategy to grow sustainably.

Fortum's R&D approach is based on networking and collaboration with leading external partners, such as research institutes, universities, and equipment or plant manufacturers. However, in key areas of strategic importance, Fortum also maintains and further develops in-house expertise and activities. In 2007, Fortum revised its R&D vision and strategy, and initiated several new R&D programmes.

Fortum is continuously involved in numerous R&D activities. In order to strengthen R&D aiming at new sustainable growth initiatives, five new R&D programmes were launched in 2007: clean coal and gas technologies, bio-growth, future production technologies, energy optimisation for customers and growth in Russia.

The group's total R&D expenditure in 2007 was EUR 21 (17) million. The increase in expenses is mainly attributable to new programmes and activities initiated in 2007.

Fortum's R&D expenditure amounts to 0.5% of sales (0.4% in 2006) and 0.8% (0.6%) of total expenses. The

level of Fortum's R&D expenditure is around the average among European power and heat companies.

For further details of research and development see pages 14–15 in the Review of Operations publication of the Annual report.



	2007	2006	2005
R&D expenditure, EUR million	21	17	14
R&D expenditure, % of sales	0.5	0.4	0.4
R&D expenditure, % of total expenses	0.8	0.6	0.6

Sustainability

"To be the benchmark power and heat company excelling in sustainability." This revised vision statement emphasises what Fortum wants to and will do in the future.

In accordance with the new vision statement, Fortum revisited its sustainability policy in 2007. The new policy states that the company wants to be a forerunner and

- aim for a benchmark level in climate change mitigation, in responsible use of natural resources and in safety
- actively engage with stakeholders to continuously improve environmental, social and economical performance
- apply high standards of business ethics and integrity, care for the environment and respect human rights together with all its business partners, wherever it operates
- strictly comply with legal and regulatory requirements in all operations

Commitment to sustainable development is further elaborated in Fortum's Code of Conduct and guiding principles. This policy is turned into action by setting development targets on Fortum's Sustainability Agenda.

In order to help put the new vision statement and sustainability policy into action, a new Corporate Sustainability unit was founded in 2007. The purpose of the unit is to promote sound practices that support business and leadership in sustainability. The shared strategic goal for the whole company is to make sustainability a success factor.

Mitigating climate change is one of Fortum's most important goals. The ultimate goal is to become a CO₂-free power and heat company. In 2007, climate efforts were strengthened on all fronts: in production, among personnel and customers as well as in R&D.

In 2007, 89% of the electricity generated by Fortum was free of carbon dioxide emissions. CO₂ emissions from Fortum's own power plants (including Meri-Pori) totalled 10.4 million tonnes, some 5% lower than the previous year. The specific CO₂ emissions of the company's total electricity generation, including wholly and partly-owned power generation, was 63 g/kWh, which is among the lowest of the major European power companies and clearly below Fortum's target value. The five-year average for the specific CO₂ emissions 2003–2007 was 93 g/kWh.

Fortum wants to make its commitment to sustainability, especially climate-benign production, a success factor for the company. To this aim, Fortum set new, stricter targets for CO₂ emissions from energy production. Within the EU, Fortum's long-term goal is to continuously keep its emissions among the best of European energy companies. In electricity production, the new target is to decrease the CO₂ emissions to less than 80 g/kWh by 2020 as a five-year average. In the EU25 area, the average emissions of electricity producers have been around 400 g/kWh during recent years.

In heat production, Fortum's aim is to reduce the specific emissions in each country by at least 10% from 2006 until 2020. Outside the EU, Fortum is committed to increasing the energy efficiency of power plants and thus reducing specific emissions.

In 2007, there were 38 (55) occupational accidents leading to an absence of more than one working day. This means 2.8 (3.7) injuries per one million working hours, which was above Fortum's target value of 2 for 2007.

For further details on sustainability, see pages 32–42 in the Review of Operations publication of the Annual Report.



Group personnel

The average number of employees in the Group during the period from January to December was 8,304 (8,910). The number of employees at the end of the period was 8,303 (8,134), of which 7,954 (7,681) were permanent employees.

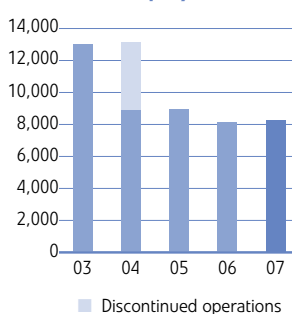
The number of employees in the parent company, Fortum Corporation, at year end totalled 583 (566).

	2007	2006	2005
Average number of employees	8,304	8,910	8,939
Total amount of employee costs, EUR million	495	508	481

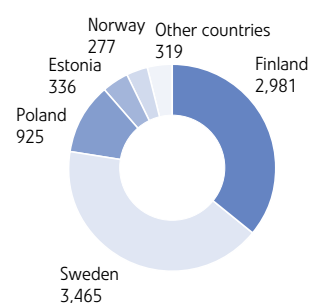


For further details of group personnel see Note 14 of the Consolidated Financial Statements. See also pages 39–41 in the Review of Operations publication of the Annual report.

Number of employees



Employees per country 2007



Russia

Fortum's main holdings in Russia stem from its past ownership in JSC Lenenergo, an integrated power and heat company in the St. Petersburg region. In late 2005, the company's generation assets were spun-off and a regional generation company, TGC-1, was formed. JSC Lenenergo continued as a regional distribution company. In the third quarter 2007, Fortum sold its holding in JSC Lenenergo.

The sale was in line with Fortum's strategy in Russia of focusing on power generation. Fortum maintained its

25.7% ownership in the regional generation company TGC-1.

Fortum is evaluating opportunities to participate in share issues and ownership restructurings in the Russian power generation sector in order to further strengthen its position in the Russian wholesale power market.

In October, Fortum sold its approximately 0.7% holding in the Russian Wholesale Generating Company 5 (WGC-5) for approximately EUR 28 million.

Events after the period under review

The Norwegian Renewable Energy Corporation (REC) is partly owned by Fortum's associated company Hafslund ASA. Fortum shows the fair value changes of REC in equity.

At year end, the cumulative fair value change booked in Fortum's equity was approximately EUR 790 million.

REC's share price has decreased since the year end. Based on REC's closing price on 29 January 2008, the cumulative fair value change in Fortum's equity would have been approximately EUR 400 million.

Outlook

The key market driver influencing Fortum's business performance is the Nordic wholesale price of electricity. Key drivers behind the wholesale price development are the Nordic hydrological situation and supply-demand balance, CO₂ emissions allowance prices and fuel prices. The Swedish krona exchange rate also affects Fortum's reported result, as results generated by Fortum in Sweden are translated into euros.

Fortum's financial results are exposed to a number of strategic, financial and operational risks. For further details on Fortum's risks and risk management, see Risk management section of the Operating and Financial Review and Note 3 in the Consolidated Financial Statements.

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

In mid-January 2008, the Nordic water reservoirs were about 9 TWh above the long-term average and 6 TWh above the corresponding level of 2007. In late-January, the market price for emissions allowances for 2008 was about EUR 20–21 per tonne of CO₂. At the same time, the electricity forward price for the rest of 2008 was around EUR 44–45 per MWh and for 2009 around EUR 49–51 per MWh.

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

Fortum Power Generation's achieved Nordic power price typically depends on e.g. the hedge ratio, hedge price,

spot price, utilisation and optimisation of Fortum's flexible production portfolio – even on an hourly basis – and currency fluctuations. If Fortum would not hedge any of its production volumes, a 1 EUR/MWh change in the spot price would result in approximately a EUR 50 million change in Fortum's annual operating profit.

At the beginning of January 2008, Fortum had hedged approximately 70% of the Power Generation segment's estimated Nordic electricity sales volume for the year 2008 at approximately EUR 44 per MWh. For the calendar year 2009, approximately 25% of the Power Generation segment's estimated Nordic electricity sales volume was hedged at approximately EUR 46 per MWh. These hedge ratios may vary significantly depending on Fortum's actions on the electricity derivatives markets. Hedge prices are also influenced by changes in the SEK/EUR exchange rates, as part of the hedges are conducted in SEK.

The Swedish government has increased nuclear capacity and hydro property tax rates. It has also introduced changes in the Swedish CO₂-tax. Fortum estimates that the additional cost from the tax rate increases and changes will be just under EUR 30 million in 2008.

Fortum's results in 2007 were good, despite challenging market conditions and low Nord Pool spot prices. The Group's financial position is strong. With its flexible and climate-benign production portfolio, Fortum continues to be well positioned for the future.

Risk Management

Risk management is an integrated part of business planning and performance management. Its purpose is to enable the execution of the company's strategy and to support the business in achieving financial targets.

Risk Management Framework

Objective

Involvement in the power and heat business exposes Fortum to several types of financial, operational and strategic risks. Electricity prices, which in turn are affected by the weather in the Nordic region and the development of the global commodity markets, are the main source of financial risk. Owning and operating power and heat production facilities and distribution networks exposes Fortum to operational risks. The ongoing restructuring of the electricity markets in Europe exposes Fortum to strategic risks such as changes in regulation and taxation within local, regional and European electricity markets.

The objective of risk management in Fortum is to enable the execution of the company's strategy, to ensure the achievement of agreed financial targets and to avoid unwanted operational events.

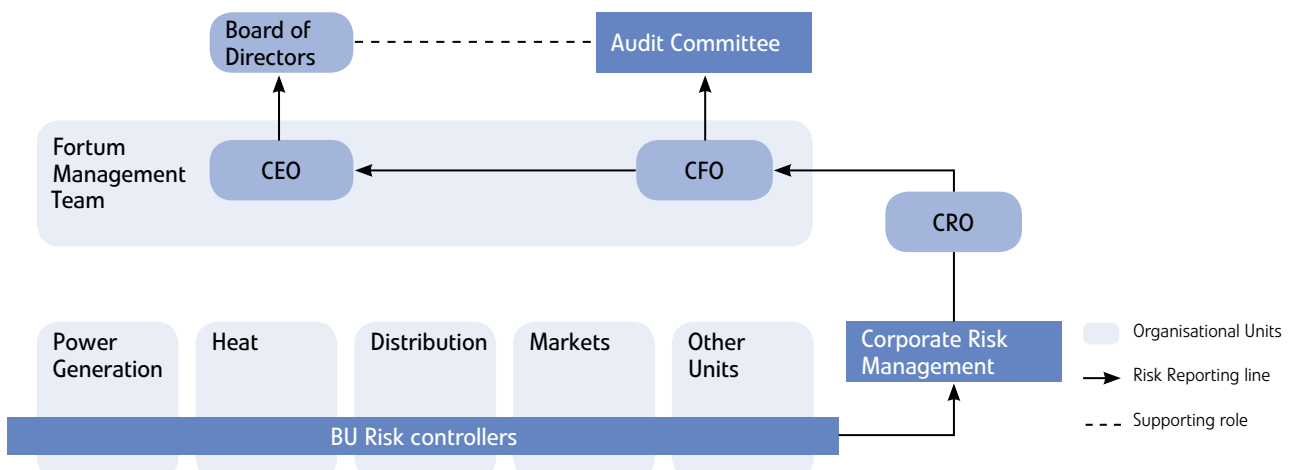
Fortum is continuously developing its risk management capabilities to cope with prevailing market conditions, developing operations and an ever changing business environment. During 2007 the main focus has been on enhancing the framework for operational risk management including initiating a project to further develop internal controls.

Policy

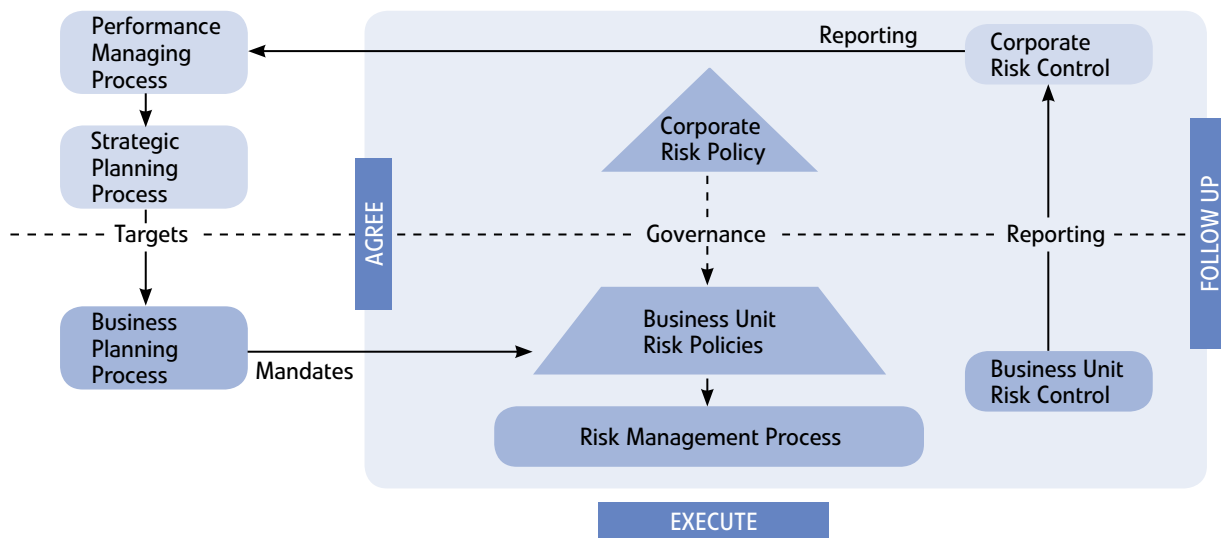
Fortum's Board of Directors approves the Corporate Risk Policy which sets the objective, principles and division of responsibilities for risk management activities within the Group as well as defining the overall risk management process. The main principle is that risks are managed at source, and each business and service unit submits a risk policy to The President and CEO for approval.

Corporate guidelines are issued for those risks which are managed on 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. Corporate Credit Control is responsible for assessing and consolidating the Group's exposure to counterpart risk, monitoring the creditworthiness of counterparts and for approving counterpart credit limits. Corporate IT is responsible for managing IT information and security risks. There are also corporate functions dealing with risks related to human resources, laws and regulation, and sustainability.

Fortum's risk management reporting structure



Risk management process



Organisation

The Board of Directors, assisted by the Audit Committee, is responsible for risk oversight within the Group. Corporate Risk Management, an independent function headed by the Chief Risk Officer (CRO), reports to the Chief Financial Officer (CFO), and is responsible for assessing and reporting the Group's consolidated risk exposure to the Board of Directors and Group Management. Corporate Risk Management also monitors and reports risk in relation to mandates approved by The President and CEO.

Business and service units organise their own risk management and control functions. In order to maintain a strict segregation of duties, risk control functions at the business and service unit level are responsible for reporting risks to Corporate Risk Management.

Process

The risk management process consists of event identification, risk assessment, risk response and risk control. Risks are primarily identified and assessed by business and

service units in accordance with corporate guidelines and models that are approved by Corporate Risk Management. Quantitative assessments are used where feasible, and are harmonised across different products and units. Business and service units are also responsible for responding to risks by taking appropriate actions. Risk responses can be one of, or a combination of, mitigating, transferring or absorbing the risk.

Risk control, monitoring and reporting is carried out by the business and service units' risk control functions. The frequency of reporting is dependent upon the scope and need of the business. For example, financial risks, including trading activities and any breaches of approved limits, are reported daily whereas strategic and operational risks are reported as part of the annual business planning process. 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. In addition any BU level limit breaches are immediately reported to Group Management.

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 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.

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.

Financial risks

Financial risk refers to the potential 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 the main fuels are assessed taking into account their interdependencies. Stress-testing is carried out in order to assess the effects of extreme price movements on Fortum's earnings.

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

 For further information on hedge ratios, exposures, sensitivities and outstanding derivatives contracts, see Note 3 Financial risk management.

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 manages exposure to electricity price risk through the use of hedging strategies that are executed by the business units within set mandates. Hedges for electricity price risks consist of electricity derivatives contracts.

Volume risks

Power and heat generation, customer sales, and electricity distribution volumes are subject to changes in, for example, hydrological conditions and temperature. Although volume risks in power and heat generation are partly mitigated through generation flexibility, changes in volumes are closely monitored so that hedges can be adjusted accordingly.

CO₂ allowances price risks

The European Union has established an emissions trading scheme to limit the amount of CO₂ emissions. Part of Fortum's power and heat generation is subject to requirements of 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 bio-fuels 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, and in some cases, the fuel price risk can be transferred to the customer. The remaining exposure to fuel price risk is mitigated through fixed price purchases that cover forecasted consumption levels. Fixed price purchases can be either for physical deliveries or in the form of financial hedges.

Proprietary trading risks

Fortum engages in a certain level of trading for profit based on a high level of market knowledge. Fortum's proprietary trading activities are limited to standardised electricity, coal and CO₂ allowance contracts mainly traded through established markets such as Nord Pool, EEX and ICE.

Risks associated with trading activities are limited through strict management controls. Stop-Loss mandates are set to limit the cumulative maximum loss during the year, and Value-at-Risk mandates limit the maximum risk taking during one day. All trading risks are monitored and reported on a daily basis.

Liquidity and refinancing risks

Fortum's business is capital intensive and the Group has a regular need to raise financing. Fortum has a diversified loan portfolio mainly consisting of long-term bond financing but also a variety of other long- and short-term financing facilities.

Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. 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

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).

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).

Counterpart risks

Fortum is exposed to counterpart risk whenever there is a contractual obligation with an external counterpart. In order to minimize counterpart risk, Fortum has well established routines and processes to identify, assess and control counterpart exposure. The Group Credit Policy regulates that no contractual obligation should be entered into without a proper, reasonable and viable credit check.

Corporate Credit Control is responsible for assuring stringent controls for all larger individual counterpart exposures. Creditworthiness is continuously monitored through the use of external sources to ensure that actions can be taken immediately when changes occur, and annual credit reviews are performed manually for all larger approved limits. Each Business Unit is responsible for ensuring that exposures remain within approved limits. Mitigation of counterpart risk includes, for example, the use of collateral, managing payment terms and contract length, as well as pursuing netting agreements. Corporate Credit Control continuously monitors and reports counterpart exposures against the approved limits.

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 tools for achieving this objective, and Fortum has several certifications including ISO 9001 and ISO 14001. Equipment and system risks are primarily managed within maintenance investment planning, and there are contingency plans in place to ensure business continuity.

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 insur-

ance 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. Although outages are typically short, it is not possible to completely prevent long outages in exceptional circumstances. There is an extensive procedure in place to minimise the length and consequences of outages.

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 SDR 175 million (approximately EUR 230 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. The risks involved with these activities and their supply chain are receiving increased attention due to the growing public awareness of sustainable development and the expectations on companies' responsible conduct. Operation and maintenance of the facilities exposes the personnel to potential safety risks. Environmental, health 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 (EHS) risks arising in investments are systematically evaluated in accordance with Fortum's Investment Evaluation and Approval Procedure. 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.

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.

The Fortum Share and Shareholders

Fortum Corporation's shares have been listed on OMX Nordic Exchange Helsinki since 18 December 1998. The trading code is FUM1V. Fortum Corporation's shares are in the Finnish book entry system maintained by the Finnish Central Securities Depository Ltd, which also maintains the official share register of Fortum Oyj.

Fortum has one class of shares. By the end of 2007, a total of 886,683,058 shares had been issued. The nominal value of the shares is EUR 3.40 and each share entitles the holder to one vote at the Annual General Meeting. All shares entitle holders to an equal dividend. At the end of 2007 Fortum Corporation's share capital, paid in its entirety and entered in the trade register, was EUR 3,040,460,397.20.

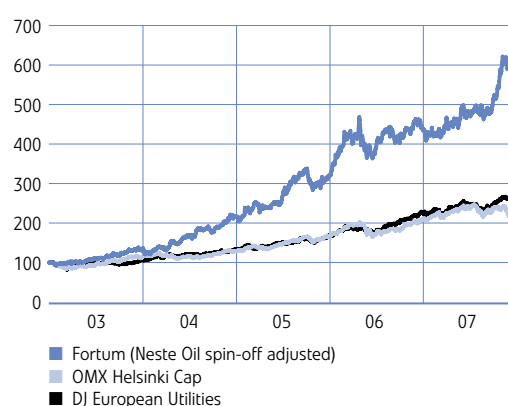
Share price performance and volumes

Fortum's share outperformed its European utility peers during 2007. Fortum's share price appreciated 43% during the year, while Dow Jones European Utility Index increased 18% and OMX Helsinki cap index increased 8%.

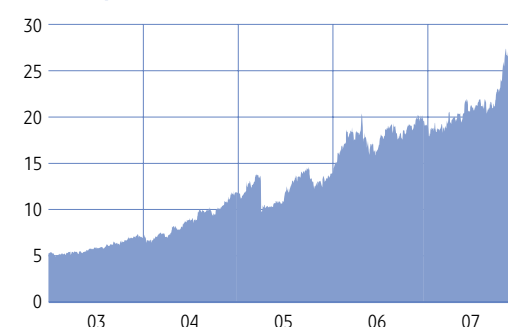
During 2007, a total of 787.4 (830.8) million Fortum Corporation shares, totalling EUR 18,562 million were traded. Fortum's market capitalisation, calculated using the closing quotation of the last trading day of the year, was EUR 27,319 million. The highest quotation of Fortum Corporation shares on OMX Nordic Exchange Helsinki in 2007 was EUR 31.44, the lowest EUR 20.01, and the volume weighted average quotation EUR 23.73. The closing quotation on the last trading day of the year was EUR 30.81 (21.56).

Share quotations 2003–2007,

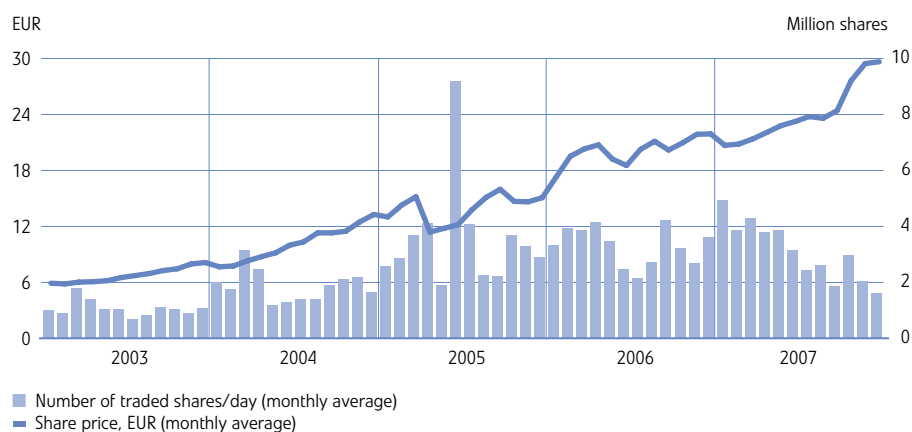
index 100 = quote on 2 January 2003



Market capitalisation 2003–2007, EUR billion



Share trading 2003–2007



Share capital

Share capital of Fortum Corporation increased by a total of EUR 17,678,000.80 (46,782,711). A total of 5,199,412 (13,759,621) shares subscribed on the basis of share option schemes were entered into the trade register in 2007. At year end the amount of shares that can still be registered for under the share option schemes is a maximum of 0.2% (1,683,987 shares) of Fortum's 2007 year-end share capital and voting rights.

Share capital 1998–2007	Number of shares	Share capital, EUR
Fortum established on 7 February 1998	500,000	1,681,879
Rights issue in 1998	782,282,635	2,631,409,886
Employee issue in 1998	2,000,000	6,727,517
31 December 1998	784,782,635	2,639,819,282
31 December 1999	784,782,635	2,639,819,282
Script issue in 2000	–	28,441,677
Rights issue in 2000	60,825,940	206,808,196
31 December 2000	845,608,575	2,875,069,155
31 December 2001	845,608,575	2,875,069,155
Subscriptions with options in 2002		
– 1999 bond loan with warrants	148,380	504,492
– 1999 management share option scheme	3,000	10,200
31 December 2002	845,759,955	2,875,583,847
Subscriptions with options in 2003		
– 1999 bond loan with warrants	159,520	542,368
– 1999 management share option scheme	2,913,000	9,904,200
31 December 2003	848,832,475	2,886,030,415
Subscriptions with options in 2004		
– 1999 bond loan with warrants	4,560,730	15,506,482
– 1999 management share option scheme	7,154,000	24,323,600
– 2002 A share options scheme	6,536,700	22,224,780
31 December 2004	867,083,905	2,948,085,277
Subscriptions with options in 2005		
– 1999 bond loan with warrants	1,284,370	4,366,858
– 1999 management share option scheme	1,698,000	5,773,200
– 2001 A share options scheme	1,636,350	5,563,590
– 2002 A share options scheme	3,591,400	12,210,760
31 December 2005	875,294,025	2,975,999,685
Subscriptions with options in 2006		
– 2001 A share options scheme	3,026,200	10,289,080
– 2001 B share options scheme	5,360,133	18,224,452
– 2002 A share options scheme	516,800	1,757,120
– 2002 B share options scheme	4,856,488	16,512,059
Cancellation of own shares	–1,660,000	–
31 December 2006	887,393,646	3,022,782,396

Share capital 1998–2007	Number of shares	Share capital, EUR
Subscriptions with options in 2007		
– 2001 A share options scheme	274,920	934,728
– 2001 B share options scheme	1,339,867	4,555,548
– 2002 A share options scheme	122,100	415,140
– 2002 B share options scheme	3,462,525	11,772,585
Cancellation of own shares	–5,910,000	–
31 December 2007	886,683,058	3,040,460,397

Shareholders

At the beginning of 2007, the Finnish State owned 50.82% of the company's shares. After the changes in amount of shares during 2007, increase in amount of shares due to the share subscriptions under the share option schemes for employees and decrease due to cancellation of repurchased own shares, the Finnish State owned 50.86% of the Company's shares at the end of the year. The Finnish Parliament has authorised the Government to reduce the Finnish State's holding in Fortum Corporation to no less than 50.1% of the share capital and voting rights.

The proportion of nominee registrations and direct foreign shareholders increased to 35.8% (35.4%).

Shareholders 31 December 2007

Shareholders	No. of shares	Holding %
Finnish State	450,932,988	50.86
Ilmarinen Mutual Pension Insurance Company	13,396,717	1.51
The Social Insurance Institution of Finland, KELA	7,195,896	0.81
The City of Kurikka	6,203,500	0.70
Varma Mutual Pension Insurance Company	5,850,000	0.66
The State Pension Fund	4,910,000	0.55
Etera Mutual Pension Insurance Company	2,540,000	0.29
Mutual Insurance Company Pension-Fennia	2,250,000	0.25
OP-Delta Fund	1,696,608	0.19
Tapiola Mutual Pension Insurance Company	1,361,176	0.15
Nominee registrations	316,174,236	35.66
Other shareholders in total	74,171,937	8.37
Total number of shares	886,683,058	100.00

By shareholder category	% of total amount of shares
Finnish shareholders	
Corporations	0.7
Financial and insurance institutions	1.4
General government	56.3
Non-profit organisations	1.0
Households	4.8
Non-Finnish shareholders	35.8
Total	100.00

Breakdown of share ownership 31 December 2007

By number of shares owned	No. of shareholders	% of shareholders	No. of shares	% of total amount of shares
1–100	6,372	12.34	396,347	0.04
101–500	22,182	42.97	5,923,895	0.67
501–1,000	12,540	24.29	8,531,340	0.96
1,001–10,000	9,929	19.23	24,741,018	2.79
10,001–100,000	525	1.02	13,007,192	1.47
100,001–1,000,000	64	0.12	19,041,507	2.15
1,000,001–10,000,000	10	0.02	34,456,002	3.89
over 10,000,000	2	0.00	464,329,705	52.37
	51,624	100.00	570,427,006	64.33
Unregistered/uncleared transactions on 31 December			81,816	0.01
Nominee registrations			316,174,236	35.66
Total			886,683,058	100.00

Management interests 31 December 2007

At the end of 2007, the President and CEO and other members of the Fortum Management Team owned 317,030 (338,000) shares, representing less than 0.04% of the total shares in the Company. A full description of Fortum's equity incentive schemes is shown in Note 31 Employee bonus and incentive schemes together with details on the President and CEO and other members of the Fortum Management Team's shareholdings and interests in equity incentive schemes.

Authorisations from the Annual General Meeting 2007

Currently, the Board of Directors has no unused authorisations from the Annual General Meeting of Shareholders to issue convertible loans or bonds with warrants or to issue new shares. The Board of Directors has the authorisation from the Annual General Meeting of Shareholders on 28 March 2007 to buy Fortum Corporation's own shares. The authorisation, amounting to EUR 300 million or 20 million shares, is valid one year from the last year AGM. The shares repurchased by Fortum shall be cancelled through a separate decision made by the Board of Directors of Fortum.

Share repurchases and cancellations 2007

In 2007, Fortum used this authorisation by repurchasing 5.91 million of its own shares at a total price of approximately EUR 175 million. These shares have been cancelled. The average price for the repurchased own shares was EUR 29.69, the lowest price EUR 28.60 and the highest price EUR 30.63. At the end of 2007, Fortum Corporation did not own its own shares.

Proposal to Annual General Meeting 2008 for authorisation to repurchase shares

The Board of Directors proposes that the Annual General Meeting will authorise the Board of Directors to decide to repurchase the company's own shares by using non-restricted equity. The authorisation is proposed to be valid until next Annual General Meeting.

The maximum amount of shares to be repurchased is 15 million shares. In addition, the amount of funds used for the repurchases may not exceed EUR 300 million. The shares will be repurchased through public trading of the securities on OMX Nordic Exchange Helsinki. The repurchase price of the shares will be based on the public trading price of Fortum shares.

Shares repurchased by the company shall be cancelled by a separate decision of the Board of Directors.

Dividend policy

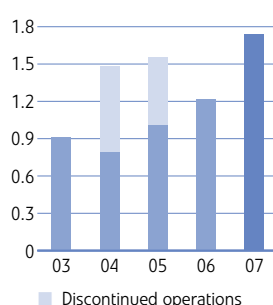
Fortum Corporation's dividend policy states that the company aims to pay a dividend which corresponds to an average payout ratio of 50% to 60%.

Dividend distribution proposal

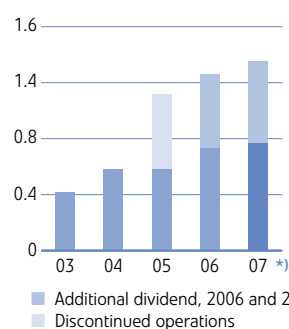
Parent company's distributable equity as of 31 December 2007 amounted to EUR 3,119 million. After the end of the financial period there have been no material changes in the financial position of the Company.

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a cash dividend of EUR 1.35 per share for 2007, totalling EUR 1,197 million based on the number of registered shares as of 30 January 2008. Of this total dividend, EUR 0.77 per share is to be paid from Fortum's recurring earnings. An additional dividend of EUR 0.58 per share is proposed in order to steer Fortum's capital structure towards the agreed target. The Annual General Meeting will be held on 1 April 2008 at 1:00 pm at the Finlandia Hall in Helsinki.

Earnings per share, EUR



Dividend per share, EUR



*) Board of Directors' proposal for the Annual General Meeting in April 2008

Consolidated Financial Statements, IFRS

Consolidated Income Statement

EUR million	Note	2007	2006
Sales	5, 6, 10	4,479	4,491
Other income	11	393	80
Materials and services	12	-1,572	-1,673
Employee costs	14	-495	-508
Depreciation, amortisation and impairment charges	5, 15	-451	-429
Other expenses	13	-507	-506
Operating profit	5	1,847	1,455
Share of profit of associates and joint ventures	5	241	69
Interest expense	16	-220	-176
Interest income	16	76	50
Fair value gains and losses on financial instruments	16	7	30
Other financial expenses – net	16	-17	-7
Finance costs – net	16	-154	-103
Profit before income tax		1,934	1,421
Income tax expense	17	-326	-301
Profit for the period		1,608	1,120
Attributable to:			
Equity holders of the Company		1,552	1,071
Minority interest		56	49
		1,608	1,120
Earnings per share for profit from total Fortum Group attributable to the equity holders of the Company during the year (in EUR per share)			
	18		
Basic		1.74	1.22
Diluted		1.74	1.21

Consolidated Balance Sheet

EUR million	Note	31 Dec 2007	31 Dec 2006
ASSETS			
Non-current assets			
Intangible assets	21	85	96
Property, plant and equipment	22	11,343	11,471
Investments in associates and joint ventures	23	2,853	2,197
Share in State Nuclear Waste Management Fund	37	516	450
Other long-term investments	24	99	101
Deferred tax assets	34	3	5
Derivative financial instruments	3	153	103
Long-term interest-bearing receivables	25	736	680
Total non-current assets		15,788	15,103
Current assets			
Inventories	26	285	329
Derivative financial instruments	3	140	198
Trade and other receivables	27	1,034	1,052
Cash and cash equivalents	28	427	157
Total current assets		1,886	1,736
Total assets		17,674	16,839
EQUITY			
Capital and reserves attributable the Company's equity holders			
Share capital	29	3,040	3,023
Other restricted funds		78	74
Fair value and other reserves	30	715	511
Retained earnings		4,526	4,300
Total		8,359	7,908
Minority interests	32	292	253
Total equity		8,651	8,161
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	33	4,288	4,060
Derivative financial instruments	3	139	134
Deferred tax liabilities	34	1,687	1,795
Nuclear provisions	37	516	450
Pension and other provisions	35, 36	144	186
Other liabilities	38	486	485
Total non-current liabilities		7,260	7,110
Current liabilities			
Interest-bearing liabilities	33	605	442
Derivative financial instruments	3	260	198
Current tax liability		29	84
Trade payables and other liabilities	39	869	844
Total current liabilities		1,763	1,568
Total liabilities		9,023	8,678
Total equity and liabilities		17,674	16,839

Consolidated Statement of Changes in Total Equity

	Note	Share capital	Other restricted funds	Fair value and other reserves	Treasury shares	Retained earnings	Attributable to the equity holders	Minority	Total
EUR million									
Total equity at 31.12.2006		3,023	74	511	0	4,300	7,908	253	8,161
Other fair value adjustments ¹⁾		–	–	372	–	–	372	–	372
Cash flow hedges		–	–	–168	–	–	–168	–2	–170
Translation and other differences		–	–	–	–	–25	–25	–11	–36
Total gains and losses not recognised in income statement		–	–	204	–	–25	179	–13	166
Profit for the period		–	–	–	–	1,552	1,552	56	1,608
Total recognised income for the period		–	–	204	–	1,527	1,731	43	1,774
Stock options exercised	29	17	–	–	–	–	17	–	17
Repurchase of own shares	29	–	–	–	–175	–	–175	–	–175
Cancellation of own shares	29	–	–	–	175	–175	0	–	0
Cash dividend	19	–	–	–	–	–1,122	–1,122	–	–1,122
Changes between restricted and unrestricted equity		–	4	–	–	–4	0	–	0
Change in minority due to business combinations	8	–	–	–	–	–	–	–4	–4
Total equity at 31.12.2007		3,040	78	715	0	4,526	8,359	292	8,651
Total equity at 31.12.2005		2,976	72	–117	–	4,220	7,151	260	7,411
Other fair value adjustments ¹⁾		–	–	442	–	–	442	–	442
Cash flow hedges		–	–	198	–	–	198	–1	197
Translation and other differences		–	–	–	–	38	38	6	44
Total gains and losses not recognised in income statement		–	–	640	–	38	678	5	683
Profit for the period		–	–	–	–	1,071	1,071	49	1,120
Total recognised income for the period		–	–	640	–	1,109	1,749	54	1,803
Stock options exercised	29	47	2	–	–	–	49	–	49
Repurchase of own shares	29	–	–	–	–30	–	–30	–	–30
Cancellation of own shares	29	–	–	–	30	–30	0	–	0
Change in the recognition of performance share arrangement		–	–	–12	–	–12	–24	–	–24
Cash dividend	19	–	–	–	–	–987	–987	–	–987
Change in minority due to business combinations	8	–	–	–	–	–	–	–61	–61
Total equity at 31.12.2006		3,023	74	511	0	4,300	7,908	253	8,161

¹⁾ Includes the fair value change of Renewable Energy Corporation (REC) shareholding in Hafslund. See Note 23 Investments in associated companies and joint ventures and Note 45 Events after the balance sheet date.

Consolidated Cash Flow Statement

EUR million	Note	2007	2006
Cash flow from operating activities			
Net profit for the period		1,608	1,120
Adjustments:			
Income tax expenses		326	301
Finance costs – net		154	103
Share of profit of associates and joint ventures		–241	–69
Depreciation, amortisation and impairment charges		451	429
Operating profit before depreciations		2,298	1,884
Non-cash flow items and divesting activities		–286	–92
Interest received		75	50
Interest paid		–271	–193
Dividends received		179	40
Other financial items and realised foreign exchange gains and losses		7	14
Taxes		–383	–374
Funds from operations		1,619	1,329
Increase in interest-free receivables		–11	–88
Increase/decrease in inventories		40	–51
Decrease/increase in interest-free liabilities		22	–39
Change in working capital		51	–178
Total net cash from operating activities		1,670	1,151
Cash flow from investing activities			
Capital expenditures ¹⁾	5, 21, 22	–592	–485
Acquisition of subsidiaries, net of cash acquired	8	–10	–754
Acquisition of associates ²⁾	23	–271	–124
Acquisition of other long-term investments		–4	–21
Proceeds from sales of fixed assets		14	83
Proceeds from sales of subsidiaries, net of cash disposed	8	–	11
Proceeds from sales of associates	23	304	30
Proceeds from sales of other long-term investments		29	1
Change in interest-bearing receivables		–79	–47
Total net cash used in investing activities		–609	–1,306
Cash flow before financing activities			
		1,061	–155
Cash flow from financing activities			
Proceeds from long-term liabilities		942	1,263
Payments of long-term liabilities		–417	–803
Change in short-term liabilities		–37	32
Proceeds from stock options exercised	29	17	49
Dividends paid to the Company's equity holders	19	–1,122	–987
Repurchase of own shares	29	–175	–30
Other financing items		1	0
Total net cash used in financing activities		–791	–476
Total net increase (+)/decrease (–) in cash and cash equivalents			
		270	–631
Cash and cash equivalents at the beginning of the year			
		157	788
Cash and cash equivalents at the end of the year			
	28	427	157

¹⁾ Capital expenditures in cash-flow do not include not yet paid investments. Capitalised borrowing costs are included in interest costs paid.

²⁾ Acquisition of associates includes share issues and other capital contributions.

Notes to the Consolidated Financial Statements

1 Accounting Policies

Principal activities

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

Fortum Corporation and its subsidiaries (together the Fortum Group) is a leading energy company in the Nordic countries and other parts of the Baltic Rim. Fortum's activities cover the generation, distribution and the sale of electricity and heat, the operation and maintenance of power plants as well as energy-related services.

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

These Financial Statements were approved by the Board on 30 January 2008.

Basis of preparation

The consolidated financial statements of Fortum Group are prepared in accordance with International Financial Reporting Standards (IFRS) /International Accounting Standards (IAS) as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention-except for the revaluation of certain financial instruments.

Use of estimates

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

New Standards and Amendments and Interpretations to existing standards

New Standards and Amendments and Interpretations to existing standards effective in 2007

In the year ended at 31 December 2007 Fortum has adopted the following new and amended standard and interpretations to existing standards:

- IFRS 7 *Financial instruments: Disclosures* and complementary amendments to IAS 1, *Presentation of financial statements – capital disclosures* (effective for annual periods beginning on or after 1 January 2007). This standard has only expanded the disclosures provided in these financial statements regarding Fortum Group's financial instruments and management of capital and has not had any impact on the classification and valuation of the Group's financial instruments as such.
- IFRIC 9 *Reassessment of embedded derivatives* (effective for annual periods beginning on or after 1 June 2006). The interpretation states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract. Subsequent reassessment is allowed only if there is a change to the contract that significantly modifies the cash

flows that otherwise would be required under the contract. The adoption of IFRIC 9 has not led to any changes in Fortum Group's accounting policies.

- IFRIC 10 *Interim financial reporting and impairment* (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost must not be reversed at a subsequent balance sheet date. The interpretation had no impact on the financial position or performance of Fortum Group.

The following interpretations are not relevant to Fortum Group's operations:

- IFRIC 7 *Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies* (effective for annual periods beginning on or after 1 March 2006). IFRIC 7 is not relevant for Fortum Group since Fortum does not operate in hyperinflationary economies.
- IFRIC 8 *Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006). Fortum does not have any such arrangements in the scope of the interpretation.

New Standards and amendments and interpretations to existing standards which are not yet effective and have not been early adopted

- IFRIC 14 *IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction* (effective from 1 January 2008). IFRIC 14 applies to all post-employment defined benefits and other long-term employee defined benefits. It addresses how to assess the limit in IAS 19 on the amount of the surplus that can be recorded as an asset ('asset ceiling') in particular, when there is a minimum funding requirement. Fortum has not yet determined the potential effect of the interpretation. The interpretation has not yet been endorsed in the EU.
- IFRS 8 *Operating segments* (effective for annual periods beginning on or after 1 January 2009). Fortum will adopt the standard as from 1 January 2009. Management is in process of assessing its impacts. IFRS 8 deals with disclosures and therefore has no impact on Fortum Group's reported results or financial position. The standard has been endorsed in the EU.
- IAS 23 (revised) *Borrowing costs* (effective for annual periods beginning on or after 1 January 2009). The revised standard requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option to expense borrowing costs is removed. The adoption of the revised IAS 23 will constitute a change in accounting policy for Fortum Group. Following the transitional provisions Fortum will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The standard is still subject to endorsement by the EU.
- IAS 1 (revised) *Presentation of financial statements* (effective for annual periods beginning on or after 1 January 2009). Fortum will adopt the revised standard as from 1 January 2009. IAS

1 (revised) will mainly change the presentation of the income statement and the statement of changes in equity. The revised standard has not yet been endorsed in the EU.

- IFRS 3 (revised) *Business combinations* (effective for annual periods beginning on or after 1 July 2009.) The amendments address e.g. the accounting for acquisition-related costs, step acquisitions, goodwill and non-controlling interest (NCI, previously 'minority interest') and contingent consideration. Fortum has not yet determined the potential effects of the standard. IFRS 3 (revised) is still subject to endorsement by the EU.
- IAS 27 (revised) *Consolidated and separate financial statements* (effective for annual periods beginning on or after 1 July 2009). The amendments to IAS 27 reflect changes to the accounting for non-controlling (minority) interest and deal primarily with the accounting for changes in ownership interests in subsidiaries after control is obtained, the accounting for the loss of control of subsidiaries, and the allocation of profit or loss to controlling and non-controlling interests in a subsidiary. Fortum has not yet determined the potential effects of the standard. The revised standard is still subject to endorsement by the EU. The treatment required for loss of control is also extended to associated companies (IAS 28) and joint ventures (IAS 31).

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

- IFRIC 11 IFRS 2 *Group and treasury share transactions* (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 requires a share-based payment arrangement in which the entity receives goods or services as consideration for its own equity instruments (i.e. treasury shares) to be accounted for as equity-settled share-based payment transaction. Fortum does not have such arrangements. The interpretation has been endorsed in the EU.
- IFRIC 12 *Service concession arrangements* (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 is not relevant to Fortum as no member of the Group is a service concession operator providing for public sector services. The interpretation is still subject to endorsement by the EU.
- IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 January 2009). Fortum does not have any such programmes in the scope of the interpretation. The interpretation is still subject to endorsement by the EU.

Classification of current and non-current assets and liabilities

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

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

Consolidation

Subsidiaries

The consolidated financial statements include the parent company Fortum Corporation and all those companies in which Fortum Corporation has the power to govern the financial and operating policies and generally holds, directly or indirectly, more than 50% of the voting rights. The Fortum Group subsidiaries are disclosed in Note 46 Subsidiaries by segment on 31 December 2007.

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

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

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, subsidiaries' accounting policies have been changed to ensure consistency with the policies the Group has adopted.

Associates and joint ventures

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

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

When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not

recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

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

Regarding accounting for Fortum's shareholding in Hafslund ASA and the Russian shareholdings, see Note 23 Investments in associated companies and joint ventures.

Segment reporting

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

- Power Generation – comprises power generation and sales in the Nordic countries as well as operation and maintenance services in the Nordic area and selected international markets.
- Heat – comprises heat generation and sales in the Nordic countries and other parts of the Baltic Rim. The segment also generates power in the combined heat and power plants (CHP) and sells it to end-customers mainly by long-term contracts as well as to Nord Pool.
- Distribution – owns and operates distribution and regional networks and distributes electricity to customers in Sweden, Finland, Norway and Estonia.
- Markets – focuses on the retail sale of electricity to private and business customers as well as to other electricity retailers in Sweden, Finland and Norway. The Markets segment buys its electricity through Nord Pool.
- Other – includes mainly Group administration.

For further information about the reporting segments, see Note 5 Primary segment information. In Note 6 Geographical segments, Fortum also discloses some secondary segment information based on the geographical areas in which Fortum operates. The information disclosed is sales based on the country in which the customer is located, assets, capital expenditure and personnel based on where the assets and personnel are located.

Discontinued operations and assets held for sale

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

flow is either separated in the Cash Flow Statement or disclosed in the notes.

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

Neste Oil was included in Fortum Group up until 31 March 2005, when the Annual General Meeting took the final decision to separate the oil operations by distributing approximately 85% of Neste Oil Corporation shares as dividend. The remaining approximately 15% of shares were sold to investors in April 2005. Oil operations have been presented as discontinued operations for 2004 and 2005, see Key financial figures pages 88–89.

Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

Transactions and balances

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

Group companies

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

Exchange rates used to translate reporting currencies into

euros in the Consolidated Financial Statement are disclosed in Note 9 Exchange rates.

Revenue recognition

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

Sale of electricity, heat, cooling and distribution of electricity

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

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

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

As from 1 January 2004 Fortum has replaced its physical electricity transactions between the segments with transactions against Nord Pool. The hourly sales and purchases with Nord Pool are netted on the Group level and posted either as revenue or cost, according to whether Fortum is a net seller or a net buyer during any particular hour.

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

Connection fees

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

Contract revenue

Contract revenue is recognised under the percentage of completion method to determine the appropriate amount to recognise as revenue and expenses in a given period. The stage of completion is

measured by reference to the contract costs incurred up to the closing date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

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

Other income

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

Government grants

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

Emission allowances

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

Borrowing costs

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

Research and development costs

Research and development costs are recognised as expense as incurred and included in other expenses in the Income statement. If development costs will generate future income, they are capitalised as intangible assets and depreciated over the period of the income streams.

Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

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

Jointly controlled assets

Fortum owns, through its subsidiary Fortum Power and Heat Oy, the coal condensing power plant Meri-Pori in Finland, but Teollisuuden Voima Oy (TVO) has the contractual right to participate in

the plant with 45.55%. The capacity and production can be divided between Fortum and TVO. Each owner can decide when and how much capacity to produce. Both Fortum and TVO purchase fuel and CO₂ rights independently. Since both Fortum and TVO have control, including related risks and rewards, of their share of the power plant, Meri-Pori is accounted for as a jointly controlled asset.

Fortum is accounting for the part of the investment that corresponds to the investment Fortum has made, i.e. 55.55%. At present Fortum leases out its part of the Meri-Pori power plant. The lease agreement has been classified as an operating lease.

Fortum is also entitled to part of the electricity TVO produces in Meri-Pori through the shareholding of 26.58% of TVO C-series shares, see Note 23 Investments in associated companies and joint ventures.

Intangible assets

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

Computer software

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

Trademarks and licences

Trademarks and licences are shown at historical cost less accumulated amortisation and impairment losses, as applicable. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (15–20 years).

Customer base

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment

losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

Impairment of non-financial assets

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

Financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

Purchases and sales of investments are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially

all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement.

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

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

Trade receivables

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

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

Cash and cash equivalents

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

Treasury shares

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

Borrowings

Borrowings are recognised initially at fair value less transaction costs incurred. In subsequent periods, they are stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised as interest cost over the period

of the borrowing using the effective interest method. Borrowings or portion of borrowings being hedged item of a fair value hedge is recognised at fair value.

Leases

Finance leases

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

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

The property, plant and equipment leased out under a finance lease are presented as interest-bearing receivables at an amount equal to the net investment in the lease. Each lease payment receivable is allocated between the repayment of the principal and the finance income. Finance income is recognised in the income statement over the lease term so as to produce a constant periodic rate of return on the remaining balance of the receivable for each period.

Operating leases

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

Payments received under operating leases where the Group leases out fixed assets are recognised as Other income in the income statement. Fortum has leased out its share of the coal condensing power plant Meri-Pori in Finland until June 2010. (See also Jointly controlled assets above.) The lease agreement has been classified as an operating lease.

Inventories

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

Deferred income taxes

Deferred tax is provided in full, using the liability method, on tempo-

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

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

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

Employee benefits

Pension obligations

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

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

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

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

Share-based compensation

The Group operates long-term management performance share arrangements. The potential reward of the performance share arrangement is based on the performance of the Group, its business units and the individual participant as well as appreciation of the Fortum share. The potential reward of the performance share arrangement is treated as cash settled arrangement which is recognised as an expense during the vesting period with a corresponding

increase in the liabilities. The fair value of the potential reward is measured based on the market value of Fortum share at each closing date and at the grant date. Estimated departures are taken into account when determining the fair value of the potential reward. The changes of the fair value of the potential reward are accrued over the remaining vesting period. A provision is recorded on the social charges related to the arrangement payable by the employer.

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

Stock options

Stock options are measured at fair value at the time they were granted and they are expensed on a straight-line basis in the income statement over the period from the date they were granted to commencement of the right to exercise them. The expense determined at the moment of granting the options is based on an estimate of the number of options that will vest at the time of commencement of the right to exercise them. The fair value of the options is determined on the basis of the Black-Scholes or Binomial pricing model. Estimates of the final amount of options are updated on each closing date if applicable and the effects of changes in estimates are recorded in the income statement. Social charges related to the options payable by the employer are entered as an expense to the income statement and as a provision in the balance sheet in the accounting period during which the options are granted. This provision is measured based on the fair value of the options, and the amount of the provision is adjusted to reflect the changes in the Fortum share price. When stock options are exercised, the cash payments received on the basis of the share subscriptions (adjusted for any transaction expenses) are recognised in equity.

Provisions

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

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

Environmental restorations

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

Asset retirement obligations

Asset retirement obligation is recognised either, when there is a contractual obligation towards a third party or a legal obligation and the obligation amount and the definite lifetime can be estimated

reliably. Obligating event is e.g. when a plant is built on a leased land with an obligation to dismantle and remove the asset in the future or when a legal obligation towards Fortum changes. The asset retirement obligation is recognised as part of the cost of an item of property and plant when the asset is put in service or when contamination occurs. The costs will be depreciated over the remainder of the assets' useful life.

Restructuring provisions

Restructuring provisions comprise mainly of employee termination payments.

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

Fortum owns Loviisa nuclear power plant in Finland. Fortum's part of the State Nuclear Waste Management Fund and the related nuclear provisions are both presented separately in the balance sheet. Fortum's share in the State Nuclear Waste Management Fund is accounted for according to IFRIC 5, *Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds* which states that the fund assets are measured at the lower of fair value or the value of the related liabilities since Fortum does not have control or joint control over the State Nuclear Waste Management Fund. The related provisions are the provision for decommissioning and the provision for disposal of spent fuel.

The fair values of the provisions are calculated by discounting the separate future cash flows, which are based on estimated future costs and actions already taken. The initial net present value of the provision for decommissioning (at the time of commissioning the nuclear power plant) has been included in the investment cost and is depreciated over the estimated operating time of the nuclear power plant. Changes in the technical plans etc, which have an impact on the future cash-flow of the estimated costs for decommissioning, are accounted for by discounting the additional costs to the current point in time. The increased asset retirement cost due to the increased provision is added to property, plant and equipment and depreciated over the remaining estimated operating time of the nuclear power plant.

The provision for spent fuel covers the future disposal costs for fuel used until the end of the accounting period. Costs for disposal of spent fuel are expensed during the operating time based on fuel usage. The impact of the possible changes in the estimated future cash-flow for related costs is recognised immediately in the income statement based on the accumulated amount of fuel used until the end of the accounting period. The related interest costs due to unwinding of the provision, for the period during which the spent fuel provision has been accumulated and present point in time, are also recognised immediately in the income statement.

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

Fortum's actual share of the State Nuclear Waste Management Fund, related to Loviisa nuclear power plant, is higher than the carrying value of the Fund in the balance sheet. The legal nuclear liability should, according to the Finnish Nuclear Energy Act, be fully covered by payments and guarantees to the State Nuclear Waste Management Fund. The legal liability is not discounted while the provisions are, and since the future cash-flow is spread over 100 years, the difference between the legal liability and the provisions are material.

The annual fee to the Fund is based on changes in the legal liability, the interest income generated in the State Nuclear Waste Management Fund and incurred costs of taken actions.

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

For more information regarding nuclear related assets and liabilities, see Note 37 Nuclear related assets and liabilities.

Contingent liabilities

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

Earnings per share

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

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

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

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

Dividends

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

Accounting for derivative financial instruments and hedging activities

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a

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

Cash flow hedge

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

Fair value hedge

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

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

Net investment hedging in foreign operations

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

Derivatives that do not qualify for hedge accounting

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

Fair value estimation

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

Fair valuation of electricity derivatives maturing over six years and which are not standard Nord Pool products are based on prices collected from reliable market participants. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated

future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the closing date. Fair values of options are determined by using option valuation models. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Changes in assumptions about these factors will affect the reported fair value of financial instruments.

In fair valuation, credit spread has not been adjusted, because major part of the derivatives contracts is done with or through Nord Pool and financial institutions with investment grade ratings.

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

2 Critical Accounting Estimates and Judgments

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

Impairment of property, plant and equipment

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

The Group has not recognised any impairment losses during 2007 based on these calculations.

If the revised estimated operating profit before depreciation at 31 December 2007 was 10% lower than management's estimates at 31 December 2007 or pre-tax discount rate applied to the discounted cash flows was 10% higher than management's estimates, the Group would not have recognised impairment against property plant and equipment.

Deferred and income taxes

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

Assumptions made include the expectation that future operating performance for subsidiaries will be consistent with historical

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

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

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

Liabilities related to nuclear production

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

Any changes in the assumed discount rate would affect the provision. If the discount rate used would be lowered, the provision would increase. Fortum has contributed cash to the State Nuclear Waste Management Fund based on a non-discounted legal liability, which leads to that the increase in provision would be offset by an increase in the recorded share of Fortum's part of the State Nuclear Waste Management Fund in the balance sheet. The total effect on the income statement would be positive since the decommissioning part of the provision is treated as an asset retirement obligation. This situation will prevail as long as the legal obligation to contribute cash to the State Nuclear Waste Management Fund is based on a non-discounted liability and IFRS is limiting the carrying value of the assets to the amount of the provision since Fortum does not have control or joint control over the fund. (See Note 37 Nuclear related assets and liabilities)

3 Financial Risk Management

Risk management objectives, principles, and framework including governance, organisation and processes as well as description of risks i.e. strategic, financial and operational risks are described in Operating and Financial Review (OFR).

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 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.

Fortum's sensitivity to electricity market price is dependent on the hedge level for a given time period. The hedge ratio on 31 December 2007 was approximately 70% for the year 2008 and 25% for 2009. Assuming no changes in generation volumes, hedge ratios or cost structure a 1 EUR/ MWh change in the market price of electricity would affect Fortum's 2008 profit before income tax by approximately EUR 14 million and 2009 EUR 37 million. Volume used in this sensitivity analysis is 50 TWh which includes the electricity generation sold to spot market in Power Generation and Heat segments without minority owner's shares of electricity or other pass-through sales. This volume is heavily dependent on price level, hydrological situation, length of annual maintenance periods and

availability of power plants. Sensitivity is calculated only for market price movement as hydrological conditions, temperature, CO₂ allowance prices, fuel prices and the import/export situation all affects electricity price on short-term basis and effect of these factors cannot be separated as individual sensitivity analysis.

Sensitivity arising from financial instruments according to IFRS 7

Sensitivity analysis shows the sensitivity arising from financial electricity derivatives as defined in IFRS 7. These derivatives are used in hedging and proprietary trading purposes in various Business Units within Fortum. Sensitivities are calculated based on 31 December 2007 (31 December 2006) position. Positions are actively managed in the day-to-day business operations and therefore the sensitivities vary from time to time. Sensitivity analysis includes only the market risks arising from derivatives i.e. the underlying physical electricity sales and purchase is not included. Sensitivity is calculated with the assumption that electricity forward quotations in Nord Pool and in EEX would change 1 EUR/MWh for the period Fortum has derivatives.

Sensitivity according to IFRS 7

+/- 1 EUR/MWh change in electricity forward quotations, EUR million	Effect	2007	2006
Effect on Profit before income tax	-/+	2	-4
Effect on Equity	-/+	29	36

The tables below disclose the Group's electricity derivatives used mainly for hedging electricity price risk. The fair values represent the values disclosed in the balance sheet. See also Note 1 Accounting policies for accounting principles and bases for fair value estimations and Note 7 Fair value changes of derivatives and underlying items in income statement for the effects in the income statement regarding electricity derivatives not getting hedge accounting status.

Electricity derivatives by instrument

Gross	31 December 2007				Fair value, EUR million		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Sales swaps	92	26	1	119	65	716	-651
Purchase swaps	71	17	0	88	526	64	462
Purchased options	-	-	-	-	-	-	-
Written options	2	-	-	2	1	2	-1
Total	165	43	1	209	592	782	-190
Netting against Nord Pool ¹⁾							
Total					-473	-473	0
Balance					119	309	-190

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

Electricity derivatives by accounting status

Gross	31 December 2007				Fair value, EUR million		
	Volume, TWh				Positive	Negative	Net
	Under 1 year	1-5 years	Over 5 years	Total			
Derivatives with hedge accounting status	65	25	0	90	211	383	-172
Derivatives with non-hedge accounting status ¹⁾	100	18	1	119	381	399	-18
Total	165	43	1	209	592	782	-190
Netting against Nord Pool ²⁾							
Derivatives with hedge accounting status					-198	-198	0
Derivatives with non-hedge accounting status ¹⁾					-275	-275	0
Total					-473	-473	0
Balance					119	309	-190
Of which long-term					56	88	-32
Short-term					63	221	-158

Electricity derivatives by instrument

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

Electricity derivatives by accounting status

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

¹⁾ Derivatives with non-hedge accounting status consist of trading derivatives and cash flow hedges without hedge accounting status.

²⁾ Receivables and liabilities against Nord Pool arising from standard derivative contracts with same delivery period are netted.

Volume risks

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

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

Fuel price risks

Fortum uses some financial derivatives such as oil and coal derivatives to mitigate its fuel price risk. At 31 December 2007 Fortum had oil sales swaps and futures 460 thousand bbl (2006: 180 thousand) and oil purchase swaps and futures 795 thousand bbl (2006: 897 thousand). The respective net fair values were EUR –4 million

(2006: 0 million) and EUR 9 million (2006: 0 million). Volumes of sold and bought coal derivatives were 150 kt and 375 kt respectively and the net fair values were EUR –1 million and EUR 1 million.

CO₂ emission allowance price risk

Fortum manages its exposure to CO₂ allowance prices related to own production through the use of CO₂ forwards and by ensuring that the costs of allowances are taken into account during production planning. These are own use contracts valued at cost.

In addition to own production Fortum has proprietary trading book. These allowances are treated as derivatives in the accounts. At 31 December 2007 the trading volumes of sold and bought CO₂ emission allowances were 3,101 ktCO₂ (2006: 405) and 3,121 ktCO₂ (2006: 418). The respective net fair values were EUR –13 million (2006:0) and EUR 13 million (2006:0).

Maturity analysis of electricity derivatives

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

EUR million	31 December 2007				31 December 2006			
	Under 1 year	1–5 years	Over 5 years	Total	Under 1 year	1–5 years	Over 5 years	Total
Electricity derivatives liabilities	642	166	9	817	768	140	3	911
Electricity derivatives assets	466	133	6	605	908	88	4	1,000

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

Liquidity and refinancing risk

Fortum's business is capital intensive and the Group has a regular need to raise financing. Fortum has a diversified loan portfolio mainly consisting of long-term bond financing but also a variety of other long- and short-term financing facilities. On 31 December 2007, the total interest bearing debt was EUR 4,893 million (2006:

4,502 million) and the interest-bearing net debt was EUR 4,466 million (2006: 4,345 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.

On 31 December 2007, loan maturities for the coming twelve-month period amounted to EUR 605 million (2006: 442 million), cash and marketable securities amounted to EUR 427 million (2006: 157 million), and the amount of undrawn committed credit facilities was EUR 1,416 million (2006: 1,314 million). On top of the committed credit facilities, Fortum had at year end access to approximately EUR 2.7 billion (2006: 2.2 billion) of uncommitted credit facilities.

Maturity of interest-bearing liabilities

EUR million	2007
2008	605
2009	304
2010	548
2011	293
2012	509
2013 and later	2,634
Total	4,893

Cash and Marketable securities and Major Credit Lines and debt programmes 31 December 2007

EUR million	Total facility	Drawn amount	Available amount
Cash and Marketable securities			427
Committed credit lines			
EUR 1,200 million syndicated credit facility	1,200	–	1,200
Bilateral overdraft facilities	216	–	216
Total committed credit lines	1,416	–	1,416
Debt programmes (uncommitted)			
Fortum Corporation, CP programme EUR 500 million	500	–	500
Fortum Corporation, CP programme SEK 5,000 million	530	–	530
Fortum Corporation, EMTN programme EUR 5,000 million	5,000	3,361	1,639
Total debt programmes	6,030	3,361	2,669

Cash and Marketable securities and Major Credit Lines and debt programmes 31 December 2006

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

Maturity analysis of interest-bearing liabilities and derivatives

Amounts disclosed below are non-discounted cash flows of interest-bearing liabilities and interest rate and currency derivatives, and the

expected cash-flows arising (future interest payments and amortisations) from these items.

EUR million	31 December 2007				31 December 2006			
	Under 1 year	1–5 years	Over 5 years	Total	Under 1 year	1–5 years	Over 5 years	Total
Interest-bearing liabilities ¹⁾	838	2,344	3,149	6,331	620	2,355	2,880	5,855
Interest rate and currency derivatives liabilities	4,895	3,570	136	8,601	6,348	2,144	147	8,639
Interest rate and currency derivatives receivables	–4,924	–3,608	–133	–8,665	–6,271	–2,088	–156	–8,515
Total	809	2,306	3,152	6,267	697	2,411	2,871	5,979

¹⁾ Loans from State Nuclear Waste Fund and Teollisuuden Voima Oy are yearly renewed. Interest payments of these loans are calculated for ten years.

Interest rate risk and currency risk

Interest rate risk

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 2007 the average duration of the debt port-

folio (including derivatives) was 1.3 years (2006: 1.5 years). Approximately 67% (2006: 66%) 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 71 million on 31 December 2007 (2006: 56 million). The flow risk, measured as the difference between the base case net interest cost estimate and the worst case scenario estimate for Fortum's debt portfolio for the coming 12 months, was EUR 14 million (2006: 18 million).

Currency risk

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 for transaction exposure and for five day period at 95% confidence level for translation exposure. The limits for transaction and translation exposures are VaR EUR 5 million and EUR 10 million, respectively. On 31 December 2007 the open transaction and translation

exposures were EUR 23 million (2006: 9 million) and EUR 1,787 million (2006: 1,378 million). The VaR for the transaction exposure was EUR 0 million (2006: 0 million) and VaR for the translation exposure calculated without the fair value change of Renewable Energy Corporation (REC) in Hafslund was EUR 8 million (2006: 6 million). For further information about the accounting of Fortum's shareholding in Hafslund, see Note 23 Investments in associated companies and joint ventures.

Group Treasury's transaction exposure

EUR million	31 December 2007			31 December 2006		
	Net position	Hedge	Open	Net position	Hedge	Open
SEK	6,266	-6,300	-34	6,763	-6,761	2
USD	-118	118	0	-37	37	0
NOK	391	-383	8	525	-528	-3
Other	194	-191	3	140	-130	10
Total	6,733	-6,756	-23	7,391	-7,382	9

Group Treasury's translation exposure

EUR million	31 December 2007			31 December 2006		
	Investment	Hedge	Open	Investment	Hedge	Open
SEK	490	-	490	630	-	630
NOK ¹⁾	1,109	-	1,109	505	-	505
PLN	122	-	112	113	-	113
Other	128	-52	76	130	-	130
Total	1,849	-52	1,787	1,378	-	1,378

¹⁾ NOK amount includes the fair value change of Renewable Energy Corporation (REC) shareholding in Hafslund approximately EUR 790 million (2006: 440 million), see Note 45 Events after the balance sheet date.

Interest rate and currency derivatives by instrument

EUR million	31 December 2007						
	Notional amount Remaining lifetimes				Fair value		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Forward foreign exchange contracts	3,889	563	-	4,452	59	30	29
Interest rate swaps	1,481	772	1,247	3,500	25	41	-16
Interest rate and currency swaps	695	2,598	-	3,293	82	16	66
Forward rate agreement	503	238	-	741	0	0	0
Total	6,568	4,171	1,247	11,986	166	87	79
Of which long-term					93	49	44
Short-term					73	38	35

Interest rate and currency derivatives by use

EUR million	31 December 2007						
	Notional amount Remaining lifetimes				Fair value		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Net investment hedging foreign exchange derivatives	52	-	-	52	0	0	0
Cash flow hedging foreign exchange derivatives	341	110	-	451	1	10	-9
Non-hedging foreign exchange derivatives ¹⁾	3,496	453	-	3,949	58	20	38
Total forward foreign exchange contracts	3,889	563	-	4,452	59	30	29
Fair value hedging interest rate derivatives	-	300	1,141	1,441	0	23	-23
Cash flow hedging interest rate derivatives	-	293	106	399	6	1	5
Non-hedging interest rate derivatives ¹⁾	1,984	417	-	2,401	19	17	2
Total interest rate derivatives	1,984	1,010	1,247	4,241	25	41	-16
Non-hedging interest rate and currency swaps ¹⁾	695	2,598	-	3,293	82	16	66
Total interest rate and currency swaps	695	2,598	-	3,293	82	16	66
Total	6,568	4,171	1,247	11,986	166	87	79

¹⁾ Consists of deals without hedge-accounting status.

Interest rate and currency derivatives by instrument

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

Interest rate and currency derivatives by use

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

¹⁾ Consists of deals without hedge-accounting status.

²⁾ Fair values of hedging interest rate swaps have been netted against fair value change of the bond in the balance sheet in 2006.

Share derivatives

EUR million	31 December 2007		31 December 2006	
	Notional value	Net fair value	Notional value	Net fair value
Share forwards	36	66	24	37

Cash-settled share forwards are used as a hedging instrument for the Fortum share price risk regarding the Fortum Group's performance share arrangement. See Note 31 Employee bonus and incentive schemes for more information about the Group's performance share arrangement. The maturity of the share forwards is 1–5 years. The amounts disclosed are non-discounted cash flows for the share derivatives.

Counterparty Risk

Exposures against limits and counterparties' creditworthiness are monitored to ensure that the risks are at an accepted level. When changes appear to be leading to unacceptable risks according to approved policies, Corporate Credit Control initiates actions to mitigate risks.

Counterparty risk exposures relating to financial derivative instruments are often volatile. The majority of the Group's commod-

ity derivatives are cleared by the Nordic electricity exchange, Nord Pool. Derivative transactions are also done with other individual external counterparties on the financial or commodity markets. Counterparty risk in the retail and wholesale business is well diversified over a large number of private individuals and industrial companies.

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

EUR million	2007		2006	
	Carrying amount	of which past due	Carrying amount	of which past due
Investment grade receivables	173	–	79	–
Electricity exchanges	9	–	101	–
Associated companies	639	–	603	–
Other	219	–	211	–
Total	1,040	–	994	–

4 Capital Risk Management

Fortum wants to have a prudent and efficient capital structure which at the same time allows the implementation of its strategy. The Group monitors the capital structure based on Net debt / EBITDA ratio. Net debt is calculated as interest-bearing liabilities less cash and cash equivalents. EBITDA is calculated by adding back depreciation, amortisation and impairment charges to operating profit. During 2007, which was unchanged from 2006, target capital structure has been defined as Net debt / EBITDA between 3.0–3.5.

Capital expenditure, acquisitions, dividend distributions, repurchases of own shares and capital returns to shareholders are ways to move towards the target capital structure.

Fortum's dividend policy states that the company aims to pay a dividend which corresponds to an average payout ratio of 50 to 60%.

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

The Net debt / EBITDA ratios for year 2007 and 2006

EUR million	Note	2007	2006
Interest-bearing liabilities	33	4,893	4,502
Less: Cash and cash equivalents	28	427	157
Net debt		4,466	4,345
Operating profit		1,847	1,455
Add: Depreciation, amortisation and impairment charges		451	429
EBITDA		2,298	1,884
Net debt / EBITDA ¹⁾		1.9	2.3

¹⁾ Net debt/EBITDA for 2007 is 2.2 based on EBITDA excluding capital gain from the sale of Fortum's holding in Lenenergo amounting to EUR 232 million.

5 Primary Segment Information

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

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

Power Generation segment generates and sells power mainly to the Nordic electricity market and is also responsible for the risk management operations within power generation. Power Generation segment consists of the business units Generation, Portfolio Management and Trading and Service. The Portfolio Management

and Trading business unit within the segment is responsible for optimising the operating of power plants and for selling power to the Nordic power exchange Nord Pool. Generation is responsible for ownership, operation and maintenance of Fortum's power plants and Service business unit provides operation and maintenance services for the Nordic market and selected international markets.

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

mainly concentrated to the larger Stockholm area in Sweden, while Heat has operations in Finland, Norway, Poland and other countries in the Baltic rim area.

Distribution is responsible for a reliable and secure electricity supply to its customers in the Nordic countries and Estonia. Fortum owns and operates distribution and regional networks and distributes electricity to a total of 1.6 million customers in Sweden, Finland, Norway and Estonia. Electricity distribution is considered and accepted as a regulated business, and is therefore supervised by national energy authorities. Models and principles for supervision and considerations of reasonable tariffs differ from country to country.

Markets is responsible for offering energy solutions to its 1.3 million customers in Finland, Sweden and Norway. The segment buys its electricity from Nord Pool and sells it further to household and business customers as well as other retailers in the Nordic countries. In addition to the actual sale of electricity, Markets provides comprehensive risk and portfolio management solutions to its business customers. Electricity supply in the Nordic countries is a deregulated business since 1995 which means that customers can freely change electricity supplier.

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

Inter-segment transactions and eliminations

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

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

Segment information

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

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

- non-recurring items, which mainly consist of capital gains and losses
- effects from fair valuations of derivatives hedging future cash-flows which do not obtain hedge accounting status according to IAS 39. The major part of Fortum's cash-flow hedges obtain hedge accounting where the fair value changes are recorded in equity, see Note 7 Fair value changes of derivatives and underlying items in income statement.
- effects from the accounting of Fortum's part of the State Nuclear Waste Management Fund where the assets in the balance sheet cannot exceed the related liabilities according to IFRIC 5, see Note 37 Nuclear related assets and liabilities.

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

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

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

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

See also Definitions of key figures, Key financial ratios and Operational key figures, pages 88–95.



2007 Primary segment information

EUR million	Power Generation	Heat	Distribution	Markets	Other	Eliminations	Total
Sales	2,350	1,356	769	1,683	81	-1,760	4,479
Internal sales	323	38	9	155	72	-597	0
External sales	2,027	1,318	760	1,528	9	-1,163	4,479
Depreciation, amortisation and impairment	-102	-163	-162	-11	-13		-451
Operating profit	1,125	294	465	12	-49		1,847
Share of profit of associated companies and joint ventures	196	24	18	3	0		241
Finance costs – net							-154
Income taxes							-326
Profit for the period							1,608

Comparable operating profit

EUR million	Power Generation	Heat	Distribution	Markets	Other	Total
Operating profit	1,125	294	465	12	-49	1,847
Non-recurring items	-14	-2	-232	0	-2	-250
Other operating items effecting comparability	-18 ¹⁾	-2	-2	-13	2	-33
Comparable operating profit	1,093	290	231	-1	-49	1,564

¹⁾ Includes effects from the accounting of Fortum's part of the Finnish State Nuclear Waste Management Fund with EUR 17 million, see Note 37 Nuclear related assets and liabilities.

Other information

EUR million	Power Generation	Heat	Distribution	Markets	Other	Total
Recognised impairment losses for trade receivables	-1	6	-2	-5	-	-2
Recognised impairment losses for property, plant and equipment	-	-	-	-	-	0
Restructuring costs	-	-	1	-	-	1
Average number of employees	3,475	2,302	1,060	936	531	8,304

Assets and liabilities by segments

EUR million	Power Generation	Heat	Distribution	Markets	Other and eliminations	Total
Non-interest-bearing assets	5,269	3,770	3,550	622	274	13,485
Investments in associated companies and joint ventures	2,455	158	232	8	0	2,853
Assets included in Net assets	7,724	3,928	3,782	630	274	16,338
Interest-bearing receivables						747
Deferred tax assets						3
Other assets						159
Cash and cash equivalents						427
Total assets						17,674

EUR million	Power Generation	Heat	Distribution	Markets	Other and eliminations	Total
Liabilities included in Net assets	576	421	539	383	134	2,053
Deferred tax liabilities						1,687
Other liabilities						390
Total liabilities included in Capital employed						4,130
Interest-bearing liabilities						4,893
Total equity						8,651
Total equity and liabilities						17,674

Gross investments in shares	297	18	1	0	1	317
Capital expenditure	93	309	236	3	14	655

EUR million	Net assets by segments	Return on net assets (%)	Comparable return on net assets (%) ²⁾
Power Generation	7,148	19.2	17.7
Heat	3,507	9.3	9.2
Distribution	3,243	14.5	7.5
Markets	247	6.9	-0.6

²⁾ In Power Generation segment approximately EUR 180 million gain in relation to Hafslund's divestment of REC-shares is excluded from the share of profits of associates and joint ventures. From Q4 2007 the REC-shares have been excluded from the net assets as well. 2006 have been restated accordingly.

2006 Primary segment information

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

Comparable operating profit

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

¹⁾ Includes effects from the accounting of Fortum's part of Finnish State Nuclear Waste Management Fund with EUR 0 million, see Note 37 Nuclear related assets and liabilities.

Other information

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

Assets and liabilities by segments

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

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

EUR million	Net assets by segments	Return on net assets (%)	Comparable return on net assets (%)
Power Generation	6,734	16.1	16.9
Heat	3,407	9.6	9.2
Distribution	3,412	8.4	8.3
Markets	176	-1.6	-0.8

6 Geographical Segments

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

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

Sales by market area

EUR million	2007	2006
Finland ¹⁾	1,488	1,521
Sweden	2,161	2,471
Norway ¹⁾	488	189
Poland	133	128
Other European countries	209	182
Total	4,479	4,491

¹⁾ From 2006 the Finnish power production is sold to Nord Pool in Norway, whereas Swedish power production is sold through Nord Pool in Stockholm.

Sales and purchases with Nord Pool are netted on country level on an hourly basis and posted either as revenue or cost depending on if Fortum is a net seller or net buyer during any particular hour.

Capital expenditure by geographical segments

EUR million	2007	2006
Finland	203	146
Sweden	370	299
Norway	22	17
Poland	19	6
Other European countries	41	17
Total	655	485

Segment assets by geographical segments

EUR million	2007	2006
Finland	3,829	3,739
Sweden	9,238	9,712
Norway	233	207
Poland	239	219
Other European countries	232	214
Eliminations	-286	-503
Non-interest bearing assets	13,485	13,588
Investments in associated companies and joint ventures	2,853	2,197
Total	16,338	15,785

Number of employees at 31 December

	2007	2006
Finland	2,981	2,976
Sweden	3,465	3,321
Norway	277	261
Poland	925	990
Other European countries	655	586
Total	8,303	8,134

7 Fair Value Changes of Derivatives and Underlying items in Income Statement

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

Fair value changes of currency derivatives in net financial expenses are arising mainly from balance sheet hedges without

hedge accounting status according to IAS 39, because they are natural hedges of loans and receivables. Fair value change of interest rate hedges without hedge accounting is EUR 5 million (2006: 17 million). The net effect of fair value changes of hedging derivative and hedged bonds are EUR –1 million (2006: 4 million).

EUR million	2007	2006
In operating profit		
Fair value changes from derivatives not getting hedge accounting status		
Electricity derivatives	–7	–31
Currency derivatives	18	–1
Oil derivatives	4	–6
Share derivatives ¹⁾	–2	2
Ineffectiveness from cash flow hedges	2	–6
Total effect in operating profit	15	–42
Fair value changes of derivatives not getting hedge accounting included in share of profit of associated companies	2	3
In finance costs		
Exchange gains and losses on loans and receivables	–233	185
Fair value changes of derivatives not getting hedge accounting status		
Currency derivatives	236	–176
Interest rate derivatives	5	17
Fair value change of hedging derivatives in fair value hedge relationship	–37	–27
Fair value change of hedged item in fair value hedge relationship	36	31
Total effect in finance costs	7	30
Total effect of derivatives on profit before income tax	24	–9

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

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

- non-recurring items, which mainly consist of capital gains and losses
- effects from fair valuations of derivatives in operating profit as presented in the table above. The major part of Fortum's

cash-flow hedges obtain hedge accounting where the fair value changes are recorded in equity.

- effects from the accounting of Fortum's part of the State Nuclear Waste Management Fund where the assets in the balance sheet cannot exceed the related liabilities according to IFRIC 5.

8 Acquisitions and Disposals

In 2007 Fortum acquired the shares in Pärnu Energia OÜ (renamed Fortum Pärnu OÜ) in Estonia, in Vattenfall Latvija SIA (renamed Fortum Latvija SIA) in Latvia and in EC Wojkowice in Poland. The total investments amounted to EUR 18 million.

Material acquisitions in 2006 consisted mainly of E.ON Finland Oyj (renamed Fortum Espoo Oyj). In 2006 Fortum invested EUR 765 million in subsidiary shares, of which the investment in Fortum Espoo represented EUR 713 million.

The effect of the acquisitions on the 2007 sales is EUR 8 million, being:

- Fortum Pärnu external sales, February to December, EUR 6 million
- Fortum Latvija SIA external sales, February to December EUR 1 million
- EC Wojkowice external sales, July to December EUR 1 million.

Gross Investments in subsidiary shares by segment

EUR million	2007	2006
Power Generation	0	2
Heat	18	587
Distribution	0	130
Markets	–	6
Other and eliminations	0	40
Total	18	765

Gross Investments in subsidiary shares by country

EUR million	2007	2006
Finland	0	714
Sweden	0	–
Other European countries	18	51
Total	18	765

Gross Investments in subsidiary shares consist of interest-bearing debt as well as paid cash according to purchase agreement added

with direct costs relating to the acquisition less cash and cash equivalents in acquired subsidiary.

Acquisitions 2007

No acquisitions or disposals of shares in subsidiaries which have a material effect on Fortum's income statement and balance sheet has been made during 2007. Gross investment in subsidiary shares (see definition of key figures) amounted to EUR 18 million.

Fortum acquired in the beginning of July 100% of the shares in EC Wojkowice. The acquired company in Poland concentrates on district heating production and sales in three cities. The company also sells electricity. The annual heat sales are around 64 GWh and electricity sales 320 MWh. The number of employees is 34.

Fortum acquired in January 2007 100% of the shares in Vattenfall Estonia AS and Vattenfall Latvia SIA from Vattenfall. The acquired company in Estonia provides district heat and natural gas in the city of Pärnu. Its district heat network is the fourth biggest in

Estonia. The annual heat sales are 190 GWh, sales EUR 5.4 million and number of employees 58. The district heat business in Pärnu will be integrated to the current countrywide heat operations of Fortum Termest AS.

The acquired company in Latvia provides heat to Riga airport. The annual heat sales are around 12 GWh and sales around EUR 0.5 million. The acquisition provides a platform for Fortum to Latvian heat market.

Fortum has also acquired additional shares in its subsidiaries in Poland, Fortum Częstochowa SA 11.11% (total ownership 98.71%), Fortum Wrocław 0.92% (total ownership of 99.17%), Fortum Płock SA 0.91% (total ownership of 98.66%) and Fortum DZT SA 0.63% (total ownership 99.92%).

Consideration

EUR million	Total Group Acquisitions
Purchase consideration:	
Cash paid	11
Direct costs relating to the acquisition	–
Total purchase consideration	11
Fair value of the acquired net assets	11
Translation difference	–
Goodwill	–

Specification of the acquired net identifiable assets

EUR million	Total Group Acquisitions		
	Total Value	Allocated Fair Values	Acquired Book Value
Cash and cash equivalents	1	0	1
Property, plant and equipment	16	6	10
Inventories	0	0	0
Receivables	1	0	1
Non-interest-bearing liabilities	-1	0	-1
Interest-bearing liabilities	-8	0	-8
Deferred tax liabilities	0	0	0
Net identifiable assets	9	6	3
Minority interests	2	2	-
Fair value of the acquired net identifiable assets	11	8	3
			Total Group Acquisitions
Purchase consideration settled in cash			11
Cash and cash equivalents in subsidiaries acquired			1
Cash outflow on acquisition			10
Interest-bearing debt in subsidiaries acquired			8
Gross investment in subsidiaries acquired			18

Acquisitions 2006

Fortum acquired 99.8% of the shares of Fortum Espoo Oy (former E.On Finland Oy) on 26 June 2006 after approval by Finnish Competition Authority. On 13 September 2006 Fortum obtained the title to all minority shares of Fortum Espoo in the redemption procedure according to the Finnish Companies Act. The quotation of Fortum Espoo Oy's share on Helsinki Stock Exchange, ceased on 13 September 2006. On 31 December 2006 Fortum Espoo Oy demerged into Fortum Espoo Markets Oy, Fortum Espoo Distribution Oy and Fortum Espoo Power and Heat Oy. Fortum Espoo has been consolidated from 30 June 2006.

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

The effect on Fortum's operating profit from the Fortum Espoo Oy acquisition for the six months post-acquisition showed an operating profit of EUR 16 million, including EUR 5 million in restructuring costs, and profit for the period of EUR 13 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the

additional depreciation that has been charged due to the fair value adjustments of intangible assets and property, plant and equipment together with the consequential tax effects.

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

Details of the Fortum Espoo Oy acquisition are shown in the table below, along with figures for the entire Group; no other single acquisition was deemed material.

Other acquisitions in 2006 included:

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

Consideration

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

Specification of the acquired net identifiable assets

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

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

Disposals 2007 and 2006

There have been no disposals in 2007.

In 2006 Fortum sold its industrial maintenance services business with operations in Finland and Sweden. Industrial maintenance service was a business area within the Service business unit in Power Generation segment and had total external sales of EUR 70

million from January to October 2006. Some 900 employees were transferred in connection with the deal. The divestment included both subsidiary shares and assets. In 2006 Fortum also sold Bromölla Fjärrvärme AB, its Swedish subsidiary. The total disposal consideration was EUR 11 million.

9 Exchange Rates

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

The balance sheet date rate is based on exchange rate published by the European Central Bank for the closing date. The average exchange rate is calculated as an average of each month's ending rate from the European Central Bank during the year and ending rate previous year.

Key exchange rates for Fortum Group applied in the accounts

	Currency	Average rate		Balance sheet date rate	
		2007	2006	31 Dec 2007	31 Dec 2006
Sweden	SEK	9.2475	9.2637	9.4415	9.0404
Norway	NOK	8.0253	8.0376	7.9580	8.2380
Poland	PLN	3.7792	3.8965	3.5935	3.8310
Russia	RUB	35.0759	34.1475	35.9860	34.6800

10 Sales

EUR million	2007	2006
Power sales excluding indirect taxes	2,370	2,437
Heating sales	1,096	1,014
Network transmissions	729	716
Other sales	284	324
Total	4,479	4,491

Power sales include eliminations on sales and purchases with Nord Pool that are netted on Fortum Group level on an hourly basis and posted either as revenue or cost depending on if Fortum is a net seller or a net buyer during any particular hour. Heating sales include sale of delivered heat and transmission of heat. Other sales include cooling sales of EUR 22 (2006: 20) million, connection fees

of electricity and district heating distribution of EUR 42 (2006: 37) million and sale of gas and other fuels of EUR 52 (2006: 51) million. Other sales also include sales from contracts in progress entered as income according to the percentage of completion of EUR 42 million in 2007 (2006: 44 million).

11 Other Income

EUR million	2007	2006
Capital gains on disposal of non-current assets	290	71
Rental income	39	9
Fair value changes on derivatives that do not qualify for hedge accounting status (Note 7)	16	-43
Other items	48	43
Total	393	80

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

In August 2007 Fortum sold its shares in JSC Lenenergo. As a result of the divestment, Fortum booked an after tax gain of EUR 232 million. Capital gains also includes gain on sale of emission rights EUR 39 million (2006: 10 million). Costs for made emissions which are not covered by emission rights received for free were EUR 0 million (2006: 10 million). The costs are included in Materials and services.

Fortum has leased its 308-MW share of the Meri-Pori power plant from January 2007 to the end of June 2010. The lease agreement is classified as an operating lease and has increased the rental income in 2007.

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

12 Materials and Services

EUR million	2007	2006
Purchases	825	971
Purchases from associated companies	519	487
Purchases from joint ventures	–	1
Transmission costs	131	122
Change in inventories	18	–3
External services	79	95
Total	1,572	1,673

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

purchases include production taxes and duties EUR 84 million (2006: 149 million) of which nuclear related property taxes EUR 68 million (2006: 66 million) and hydro power related property taxes EUR 11 million (2006: 10 million).

13 Other Expenses

EUR million	2007	2006
Operation and maintenance costs	116	115
Property taxes	66	56
IT and telecommunication costs	76	92
Research and development costs	21	17
Other items	228	226
Total	507	506

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

transmission lines. Property taxes include property taxes relating to hydro power production EUR 55 million (2006: 52 million).

Auditors' fees

EUR million	2007	2006
Audit fees	1.0	1.0
Audit related assignments	0.1	0.0
Tax assignments	0.4	0.0
Other assignments	0.3	0.2
Total	1.8	1.2

14 Management Remuneration and Employee Costs

EUR million	2007	2006
Wages and salaries	348	339
Pensions		
Defined contribution plans	35	36
Defined benefit plans (Note 36)	11	15
Social security costs	77	91
Share-based remunerations (Note 31)	8	9
Other post-employment benefits	0	1
Other employee costs	16	17
Total	495	508

The Nomination and Compensation Committee discusses, assesses and makes recommendations and proposals on the remuneration policy, pay structures, bonus and incentive systems for the Group

and its management, and contributes to the Group's nomination issues. The remuneration policy is determined by the Board of Directors.

The compensation package for Fortum employees consists of a combination of salaries, benefits, short-term incentives and deferred share-based long-term incentives. The majority of Fortum employees are covered by an annual performance bonus system. The long-term incentive schemes are intended for senior executives

and other management of the Fortum Group.

For further information on Fortum's employee bonus and equity incentive schemes, see Note 31 and for pension obligations see Note 36.

Supervisory Board remuneration

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

Each Supervisory Board member receives a fixed monthly fee and a meeting fee. The employee representatives receive only a

meeting fee. All members are entitled to travel expense compensation against receipts in accordance with the company's travel policy. Members of the Supervisory Board are not offered stock options, warrants or participation in other incentive schemes, nor do they have a pension plan in Fortum.

Total remuneration for the Supervisory Board service in 2007 has been EUR 79 thousand (2006: 85 thousand).

Board remuneration

EUR thousand	2007	2006
Chairman, Peter Fagernäs	62	63
Deputy chairman, Birgitta Kantola	50	50
Other members of the Board	186	190
Total	298	303

The Board of Directors comprises five to seven members who are elected at the Annual General Meeting for a one-year term of office, which expires at the end of the first Annual General Meeting following the election. During 2007 and 2006 the Board consisted of seven members.

The Annual General Meeting confirms a yearly compensation for Board service. In addition, a EUR 500 meeting fee of is paid. The meeting fee is also paid for committee meetings and is paid in

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

The table above shows total compensation for the Board of Directors paid by Fortum.

The President and CEO and the Management Team remuneration

EUR thousand	2007		2006	
	The President and CEO	Other management team members	The President and CEO	Other management team members
Salaries and fringe benefits	833	1,562	796	1,415
Performance bonuses	297	540	385	585
Share-based remunerations	629	1,081	571	1,802
Post-employment benefits	1,169	508	736	776
Total	2,928	3,691	2,488	4,578

The Fortum Management Team consists of eight members from 1 September 2007 (previously seven members), including the President and CEO to whom the members of the Management Team report.

The compensation package for Management Team and other senior management consists of base salaries, purposeful benefits, annual individual short-term incentives and deferred share-based long-term incentives.

The criteria used in determining the size of the annual bonus for senior management are decided annually by the Board of Directors on the recommendation of the Board's Nomination and Compensation Committee. The President and CEO as well as the Fortum Management Team are paid annual performance bonuses in addition to their salary and fringe benefits. The performance of each senior executive is evaluated annually. 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, previously set for the President and CEO by the Board's Nomination and Compensation Committee. The evaluation is used by the Committee to determine the level of the President and CEO's compensation to be recommended to the Board of Directors for approval.

For the President and CEO and for part of 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% of the remuneration.

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

15 Depreciation, Amortisation and Impairment Charges

EUR million	2007	2006
Depreciation of property, plant and equipment		
Buildings and structures	62	60
Machinery and equipment	360	331
Other tangible assets	6	5
Amortisation of intangible assets	23	31
Total	451	427
Impairment charges		
Other intangible assets	0	1
Buildings and structures	0	1
Total	0	2
Depreciation, amortisation and impairment charges total	451	429

The increase of depreciation in 2007 is mainly due to the acquisition of Fortum Espoo, which took place in the end of June 2006.

16 Finance Costs – Net

EUR million	2007	2006
Interest expense		
Borrowings	-217	-174
Other interest expense	-3	-2
Total	-220	-176
Interest income		
Loan receivables	62	40
Other interest income	14	10
Total	76	50
Fair value gains and losses on financial instruments ¹⁾	7	30
Exchange gains and losses		
Loans and receivables	-233	185
Derivatives	233	-185
Dividend income	1	1
Interest income on share of State Nuclear Waste Management Fund	26	18
Unwinding of discount on nuclear provisions	-35	-24
Other financial income	1	2
Other financial expenses	-10	-4
Total	-17	-7
Finance costs – net	-154	-103

¹⁾ Please see Note 7 Fair value changes of derivatives and underlying items in the income statement.

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

Interest income includes EUR 26 million (2006: 20 million) from shareholders' loans in Finnish and Swedish nuclear companies. Other interest income includes mainly income from financial leases as a lessor.

Fair value gains and losses on financial instruments include change in clean price of interest rate and cross currency swaps not

getting hedge accounting and fair value changes of interest rate derivatives in hedge relationship and hedged items. Accrued interest on these derivatives is entered in interest expenses of borrowings. Fair value gains and losses include also rate difference from forward contracts hedging loans and receivables without hedge accounting. 2006 includes also realised foreign exchange gains EUR 4 million.

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

Unrealised fair value changes on interest rate and currency derivatives

EUR million	2007	2006
Interest rate and cross currency swaps		
Interest expenses on borrowings	9	1
Exchange rate difference from derivatives	140	-80
Rate difference in fair value gains and losses on financial instruments ¹⁾	-32	-10
Total fair value change of interest rate derivatives in finance costs – net	117	-89
Forward foreign exchange contracts		
Interest expenses on borrowings	10	14
Exchange rate difference from derivatives	93	-101
Rate difference in fair value gains and losses on financial instruments	3	5
Total fair value change of currency derivatives in finance costs – net	106	-82
Total fair value change of interest and currency derivatives in finance costs – net	223	-171

¹⁾ Fair value gains and losses on financial instruments include fair value changes from interest rate swaps not getting hedge accounting amounting to EUR 5 million (2006: 17 million).

The aggregate exchange differences charged/credited to the income statement

Aggregated exchange differences are included in operating profit with EUR -1 million (2006: -4 million) and in finance costs with EUR -5 million (2006: 0).

17 Income Tax Expense

Profit before Tax

EUR million	2007	2006
Finnish companies	819	600
Swedish companies	577	546
Other companies	538	275
Total	1,934	1,421

Major components of income tax expense by major countries

EUR million	2007	2006
Current taxes		
Finnish companies	-146	-135
Swedish companies	-131	-186
Other companies	-32	-19
Total	-309	-340
Deferred taxes		
Finnish companies	6	2
Swedish companies	-18	32
Other companies	5	6
Total	-7	40
Adjustments recognised for current tax of prior periods		
Finnish companies	-5	5
Swedish companies	-4	-1
Other companies	-1	-5
Total	-10	-1
Total income taxes	-326	-301

Total adjustments recognised for current tax of prior periods in 2007 amounts to EUR -10 million, of which EUR -6 million relates to adjustments between deferred tax and current tax of prior periods.

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

EUR million	2007	%	2006	%
Profit before tax	1,934		1,421	
Tax calculated at nominal Finnish tax rate	-503	26.0	-369	26.0
Differences in tax rates in other countries	-37	1.9	-31	2.2
Income not subject to tax	6	-0.3	12	-0.8
Tax exempt capital gains	61	-3.2	7	-0.5
Effects from legal restructurings and long-term internal financing	87	-4.5	61	-4.4
Expenses not deductible for tax purposes	-1	0.1	-8	0.5
Share of profit of associated companies and joint ventures	67	-3.5	18	-1.3
Taxes related to dividend distributions	-1	0.1	0	0.0
Tax losses for which no deferred tax was recognised	-3	0.2	0	0.0
Utilisation of previously unrecognised tax losses	1	-0.1	2	-0.1
Adjustments recognised for change in deferred tax of prior periods	2	-0.1	8	-0.5
Adjustments recognised for current tax of prior period	-5	0.3	-1	0.1
Tax charge in the income statement	-326	16.9	-301	21.2

The weighted average applicable tax rate was 27.9% (2006: 27.9%). The tax rate according to the income statement was 16.9% (2006: 21.2%). Fortum's effective tax rate has developed beneficially under 2007. The main reasons effecting the tax rate are tax rate differences in different countries, profits from associated companies, tax exempt income, effective internal financial structures and company structure. The tax rate used in the income statement is always impacted by the fact that share of profits of associates and joint ventures are recorded based on Fortum's share of profits after tax. Excluding the share of profits from associates and Lenenergo sales gain, the tax rate was 22.3% (2006: 22.3%).

One-time effects

Fortum received substantial non taxable capital gains during 2007, which is one of the major reasons for decreased tax rate. These effects are mainly one-time effects. The capital gain from sale of

shares in JSC Lenenergo in August 2007 amounted to EUR 232 million. The share of profit of associated companies and joint ventures also decreased the effective tax rate mainly due to impact of Hafslund's sale of REC shares in March 2007 which impacted the share of profits from associates for the period with approximately EUR 180 million. Fortum completed various tax audits during the year. No major risks or failures were identified.

Long-term effects

Fortum restructured its company and internal financing structure in 2006. These actions effected Fortum's tax rate beneficially fully in 2007 and are expected to continue beneficial effects in the future. This long-term effect was partially offset by income taxed in countries with a higher tax rate than Finland. Changes in business profitability by jurisdiction in the future could impact future tax results.

18 Earnings Per Share

Basic

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

	2007	2006
Profit attributable to equity holders of the Company (EUR million)	1,552	1,071
Weighted average number of shares (thousands)	889,997	881,194
Basic earnings per share (EUR per share)	1.74	1.22

Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At the end of 2007 the Group has one diluting stock option scheme 2002 for key employees. For the warrants and stock options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Fortum's shares) based on the monetary value of the subscription rights attached to outstanding options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the stock options.

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

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

	2007	2006
Profit attributable to equity holders of the Company (EUR million)	1,552	1,071
Weighted average number of shares (thousands)	889,997	881,194
Effect of the 2001 key employees stock options	–	1,345
Effect of the 2002 key employees stock options	1,398	4,390
Diluted average number of shares (thousands)	891,395	886,929
Diluted earnings per share (EUR per share)	1.74	1.21

19 Dividend Per Share

The Annual General Meeting on 28 March 2007 decided to distribute a dividend of EUR 1.26 per share to the shareholders, of which EUR 0.73 per share is in accordance with the Group's dividend policy. An additional dividend of EUR 0.53 per share was decided to steer Fortum's capital structure towards agreed target. The total dividend amounted to EUR 1,122 million based on the amount of shares registered as of 2 April 2007. The dividend was paid on 11 April 2007.

In 2006, the total dividend amounted to EUR 1.12 per share, of which EUR 0.54 per share was attributable to the profit from discon-

tinued operations. The total dividend amounted to EUR 987 million was paid on 28 March 2006.

A dividend in respect of 2007 of EUR 1.35 per share, amounting to a total dividend of EUR 1,197 million based on the number of shares registered as of 30 January 2008, is to be proposed at the Annual General Meeting on 1 April 2008. Of this total dividend, EUR 0.77 per share is to be paid from Fortum's recurring earnings. An additional dividend of EUR 0.58 per share is proposed in order to steer Fortum's capital structure. These financial statements do not reflect this dividend.

20 Financial Assets and Liabilities by Categories

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

Financial assets by categories

EUR million	Note	2007					Total financial assets
		Loans and receivables	Financial assets at fair-value through profit and loss		Fair-value recognised in equity, cash flow hedges	Available-for-sale financial assets	
		Amortised cost	Hedge accounting, fair value hedges	Non-hedge accounting			
Financial instruments in non-current assets							
Other long-term investments	24	57				42	99
Derivative financial instruments	3						
Electricity derivatives				51	5		56
Interest rate and currency derivatives			6	87			93
Oil and other futures and forward contracts				4			4
Long-term interest-bearing receivables	25	648					648
Financial instruments in current assets							
Derivative financial instruments	3						
Electricity derivatives				57	6		63
Interest rate and currency derivatives			1	72			73
Oil and other futures and forward contracts				4			4
Trade receivables	27	840					840
Other interest-bearing receivables		10					10
Cash and cash equivalents	28	427					427
Total		1,982	7	275	11	42	2,317

Financial assets by categories

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

Financial liabilities by categories

		2007					
		Financial liabilities at fair-value through profit and loss		Fair-value recognised in equity, cash flow hedges	Other financial liabilities		Total financial liabilities
		Hedge accounting, fair value hedges	Non-hedge accounting		Amortised cost	Fair value	
EUR million	Note						
Financial instruments in non-current liabilities							
Interest-bearing liabilities	33				2,896	1,392	4,288
Derivative financial instruments	3						
Electricity derivatives			49	39			88
Interest rate and currency derivatives		29	20				49
Oil and other futures and forward contracts			2				2
Financial instruments in current liabilities							
Interest-bearing liabilities	33				605		605
Derivative financial instruments	3						
Electricity derivatives			76	145			221
Interest rate and currency derivatives		6	32				38
Oil and other futures and forward contracts			1				1
Trade payables	39				272		272
Other liabilities	39				68		68
Total		35	180	184	3,841	1,392	5,632

Financial liabilities by categories

EUR million	Note	2006					Total financial liabilities
		Financial liabilities at fair-value through profit and loss		Fair-value recognised in equity, cash flow hedges	Other financial liabilities		
		Hedge accounting, fair value hedges	Non-hedge accounting		Amortised cost	Fair value	
Financial instruments in non-current liabilities							
Interest-bearing liabilities ¹⁾	33				2,810	1,250	4,060
Derivative financial instruments	3						–
Electricity derivatives			49	21			70
Interest rate and currency derivatives			62	2			64
Oil futures and forward contracts							–
Financial instruments in current liabilities							
Interest-bearing liabilities	33				442		442
Derivative financial instruments	3						–
Electricity derivatives			49	28			77
Interest rate and currency derivatives			117	3			120
Oil futures and forward contracts			1				1
Trade payables	39				242		242
Other liabilities	39				58		58
Total		–	278	54	3,552	1,250	5,134

¹⁾ Fair values of hedging interest rate swaps have been netted against fair value of the bond in the balance sheet in 2006.

21 Intangible Assets

EUR million	2007	2006
Cost 1 January	317	238
Exchange rate differences and other adjustments	–4	2
Acquisitions through business combinations	25	39
Additions	11	21
Change in emission rights	–9	9
Disposals	–9	–4
Reclassifications	13	12
Cost 31 December	344	317
Accumulated depreciation 1 January	221	158
Exchange rate differences and other adjustments	–2	–
Acquisitions through business combinations	25	26
Disposals	–8	–3
Reclassifications	–	9
Depreciation for the period	23	31
Accumulated depreciation 31 December	259	221
Carrying amount 31 December	85	96

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

Bought emission rights are recognised as intangible assets to the lower of fair value and historical cost. Emission rights received free of charge are accounted to nominal value. The amount of emission rights in intangible assets is EUR 0 million (2006: 9 million).

22 Property, Plant and Equipment

	Land, waterfall rights and tunnels	Buildings, plants and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
EUR million						
Cost 1 January 2007	3,189	2,237	11,363	221	401	17,411
Exchange rate differences and other adjustments	-129	-104	-197	-7	-13	-450
Acquisitions through business combinations	-	22	28	-	-	50
Capital expenditure	-	44	97	4	499	644
Nuclear asset retirement cost	-	-	25	-	-	25
Disposals	-1	-14	-36	-2	-2	-55
Reclassifications	-	188	105	1	-307	-13
Cost 31 December 2007	3,059	2,373	11,385	217	578	17,612
Accumulated depreciation 1 January 2007	-	1,006	4,798	136	-	5,940
Exchange rate differences and other adjustments	-	2	-87	-3	-	-88
Acquisitions through business combinations	-	11	23	-	-	34
Disposals	-	-8	-35	-2	-	-45
Depreciation for the period	-	62	360	6	-	428
Impairment charges	-	0	-	-	-	0
Accumulated depreciation 31 December 2007	-	1,073	5,059	137	-	6,269
Carrying amount 31 December 2007	3,059	1,300	6,326	80	578	11,343
Carrying amount 31 December 2006	3,189	1,231	6,565	85	401	11,471
EUR million						
Cost 1 January 2006	3,077	2,056	9,832	197	242	15,404
Exchange rate differences and other adjustments	116	44	247	-3	2	406
Acquisitions through business combinations	6	179	1,132	27	13	1,357
Capital expenditure	-	32	109	1	322	464
Nuclear asset retirement cost	-	-	14	-	-	14
Disposals	-8	-48	-168	-5	-2	-231
Reclassifications	-2	-26	197	4	-176	-3
Cost 31 December 2006	3,189	2,237	11,363	221	401	17,411
Accumulated depreciation 1 January 2006	-	916	4,182	130	-	5,228
Exchange rate differences and other adjustments	-	15	89	2	-	106
Acquisitions through business combinations	-	49	312	1	-	362
Disposals	-	-35	-116	-3	-	-154
Depreciation for the period	-	60	330	6	-	396
Impairment charges	-	1	1	-	-	2
Accumulated depreciation 31 December 2006	-	1,006	4,798	136	-	5,940
Carrying amount 31 December 2006	3,189	1,231	6,565	85	401	11,471
Carrying amount 31 December 2005	3,077	1,140	5,650	67	242	10,176

Property, plant and equipment are subject to restrictions in the form of real estate mortgages, EUR 241 million (2006: 102 million), see Note 40 Pledged assets.

Capital expenditure ¹⁾

EUR million	Finland		Sweden		Other countries		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Power Generation								
Hydro Power	3	7	50	48	–	–	53	55
Nuclear Power	32	35	–	–	–	–	32	35
Fossil-based power	1	4	–	–	1	–	2	4
Other	1	1	4	–	1	–	6	1
Total Power Generation	37	47	54	48	2	0	93	95
Heat								
Fossil-based heat	55	30	4	2	31	17	90	49
Renewable	18	–	53	87	7	–	78	87
District heating	19	4	79	31	28	13	126	48
Other	–	–	12	–	3	–	15	0
Total Heat	92	34	148	120	69	30	309	184
Distribution	62	53	163	120	11	10	236	183
Markets	1	–	2	8	–	–	3	8
Other	11	12	3	3	–	–	14	15
Total	203	146	370	299	82	40	655	485

¹⁾ Includes capital expenditure to both intangible assets and property, plant and equipment.

Maintenance investments during 2007 in property, plant and equipment were EUR 144 million (2006: 180 million). Investments due to requirements of legislation were EUR 106 million (2006: 102 million). Investments increasing productivity were EUR 195 million (2006: 144 million) and growth investments were EUR 210 million (2006: 59 million).

Power Generation

In 2007 Fortum invested into several hydro growth projects, the biggest of these was Avestaforsen amounting to some EUR 8 million (2006: 17 million), the total project amounts to some EUR 40 million over five years. The new Avestaforsen power plant was commissioned in October 2007. In Finland, Fortum invested some EUR 32 million into the Loviisa nuclear power plant. Additionally this segment has invested some EUR 50 million into refurbishment type investments; this investment level is the same as in 2006.

Heat

Four new CHP plant investments were started in 2007 by Fortum. The already ongoing projects are the new natural gas-fired Suomenoja plant in Espoo, Finland, the Częstochowa plant in Poland and the Tartu, Estonia plant, of which Fortum has a 60% stake. Preparatory works of the new bio-mass fueled Värtan CHP plant in Stockholm were commenced. In total growth investments in this segment amount to some 170 million euros, which is about three times the amount compared to 2006. Refurbishment and other investments are over EUR 130 million in this segment, which is roughly the same figure as in 2006. This amount consists mainly of investments in district heat networks, new connections as well as the maintenance of existing CHP plants.

Distribution

In 2006 Fortum started the large-scale Automatic Meter Management (AMM) project in Sweden. This project is planned to go on into 2009, and is the largest capital expenditure project (excluding acquisitions) in the Distribution Segment. During 2007 almost 300 thousand automatic meters were installed. In 2007 Fortum invested

some EUR 64 million into this project (2006: 15 million). Another major project in Fortum's Distribution segment is the Reliability Investment Program, which was also started in 2006. This investment aims to improve the reliability of power delivery in e.g. storms. In 2007 Fortum invested some EUR 30 million into this program. In addition to these two main projects, Fortum has invested some EUR 140 million of maintenance type investments into the Distribution businesses in Finland, Sweden, Norway and Estonia. This is some EUR 10 million more than in 2006.

Assets leased by finance lease agreements

EUR million	2007	2006
Acquisition cost	39	63
Accumulated depreciation	–9	–17
Carrying amount	30	46

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

Fortum acts also as a lessor and has leased out property, plant and equipment for EUR 88 million (2006: 97 million), which are not included in property, plant and equipment in the consolidated financial statements.

Capitalised borrowing costs

Cumulative capitalised borrowing costs included in the carrying amount in machinery and equipment were EUR 17 million in 2007 (2006: 19 million). New borrowing costs of EUR 1 million were capitalised in 2007 for Polish Częstochowa and Finnish Suomenoja CHP-plant-projects. The interest rate used for capitalisation was 4.2%. There were no capitalised borrowing costs recorded in 2006.

23 Investments in Associated Companies and Joint Ventures

EUR million	2007	2006
Historical cost		
On 1 January	1,498	1,406
Exchange rate differences and other adjustments	-4	-29
Acquisitions	1	124
New share issues and shareholders' contributions	294	-
Increase through acquisition of subsidiaries	-	2
Divestments	-68	-5
Historical cost on 31 December	1,721	1,498
Equity adjustments to Investments in associates and joint ventures		
On 1 January	699	204
Exchange rate differences and other adjustments	-2	33
Share of profits of associates	241	69
Dividends received	-178	-39
Fair-value adjustments in equity	372	432
Equity adjustments on 31 December	1,132	699
Carrying amount on 31 December	2,853	2,197

The carrying amounts of investments in associated companies include publicly listed shares for EUR 1,654 million (2006: 1,026 million). The fair value, based on market quotations, of those investments was EUR 2,151 million (2006: 1,696 million). Fortum owns shares in three (2006: three) companies classified as joint ventures. The total carrying value of these joint ventures was EUR 61 million (2006: 63 million).

No major acquisitions were made in 2007. Acquisitions in 2006 mainly comprise acquisition of additional 12.5% of the shares in St. Petersburg Generating Company, see below information regarding Territorial Generating Company 1 "TGC-1" and Lenenergo.

In September 2007 Fortum participated in the share issue of Russian Territorial Generating Company 1 (TGC-1) subscribing to 243,691,499,640 new shares in the company. At 0.035 rubles per share, the total value of Fortum's subscription was approximately 8.5 billion rubles or EUR 243 million. With this subscription, Fortum maintained its 25.7% stake in TGC-1 and its position as the second largest shareholder of the company.

In 2007, Fortum also participated in the share issue of Teollisuuden Voima Oy (TVO) with a total amount of EUR 49 million. Olkiluoto 3, the nuclear power plant being built by TVO, is funded through external loans, share issues and shareholder loans according to shareholder agreement between the owners of TVO.

In August 2007 Fortum sold its 35%-shareholding in JSC Lenenergo, an electricity distribution company in the City of St. Petersburg and the Leningrad Region. A capital gain of EUR 232 million was recorded. The selling was in line with Fortum's strategy to invest in Russian generation assets. The divestments in 2006 included

the shares in Sölvesborgs Fjärrvärme AB and Karskär Energi AB in Sweden and Enprima Oy and Enermet Oy, Finland.

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

Hafslund sold approximately one third of its holdings in Renewable Energy Corporation (REC) in March 2007. As a consequence Fortum booked a gain of EUR 180 million as share of profits of associates due to the accounting policies following. According to Fortum group accounting policies, the share of profits from Hafslund has been included in Fortum Group figures based on the previous quarter information.

Dividends received include dividend from Hafslund amounting to EUR 145 million (2006: 19 million).

The cumulative fair value change booked in Fortum's equity and based on the remaining number of shares reported by Hafslund was approximately EUR 790 million at the end of the year 2007 (2006: 440 million). See Note 45 Events after the balance sheet date.

Book values of principal associates

EUR million

Company	Segment	Domicile	Participation in %		Book value in Group	
			2007	2006	2007	2006
Kemijoki Oy	Power Generation	Finland	18	18	256	266
Hafslund ASA	Power Generation	Norway	34	34	1,202	750
Teollisuuden Voima Oy (TVO)	Power Generation	Finland	26	26	238	199
OKG AB	Power Generation	Sweden	46	46	85	94
Forsmarks Kraftgrupp AB	Power Generation	Sweden	26	26	86	94
Territorial Generating Company 1 (TGC-1)	Power Generation	Russia	26	26	452	207
Gasum Oy	Heat	Finland	31	31	111	105
Fingrid Oyj	Distribution	Finland	25	25	102	91
JSC Lenenergo	Distribution	Russia	–	35	–	66
Total					2,532	1,872
Others					321	325
Carrying amount of associated companies at 31 December					2,853	2,197

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

Fair value, based on market quotations of listed principal associated companies 31 December (Hafslund ASA and TGC-1 in 2007 and also Lenenergo in 2006) was EUR 2,151 million (2006: 1,665 million).

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

TVO has three series of shares which entitles the shareholders to electricity produced in the different power plants owned by TVO. Series A entitles to electricity produced in nuclear power plants Olkiluoto 1 and 2, series B entitles to electricity in the nuclear power plant presently being built, Olkiluoto 3, and series C to electricity

produced in TVO's share of the thermal power plant Meri-Pori. The Meri-Pori power plant is a jointly controlled asset between Fortum and TVO. Fortum accounts for its 54.55% of the assets and TVO for 45.45%. See also jointly controlled assets in Note 1 Accounting principles.

JSC Lenenergo carried out a spin-off in October 2005. The company was divided into five separate companies according to business line. The distribution business (less than 110 kV) remained in JSC Lenenergo. Fortum sold the shares in Lenenergo in August 2007. The electricity generation as well as heat production and sales in Lenenergo were transferred to St. Petersburg Generating Company. In October 2006, Fortum acquired additional 12.5% of the shares in St. Petersburg Generating Company. Fortum's ownership in St. Petersburg Generating Company after the acquisition of additional shares amounted to 43.5% of the shares and 39.7% of the votes. In November 2006, St. Petersburg Generating Company, JSC Kola Generation Company, JSC Karelenenerogeneratsiya and JSC Apatity CHPP merged to form Territorial Generating Company 1, TGC-1. As a result of the merger, Fortum received 25.7% of the shares and votes in TGC-1. Through Fortum's participation in the share issue in TGC-1 in 2007, Fortum still owns 25.7% of the shares and votes in the company.

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

EUR million

2007	Domicile	Assets	Liabilities	Sales	Profit/loss	ownership, %	votes, %
Kemijoki Oy ^{1) 4)}	Finland	415	272	39	–6	18	18
Hafslund ASA ²⁾	Norway	5,047	1,863	813	1,349	34	33
Teollisuuden Voima Oy (TVO) ²⁾	Finland	2,817	2,348	165	0	26	26
OKG AB ^{1) 4)}	Sweden	1,354	1,202	402	1	46	46
Forsmarks Kraftgrupp AB ^{1) 4)}	Sweden	1,155	1,025	442	1	26	26
Territorial Generating Company 1 (TGC-1) ⁴⁾	Russia	1,024	340	616	44	26	26
Gasum Oy ³⁾	Finland	540	188	420	35	31	31
Fingrid Oyj ²⁾	Finland	1,540	1,130	234	30	25	33

¹⁾ Power plants are often built jointly with other power producers. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership or other agreements and each owner is liable for an equivalent portion of costs. The associated companies are not profit making, since the owners purchase electricity at production cost including interest cost and income taxes. (Note 44 Related party transactions)

²⁾ Based on September 2007 figures.

³⁾ Based on June 2007 figures. Gasum Oy reports profit before taxes. The figure has been decreased with nominal tax 26% in this table.

⁴⁾ Based on December 2006 figures.

Some of the principal associates present their financial statements according to local accounting principles. Fortum makes adjustments to the reported numbers to ensure consistency with policies adopted by the Group. If information is not available, the share of profit of associated companies is based on the previous quarterly information.

Regarding the Swedish associated nuclear companies, Forsmarks Kraftgrupp AB and OKG AB, Fortum has not been able to do adjustments regarding the changes in nuclear related assets and liabilities. For further information see Note 37 Nuclear related assets and liabilities.

Fortum has chosen to account for TGC-1 based mainly on historical cost and not equity accounting. TGC-1 has published 2006 IFRS Financial Statements, but Fortum will apply equity accounting only when IFRS financial information is published on a regular basis. Management believes that the impact on Fortum's income statement would not be material if equity accounting would be used. Market value for TGC-1 EUR 847 million, based on market quotation, exceeds the carrying amount, EUR 452 million, with EUR 395 million on 31 December 2007.

Associated company transactions

EUR million	2007	2006
Sales to associated companies	129	101
Interest on associated company loan receivables	26	20
Purchases from associated companies	519	487

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

Associated company balances

EUR million	2007	2006
Receivables from Associated Companies		
Long-term interest-bearing loan receivables	636	575
Trade receivables	17	28
Other receivables	7	7
Liabilities to Associated Companies		
Long-term loan payables	171	164
Trade payables	25	12
Other payables	53	23

Long-term interest bearing receivables are mainly from Swedish nuclear companies, OKG AB and Forsmarks Kraftgrupp AB EUR 567 million (2006: 504 million).

Investments in Swedish nuclear companies are financed through loans from owners of the nuclear companies, pro rata ownership.

Transactions and balances with joint ventures

EUR million	2007	2006
Purchases	1	1
Receivables from joint ventures	3	3

There were no outstanding loans receivable from joint ventures on 31 December 2007 or 2006.

24 Other Long-term Investments

EUR million	2007	2006
Available for sale financial assets	42	62
Defined benefit pension asset ¹⁾	14	0
Other	43	39
Total	99	101

¹⁾ For further information, please see Note 36.

Available for sale financial assets, i.e. shares which are not classified as associated companies or joint ventures, consists mainly of shares in unlisted companies of EUR 42 million (2006: 39 million), for which the fair value can not be reliably determined. These assets are measured at cost less possible impairment.

Available for sale financial assets include listed shares at fair value of EUR 0 million (2006: 23 million). Fortum sold in October 2007 the shares in Wholesale Generating Company 5 (WGC-5) which were purchased in the end of 2006 for EUR 17 million.

The cumulative fair value change booked in Fortum's equity was EUR 0 million (2006: 6 million).

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

EUR million	2007	2006
Long-term loan receivables	648	582
Finance lease receivables	88	98
Total long-term interest-bearing receivables	736	680
Other short-term interest-bearing receivables	10	12
Short-term finance lease receivables	1	1
Total short-term interest-bearing receivables ¹⁾	11	13
Total interest-bearing receivables	747	693

¹⁾ Included in trade and other receivables in balance sheet.

Long-term loan receivables include receivables from associated companies EUR 636 million (2006: 575 million), mainly from Swedish nuclear companies, OKG AB and Forsmarks Kraftgrupp AB EUR 567 million (2006: 504 million). These companies are mainly funded with shareholder loans, pro rata each shareholders' ownership.

Long-term loan receivables also include receivables from Teollisuuden Voima Oy (TVO) amounting to EUR 45 million (2006: 45 million). Olkiluoto 3, the nuclear power plant being built by the associated company TVO, is funded through external loans, share issues and shareholder loans according shareholder agreement between the owners of TVO.

Interest-bearing receivables

EUR million	Effective interest rate	Carrying amount 2007	Repricing under 1 year	Repricing 1–5 years	Repricing over 5 years	Fair value 2007	Carrying amount 2006	Fair value 2006
Long-term loan receivables	4.6	648	645	1	2	657	591	606
Leasing receivables	6.5	88	54	7	27	103	99	114
Total long-term interest-bearing receivables ¹⁾	4.8	736	699	8	29	760	690	720
Other current receivables	6.1	11	11	–	–	11	3	3
Total interest-bearing receivables	4.8	747	710	8	29	771	693	723

¹⁾ Including current portion of long-term receivables

Fortum held 31 December 2007 mortgage as collateral for other EUR interest-bearing receivables amounting to EUR 11 million.

Finance lease receivables

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

in the lease, less unearned financial income. The average lease term is approximately 6 years. Of all contracts, 4.9 percent carry a floating interest rate and 95.1 percent a fixed rate.

EUR million	2007	2006
Gross investment in finance lease contracts	118	130
Less unearned finance income	29	31
Present value of future minimum lease payment receivables	89	99

Maturity of finance lease receivables

EUR million	2007	2006
Gross investment		
Less than 1 year	16	15
1–5 years	73	64
Over 5 years	29	51
Total	118	130

Present value of future minimum lease payments receivables

EUR million	2007	2006
Less than 1 year	11	10
1–5 years	55	47
Over 5 years	23	42
Total	89	99
Contingent rents recognised in income statement	0	1

Operating lease receivables

Fortum has leased out its 308-MW share of the Meri-Pori power plant from January 2007 to the end of June 2010. The rental income

recognised in the income statement was EUR 25 million (2006: 0 million).

Maturity of operating lease receivables

EUR million	2007	2006
Gross investment		
Less than 1 year	25	–
1–5 years	37	–
Over 5 years	–	–
Total	62	–

26 Inventories

EUR million	2007	2006
Nuclear fuel	61	56
Coal	76	104
Oil	36	58
Biofuels	60	81
Other inventories	52	30
Total	285	329

No impairment costs have been booked related to inventories neither in 2007 or 2006.

27 Trade and Other Receivables

EUR million	2007	2006
Trade receivables	840	847
Income tax receivables	37	26
Accrued interest income	2	1
Accrued income and prepaid expenses	52	67
Other receivables	92	98
Finance lease receivables	1	1
Other interest-bearing receivables	10	12
Total	1,034	1,052

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

Trade receivables

Ageing analysis of trade receivables

EUR million	2007		2006	
	Gross	Impaired	Gross	Impaired
Not past due	805		787	
Past due 1–90 days	31		49	
Past due 91–180 days	4		6	1
Past due more than 181 days	23	23	37	31
Total	863	23	879	32

Trade receivables by currencies

EUR million	2007	2006
EUR	268	278
SEK	500	519
NOK	35	34
USD	1	1
PLN	30	27
Other	29	20
Total	863	879

Trade receivables are arising from large number of customers mainly in EUR and SEK mitigating the concentration of risk. Fortum held 31 December 2007 bank guarantee as collateral for trade

receivables amounting to EUR 10 million. Impairment losses recognised in income statement were EUR 2 million (2006: 4 million).

28 Cash and Cash Equivalents

EUR million	2007	2006
Cash at bank and in hand	100	157
Short-term bank deposits	327	–
Total	427	157

Maturity of cash and cash equivalents is under 3 months.

29 Share Capital

EUR million	Number of shares	Share capital
Registered shares at 1 January 2007	887,393,646	3,023
Shares subscribed with options and registered by 31 Dec 2007	5,199,412	17
Cancellation of own shares	–5,910,000	–
Registered shares at 31 December 2007	886,683,058	3,040
Unregistered shares	50,000	–

EUR million	Number of shares	Share capital
Registered shares at 1 January 2006	875,294,025	2,976
Shares subscribed with options and registered by 31 Dec 2006	13,759,621	47
Cancellation of own shares	–1,660,000	–
Registered shares at 31 December 2006	887,393,646	3,023
Unregistered shares	74,700	–

Fortum has one class of shares. By the end of 2007, a total of 886,683,058 shares had been issued. The nominal value of the shares is EUR 3.40 and each share entitles the holder to one vote at the Annual General Meeting. All shares entitle holders to an equal dividend. At the end of 2007 Fortum Corporation's share capital, paid in its entirety and entered in the trade register, was EUR 3,040,460,397.20.

Fortum Corporation's shares are listed on OMX Nordic Exchange Helsinki. The trading code is FUM1V. Fortum Corporation's shares are in the Finnish book entry system maintained by the Finnish Central Securities Depository Ltd.

At the beginning of 2007, the Finnish State owned 50.82% of the Company's shares. After the changes in amount of shares during 2007, increase in amount of shares due to the share subscriptions under share option schemes for key employees and decrease due to the cancellation of repurchased shares, the Finnish State owned 50.86% of the company's shares at the end of the year. The Finnish Parliament has authorised the Government to reduce the Finnish State's holding in Fortum Corporation to no less than 50.1% of the share capital and voting rights.

At the end of 2007, The President and CEO and other members of the Fortum management team owned 317,030 (338,000) shares, representing less than 0.04% of the shares in the Company.

A full description of Fortum's equity incentive schemes is shown in Note 31 together with details on The President and CEO and other members of the Fortum Management Team's shareholdings and interest in the equity incentive schemes. A description of shares, share capital and shareholders in Fortum is shown in the Operating and financial review.

Treasury shares

Fortum Corporation's Annual General Meeting held on 28 March 2007 authorised the Board of Directors to decide on repurchasing the company's own shares by using funds available for distribution of profit.

The authorisation is valid for one year from the date of the decision of the Annual General Meeting. The maximum amount of shares to be repurchased is 20 million. In addition, the amount of funds used for the repurchases may not exceed EUR 300 million. The maximum amount of shares to be repurchased corresponds to approximately two per cent of the share capital of the company and the total voting rights.

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

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

Total amount of shares repurchased during the year was 5,910,000 (2006: 1,660,000) and the cost was EUR 175 million (2006: 30 million). In December 2007 the Board of Directors decided to cancel the total amount of repurchased shares without decreasing the share capital. The cancellation was entered in the Trade Register on 20 December 2007.

Other convertible bond loans, bonds with warrants and unused authorisations

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

30 Fair Value and Other Reserves

EUR million	Net investment	Hedging reserve	Share-based payments	AFS ¹⁾	Other fair value changes	Total
Balance at 31 December 2006	17	50	10	446	-12	511
Cash flow hedges						
Fair value gains/losses in period	-	-165	-	-	-	-165
Tax on fair value gains/losses	-	46	-	-	-	46
Transfers to income statement	-	-69	-	-	-	-69
Tax on transfers to income statement	-	18	-	-	-	18
Net investment hedge	2	-	-	-	-	2
Tax on net investment hedge	-	-	-	-	-	0
Share-based payments	-	-	6	-	-	6
Other equity changes in associates and available for sale financial assets	-	-	-	347	19	366
Balance at 31 December 2007	19	-120	16	793	7	715

EUR million	Net investment	Hedging reserve	Share-based payments	AFS ¹⁾	Other fair value changes	Total
Balance at 31 December 2005	20	-151	16	0	-2	-117
Cash flow hedges						
Fair value gains/losses in period	-	103	-	-	-	103
Tax on fair value gains/losses	-	-27	-	-	-	-27
Transfers to income statement	-	170	-	-	-	170
Tax on transfers to income statement	-	-45	-	-	-	-45
Net investment hedge	-4	-	-	-	-	-4
Tax on net investment hedge	1	-	-	-	-	1
Share-based payments	-	-	6	-	-	6
Other equity changes in associates and available for sale financial assets	-	-	-	446	-10	436
Change in the recognition of performance share agreement ²⁾	-	-	-12	-	-	-12
Balance at 31 December 2006	17	50	10	446	-12	511

¹⁾ Available for sale financial assets (AFS)

²⁾ Share performance arrangement was in 2006 officially decided to be cash-settled, which has had an impact on the accounting treatment.

Fair value changes for available for sale financial assets include the fair value change of the Renewable Energy Corporation (REC) shareholding in Hafslund, (see Note 23 Investments in associated com-

panies and joint ventures) and the fair value change on Fortum's own shareholdings in available for sale financial assets (see Note 24 Other long-term investments).

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

EUR million	2007	2006
Included in operating profit	-81	174
Included in financial costs	12	-4
Total cash flow hedges – amounts moved from equity to income statement	-69	170

31 Employee Bonus and Incentive Schemes

Employee bonus system

Fortum's short-term incentive system (called annual bonus below) exists to support the Group's values, the achievement of financial targets and structural changes, as well as to secure an alignment between the performance targets of the individual employee and the targets of his/her Business Unit and the Corporation. The big majority of Fortum employees are covered by an annual performance bonus system.

The criteria used in determining the size of the bonus for senior management is decided annually by the Board of Directors on the recommendation of the Board's Nomination and Compensation Committee. The President and CEO as well as the Fortum Management Team are paid annual performance bonuses in addition to their salary

and fringe benefits. The size of each senior executive's annual bonus is dependent on the Group's financial performance, as well as on their own success in reaching their individual goals. If the financial targets and goals are met, each senior executive receives a 25% bonus. The maximum bonus level, in the case all targets and goals are exceeded, 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 the Group. The criteria for evaluating an executive's personal performance are mutually agreed between the executive and his/her superior in an annual performance discussion at the beginning of each year. For further information on bonus costs for management, see Note 14 Management Remuneration and Employee Costs.

Fortum Personnel Fund

The Fortum Personnel Fund (for employees in Finland only) has been in operation since 2000. The Board of Directors determines the criteria for the fund's annual profit-sharing bonus. Members of the personnel fund are the permanent and fixed-term employees of the Group. Persons included in the Performance Share Arrangement are not eligible to be members of this fund. The membership of employees joining the company starts at the beginning of the next month after the employment relationship has been ongoing for six months. Fund membership terminates when the member has received his/her 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 restricted amount and an amount available for withdrawal. Employees can decide whether to withdraw their share of the profit in cash or in Fortum shares. It is possible to transfer a maximum of 15% of capital from the tied amount to the amount available for withdrawal each year, once the employee has been a member for five years.

The amount available for withdrawal is decided each year and it is paid to members who want to exercise their withdrawal rights. Since 2005, employees have had the choice of having the amount paid in Fortum shares acquired by the personnel fund.

The fund's latest financial year ended at 30 April 2007 and the fund then had a total of 3,491 members. At the end of April 2007 Fortum contributed EUR 4.6 million to the personnel fund as an annual profit-sharing bonus based on the financial results of 2006. The combined amount of members' shares in the fund was EUR 27.8 million.

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

Incentive schemes

Long-term performance share arrangement for key personnel

Fortum's Long-Term Management Performance Share Arrangement (LTI) for key personnel was launched in 2003 to support the achievement of the Group's long-term goals by attracting and retaining key personnel. The LTI arrangement is a performance-based long-term incentive arrangement intended for the top management and key personnel of the Fortum Group. A new performance share plan (LTI plan) under the arrangement starts annually if approved by the Board of Directors and runs for a six-year period. 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 LTI plans. The 2006–2011 LTI plan is for non-share option holders only. At the end of 2006, approximately 120 persons were approved by the Board of Directors to participate for the year 2007 in LTI plans that have on-going earning periods in 2007. The potential reward of the performance share arrangement is based on the performance of the Group, its business units and the individual participant as well as appreciation of the Fortum share.

Long-term performance share arrangement

Incentive period	Number of participants	Payments in EUR thousand	Periodised expenses in EUR thousand	Total expenses in EUR thousand
Plan 2002–2007	118	312	15,353	15,665
Plan 2003–2008	136	130	9,066	9,196
Plan 2004–2009	133	93	5,560	5,653
Plan 2005–2010	127	–	3,757	3,757
Plan 2006–2011	18	–	75	75
Plan 2007–2012	117	–	654	654
Total		535	34,465	35,000

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

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

The earning period is followed by an approximately three year restriction period which ends at the cash-settlement of the earned reward provided that the participant remains employed by the Group. The potential reward under each annual LTI plan is adjusted during the restriction period by potential dividends paid up until the settlement date, which takes place at the end of the restriction period. The participant has approved that the earned reward will be used to acquire Fortum shares in the name of the participant deducted by the income tax and the statutory employment related expenses and insurance contributions payable by the participant on the reward.

The first annual share plan began in 2003 (based on 2002 financial results). At the end of 2007 six LTI plans were running. The earning period of LTI plans 2002–2007, 2003–2008 and 2004–2010 had ended and the amount of potential reward in the form of calculative share rights had been determined in the spring 2005, 2006 and 2007 for these plans. The restriction period for LTI plan 2005–2011 ended at the end of 2007. The other plans were still on their earning period.

In their meeting on the 30 January 2008 the Board of Directors of Fortum Corporation has decided to establish a new share-based long-term incentive (LTI) arrangement for Fortum Group's management and other key personnel valid from the beginning of 2008. The new arrangement will replace the Group's current long-term performance share arrangement. The final terms and conditions of the new LTI arrangement will be decided later in 2008.

From 2006 onwards the LTI arrangement is treated as a cash settled arrangement instead of an equity settled arrangement. The total LTI liability including provisions for social charges at the end of the year 2007 was EUR 37 million (2006: 29 million). The expense recorded in the personnel costs for the period was EUR 7 million (2006: 2 million) netted with the change in the fair values of the hedge arrangements.

In order to hedge the Group against the changes in the fair values of the potential rewards the Group has entered into share forward transactions which are settled in cash. The change during the year 2007 in the fair values of the hedge arrangements for the 2002–2007, 2003–2008 and 2004–2010 plans amounted to EUR 18 million (2006: 10 million). The change is netting personnel expenses with a corresponding entry in the long-term receivables.

Calculative share rights granted

Incentive period	Grant date	Maximum number of share rights at the grant date	Fair value of share rights on the grant date in EUR	Total initial fair value in EUR thousand
Plan 2002–2007	11.2.2005	573,885	14.51	8,327
Plan 2003–2008	13.2.2006	514,903	19.07	9,819
Plan 2004–2009	8.2.2007	496,362	20.99	10,417

Net calculative share rights granted to the management

The calculative share rights with adjustment for dividends and after taxes (assumed tax deduction of 56%) that the President and CEO and other members of the Fortum Management Team will receive in 2009 and 2010 are at 31 December as follows. For 2008 the number of shares represents the actual number of shares to be delivered in February 2008.

Name	Year 2008	Year 2009	Year 2010
Mikael Frisk	10,450	5,389	4,772
Timo Karttinen	8,622	4,477	4,081
Tapio Kuula	14,415	7,511	6,653
Juha Laaksonen	12,010	6,384	5,654
Mikael Lilius	36,756	19,804	17,773
Christian Lundberg	10,762	6,730	6,191
Maria Paatero-Kaarnakari (from 1 September 2007)	3,721	2,384	2,089
Maria Romantschuk (from 1 September 2007)	–	–	–
Carola Teir-Lehtinen (until 31 August 2007)	7,854	4,174	3,696

Stock option schemes with expiry date later than 2007

Stock option scheme for key employees (2002)

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

The total number of stock options marked with a letter A listed on 1 October 2004 was 10,767,000. Each stock warrant entitled the holder to subscribe for one share. The warrants were exercisable during the period from 1 October 2004 through to 30 April 2007. By the end of the option 2002 A scheme in April 2007, a total of 10,767,000 shares were subscribed for and entered into the trade register. This scheme covered some 350 persons.

The total number of stock options marked with a letter B listed on 2 October 2006 was 10,003,000. Each stock warrant entitles the holder to subscribe for one share. The warrants are exercisable during the period from 2 October 2006 to 30 April 2009. By the end of 2007, a total of 8,319,013 shares were subscribed for and entered into the trade register with the stock options marked with a letter B. At the end of 2007 total of 1,683,987 shares could still have been registered with the stock options 2002B such that the share capital is increased by a maximum of EUR 5,725,555.80, which corresponds to 0.2% of the share capital at the end of 2007. At the end of 2007, the subscription price of the stock options marked with the letter B was EUR 3.40. This scheme covered some 350 persons.

The entitlement of the shares subscribed for with the 2002A or B options to dividend, and other shareholder rights, will commence once the increase in the share capital has been registered. The stock options are freely transferable, when the relevant share subscription period has commenced.

Stock option schemes with expiry date in 2007

Stock option scheme for key employees (2001)

In 2001, a resolution was passed to issue a maximum of 24,000,000 stock options to key employees of the Fortum Group and to a wholly owned subsidiary of Fortum Corporation. Of the total number of stock options, 8,000,000 were marked with the letter A and were exercisable from 15 October 2005 through to 1 May 2007, 8,000,000 were marked with the letter B and were exercisable from 15 January 2006 through to 1 May 2007 and 8,000,000 were marked with the letter C and would have been exercisable from 15 April 2006 through to 1 May 2007. A total of 3,062,500 non-transferred stock options marked with the letter A were annulled, a total of 1,300,000 non-transferred stock options marked with the letter B were annulled, and all of the 8,000,000 non-transferred stock options marked with the letter C were annulled.

The preconditions for the stock option scheme 2001 A were met and a total number of stock options marked with a letter A were listed on 17 October 2005 was 4,937,500. Each stock warrant entitled the holder to subscribe for one share. The warrants were exercisable during the period from 17 October 2005 through to 1 May 2007. By the end of the option scheme in April 2007, a total of 4,937,470 shares were subscribed for and entered into the trade register with the stock options marked with a letter A.

The preconditions for the stock option scheme 2001 B were also met and the subscription period and listing of options marked with letter B started on 16 January 2006. The number of options listed was 6,700,000. By the end of the option scheme in April 2007, a total of 6,700,000 shares were subscribed and entered into the trade register with the stock options marked with a letter B.

The entitlement of the shares subscribed for with the options to dividend, and other shareholder rights, will commence once the increase in the share capital has been registered. The stock options

are freely transferable, when the relevant share subscription period has commenced. This scheme covered approximately 350 persons.

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

	2007		2006	
	Weighted average exercise price, EUR	Number of options (thousand)	Weighted average exercise price, EUR	Number of options (thousand)
Outstanding at the beginning of the period	3.40	6,883	3.40	20,664
Granted during the period	–	–	–	–
Forfeited during the period	–	–	3.40	21
Exercised during the period	3.40	5,199	3.40	13,760
Expired or cancelled during the period	–	–	–	–
Outstanding at the end of the period		1,684	3.40	6,883
Exercisable at the end of the period		1,684	3.40	6,883

A total of 21 thousand options held by Fortum Assets Oy were annulled in December 2006.

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

	Expiry date	2007		2006	
		Exercise price in EUR per share	Number of options (thousand)	Exercise price in EUR per share	Number of options (thousand)
Stock options scheme for key employees (2001A)	1.5.2007	–	–	3.40	275
Stock options scheme for key employees (2001B)	1.5.2007	–	–	3.40	1,340
Stock options scheme for key employees (2002A)	1.5.2007	–	–	3.40	122
Stock options scheme for key employees (2002B)	1.5.2009	3.40	1,684	3.40	5,146
			1,684		6,883

Fair value of stock options

In compliance with IFRS, the fair value was defined for 2002B options that were granted 15 April 2003 and vested 2 October 2006. The fair value of transferable 2002B options was determined at the grant date by using the Binomial valuation model and has been expensed over the vesting period, which ended 2 October 2006. The fair values of other option schemes have not been determined and they were not included in expense recognition. Last year 2006 the fair valuation of 2002B had an impact of EUR – 4 million on the Group's profit. The parameters used in the fair valuation in 2006

were as follows; the share price EUR 6.41, the subscription price EUR 5.88, expected average volatility 30%, the dividend yield zero, the option lifetime 4 years and risk free interest rate 4%.

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

Management shareholding and stock options

On 31 December 2007, the members of the Supervisory Board of Fortum Corporation owned a total of 200 shares or 0.0% of the shares and voting rights. The members of the Board of Directors owned a total of 31,591 shares, which corresponds to 0.0% of the

company's shares and voting rights. The President and CEO and other members of the Fortum Management Team owned a total of 317,030 shares which corresponds to less than 0.036% of the company's shares and voting rights.

Shares held by member of the Board of Directors

	2007	2006
Peter Fagernäs	30,591	30,591
Christian Ramm-Schmidt	1,000	1,000
Total	31,591	31,591

Shares held by members of Fortum Management Team

	2007	2006
Mikael Frisk	14,900	14,900
Timo Karttinen	30,000	30,000
Tapio Kuula	50,050	50,050
Juha Laaksonen	20,000	20,000
Mikael Lilius	170,050	170,050
Christian Lundberg	30,000	30,000
Maria Paatero-Kaarnakari (from 1 September 2007)	2,030	–
Maria Romantschuk (from 1 September 2007)	–	–
Carola Teir-Lehtinen (until 31 August 2007)	–	23,000
Total	317,030	338,000

Stock options held by members of Fortum Management Team

Fortum Management Team members did not have any remaining stock options on 31 December 2007.

On 31 December 2006 Carola Teir-Lehtinen from Fortum Management Team had 55,970 remaining 2002B stock options, other members did not have any remaining stock options.

Stock options originally given to Fortum Management Team

	2001A	2001B	2002A	2002B
Mikael Frisk	100,000	100,000	150,000	150,000
Timo Karttinen	50,000	75,000	90,000	120,000
Tapio Kuula	100,000	100,000	200,000	200,000
Juha Laaksonen	100,000	100,000	250,000	175,000
Mikael Lilius	200,000	200,000	340,000	340,000
Christian Lundberg	–	–	150,000	175,000
Maria Paatero-Kaarnakari (from 1 September 2007)	25,000	25,000	42,000	42,000
Maria Romantschuk (from 1 September 2007)	–	–	–	–
Carola Teir-Lehtinen (until 31 August 2007)	100,000	100,000	150,000	150,000

Stock options 2001A and 2001B were given to management and personnel during the year 2001.

Stock options 2002A and 2002B were given to management and personnel during the year 2002.

32 Minority Interests

Principal minority interests

EUR million		2007	2006
AB Fortum Värme Holding samägt med Stockholms stad	Sweden	270	228
Fortum Wrocław S.A.	Poland	1	2
Jyväskylän Energiatuotanto Oy	Finland	4	4
Tartu Energi Group	Estonia	5	4
Ekerö Energi Group	Sweden	4	4
Other		8	11
Total minority interests		292	253

Fortum owns, via Fortum Power and Heat AB, 90.1% of the shares which represents 50.1% of the votes in AB Fortum Värme Holding samägt med Stockholms stad. 9.9% of the shares are owned by the City of Stockholm. The City of Stockholm holds prefer-

ence shares in AB Fortum Värme Holding samägt med Stockholms stad, which entitles them 50% of the economical output. The ownership and administration of AB Fortum Värme Holding samägt med Stockholms stad is settled by a consortium agreement.

33 Interest-bearing Liabilities

EUR million	2007	2006
Bonds	2,820	2,775
Loans from financial institutions	467	306
Finance lease liabilities	30	32
Other long-term interest-bearing debt	971	947
Total long-term interest-bearing debt	4,288	4,060
Current portion of long-term bonds	541	10
Current portion of loans from financial institutions	36	40
Current portion of other long-term interest-bearing debt	1	321
Current portion of finance lease liabilities	1	14
Commercial papers	–	55
Other short-term interest-bearing debt	26	2
Total short-term interest-bearing debt	605	442
Total interest-bearing debt	4,893	4,502

Interest-bearing debt

EUR million	Effective interest rate	Carrying amount 2007	Repricing under 1 year	Repricing 1–5 years	Repricing over 5 years	Fair value 2007	Carrying amount 2006	Fair value 2006
Bonds	4.8	3,361	1,176	705	1,480	3,416	2,785	2,887
Loans from financial institutions	4.8	503	482	21	0	515	346	348
Other long-term interest-bearing debt ¹⁾	4.5	1,003	978	16	9	1,007	1,314	1,309
Total long-term interest-bearing debt ²⁾	4.7	4,867	2,636	742	1,489	4,938	4,445	4,544
Commercial paper	–	–	–	–	–	–	55	55
Other short-term interest-bearing debt	4.9	26	26	–	–	26	2	2
Total short-term interest-bearing debt	4.9	26	26	–	–	26	57	57
Total interest-bearing debt	4.7 ³⁾	4,893	2,662	742	1,489	4,964	4,502	4,601

¹⁾ Includes loan from State Nuclear Waste Management Fund and Teollisuuden Voima Oy EUR 658 million (2006: 627 million), financial leases EUR 31 million (2006: 46 million), loans from Fortum's Finnish pension fund EUR 33 million (2006: 33 million), other loans EUR 281 million (2006: 288 million) and in 2006 financing arrangement related to Nybroviken Kraft AB matured in 2007 (2006: EUR 320 million).

²⁾ Including current portion of long-term debt.

³⁾ The effective interest rate including interest-bearing debt and derivatives is 4.6% (2006: 4.1%).

Bond Issues

Issued / Maturity	Loan description ¹⁾	Interest basis	Interest rate	Effective interest	Currency	Nominal million	Carrying amount 31.12.07
2003 / 2010	Fortum Oyj EUR 5,000 Million EMTN Programme	Fixed	4.625	4.728	EUR	500	494
2003 / 2013	Fortum Oyj EUR 5,000 Million EMTN Programme	Fixed	5.000	5.164	EUR	500	493
2000 / 2008	Fortum Oyj EUR 5,000 Million EMTN Programme	Floating	Euribor 3M+0.75		EUR	20	20
2000 / 2008	Fortum Oyj EUR 5,000 Million EMTN Programme	Floating	Stibor 3M+0.60		SEK	200	21
2003 / 2008	Fortum Oyj EUR 5,000 Million EMTN Programme	Fixed	6.100	6.242	EUR	500	500
2006 / 2011	Fortum Oyj EUR 5,000 Million EMTN Programme	Fixed	3.750	3.793	SEK	2,000	211
2006 / 2009	Fortum Oyj EUR 5,000 Million EMTN Programme	Floating	Stibor 3M+0.10		SEK	2,500	265
2006 / 2016	Fortum Oyj EUR 5,000 Million EMTN Programme	Fixed	4.500	4.615	EUR	750	715
2007 / 2012	Fortum Oyj EUR 5,000 Million EMTN Programme	Floating	Stibor 3M+0.15		SEK	3,500	370
2007 / 2014	Fortum Oyj EUR 5,000 Million EMTN Programme	Fixed	4.700	4.764	SEK	2,600	272
Total outstanding carrying amount 31 December 2007							3,361

¹⁾ EMTN = Euro Medium Term Note

During the year Fortum raised SEK 7,850 million (EUR 831 million) of new long-term financing was used partly to refinance maturing SEK and EUR denominated loans of EUR 441 million. The maturities of the new financing agreements varied between 5 and 10 years and consisted of two in total SEK 6,100 million (EUR 646 million) bonds issued under Fortum's Euro Medium Term Note programme, as well as two bilateral loan agreements of in total SEK 1,750 million (EUR 185 million). The reported interest-bearing debt increased by EUR

391 million to EUR 4,893 million (2006: 4,502 million) at year end.

The Nybroviken Kraft AB (Nykab) financing arrangement of Swedish hydropower assets originally established in 1990 consisting of loans (SEK 2,000 million) and preference shares (SEK 890 million) classified as interest-bearing liability according to IAS 32 and IAS 39) was terminated on 31 October 2007 by Fortum Generation AB exercising its call option to purchase all outstanding loans and preference shares under the agreement. The termination of the financing

arrangement had a negative cash-flow effect as accrued interest gradually accumulating since the start of the agreement amounting to EUR 58 (SEK 543) million was settled and paid. The assets that

were pledged as a security for the loans, have been released, see Note 40 Pledged assets.

Finance lease liabilities

On 31 December 2007 Fortum had a small number of finance leasing agreements for machinery and equipment. No new leasing commitments were entered into in 2007 or 2006.

EUR million	2007	2006
Minimum lease payments	42	57
Less future finance charges	11	11
Present value of finance lease liabilities	31	46

Maturity of finance lease liabilities

EUR million	2007	2006
Minimum lease payments		
Less than 1 year	3	15
1–5 years	16	15
Over 5 years	23	27
Total	42	57

Present value of finance lease liabilities

EUR million	2007	2006
Less than 1 year	1	14
1–5 years	9	8
Over 5 years	21	24
Total	31	46

34 Deferred Income Taxes

The movement in deferred tax assets and liabilities during the year

	1 Jan 2007	Charged to income statement	Charged in equity	Exchange rate differences, reclassifications and other changes	Acquisitions and disposals	31 Dec 2007
EUR million						
Deferred tax assets						
Property, plant and equipment	17	-7	-	-	-	10
Provisions	29	-10	-	-	-	19
Tax losses and tax credits carry-forward	9	11	-	-	-	20
Other	15	-5	-	-	-	10
Total deferred tax assets	70	-11	-	-	-	59
Offset against deferred tax liabilities	-65	9	-	-	-	-56
Deferred tax assets after offset	5	-2	-	-	-	3
Deferred tax liabilities						
Property, plant and equipment	1,829	-8	-	-52	-	1,769
Derivative financial instruments	19	-5	-61	-	-	-47
Current assets	7	0	-	-	-	7
Other	5	9	-	-	-	14
Offset against deferred tax assets	-65	9	-	-	-	-56
Deferred tax liabilities after offset	1,795	5	-61	-52	-	1,687

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

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

EUR million	2007		2006	
	Loss carry-forwards	Deferred tax assets	Loss carry-forwards	Deferred tax assets
Losses without expiration date (Norway and Sweden)	73	19	23	6
Losses with expiration date (Poland)	14	1	15	2

Deferred tax assets of EUR 16 million (2006: 14 million) have not been recognised in the consolidated financial statements, because the realisation is not probable. The major part of the unrecognised tax asset (EUR 13 million) relates to capital loss in UK, which has no expiration date. Rest of the unrecognised tax losses (EUR 3 million) relates to loss carry-forwards that are unlikely to be used under the expiration date.

Deferred income tax liabilities of EUR 3 million (2006: 4 million) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of 100% owned subsidiaries. Such amounts are permanently reinvested.

Deferred tax liability EUR 2.2 million (2006: none) has been booked on the retained earnings that are expected to be distributed from Estonian subsidiaries. Unremitted earnings totalled EUR 25 million on 31 December 2007 (2006: 25 million).

The movement in deferred tax assets and liabilities during the year

EUR million	1 Jan 2006	Charged to income statement	Charged in equity	Exchange rate differences, reclassifications and other changes	Acquisitions and disposals	31 Dec 2006
Deferred tax assets						
Property, plant and equipment	3	6	–	–	8	17
Provisions	16	4	–	–	9	29
Tax losses and tax credits carry-forward	8	1	–	–	–	9
Other	31	–8	–	–10	2	15
Total deferred tax assets	58	3	–	–10	19	70
Offset against deferred tax liabilities	–40	–	–	–	–	–65
Deferred tax assets after offset	18	3	–	–10	19	5
Deferred tax liabilities						
Property, plant and equipment	1,582	–38	–	70	215	1,829
Derivative financial instruments	–68	8	68	9	2	19
Current assets	0	–	–	–	7	7
Other	38	–7	–	–26	–	5
Offset against deferred tax assets	–40	–	–	–	–	–65
Deferred tax liabilities after offset	1,512	–37	68	53	224	1,795

Deferred tax assets and liabilities from acquisitions 2006 mainly refer to Fortum Espoo.

35 Pension and Other Provisions

EUR million	Pension	Environmental	Other	Total
1 January 2007	126	13	47	186
Provisions for the period	–	–	2	2
Provisions used	–7	–4	–22	–33
Provisions reversed	–	–	–11	–11
31 December 2007	119	9	16	144
Allocation between current and non-current provisions				
Current provisions	–	–	2	2
Non-current provisions	119	9	14	142

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

Environmental provision relates to dismantling of buildings and structures on contaminated land. The provision is estimated to be used within five years. Other provisions include provisions for insurance payments, tax claims and provisions for onerous contracts. The provision is estimated to be used within two to five years. Pension obligations include EUR 2 million (2006: 2 million) of unpaid liabilities related to defined contribution plans, see Note 36 Pension obligations.

36 Pensions Obligations

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

In Finland the most significant pension plan is the Finnish Statutory Employment Pension Scheme (TyEL) in which benefits are directly linked to employees' earnings. These pensions are funded in insurance company and treated as defined contribution plans. The benefits provided under TyEL are old age pensions, disability pensions, unemployment pensions and survivors' pensions. The disability component of TyEL has earlier been accounted for as a defined benefit plan. In December 2004, the Finnish Ministry of Social Affairs and Health approved certain changes to the principles for calculating disability component of pension liabilities under TyEL, effective from January 2006 onwards. According to the new practice, also the disability component of TyEL is accounted for as a defined contribution plan. In addition, certain employees in Finland have additional pension coverage through companies' own pension funds or through insurance companies.

In Sweden the Group operates several defined benefit and defined contribution plans like the general ITP-pension plan and the PA-KL and PA-KFS plans that are eligible for employees within companies formerly owned by municipalities. The pension arrangements comprise normally retirement pension, complementary retirement pensions, survivors' pension and disability pension. The most significant pension plan is the ITP-plan for white-collar employees in permanent employment (or temporary employees after a certain waiting period), who fulfill the age conditions. To qualify for a full pension the employee must have a projected period

The provision for impregnated poles was reversed in 2006, since EU legislation allows to re-use the poles. Previous legislation forbade the re-use and demanded dismantling of the poles. The related investment cost in property, plant and equipment was also reversed. The net effect to the income statement was less than EUR 1 million.

of pensionable service, from the date of entry until retirement age, of at least 30 years. The ITP-plan is partly financed through insurance premiums or and partly through provisions in the balance sheet (book-reserves). The part of the ITP multiemployer pension plan that is secured by paying pension premiums to Alecta, in Fortum's case the collective family pension, is accounted for as a defined contribution plan due to lack of information necessary to account for the plan as a defined benefit plan.

The Norwegian companies are part of schemes that are common for municipalities in Norway. These are defined benefit pension plans and provide old age pensions and disability pension, including pension benefits from the National Insurance Scheme (Folketrygden). The schemes also provide survivor's pensions. The schemes are fully funded within the rules set out in the Norwegian insurance legislation.

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

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

Amounts recognised in the income statement

EUR million	2007	2006
Current service cost	-11	-13
Interest cost	-16	-15
Expected return on plan assets	15	13
Settlements	1	0
Total included in employee costs (Note 14)	-11	-15

The actual return on plan assets in Finland and Sweden totalled EUR 17 million (EUR 33 million in 2006).

Amounts recognised in the balance sheet

EUR million	2007	2006
Present value of funded obligations	390	361
Fair value of plan assets	-276	-250
Deficit (+)/Surplus (-)	114	111
Present value of unfunded obligations	0	1
Unrecognised actuarial gains and losses	-11	12
Net asset (-)/liability (+) in the balance sheet	103	124
Defined benefit asset included in the assets (Note 24)	14	0
Pension obligations in the balance sheet	117	124
Experience adjustments arising on funded obligations; gain (-)/loss (+)	11	21
Experience adjustments arising on plan assets; gain (+)/loss (-)	21	-10

Movement in the liability recognised in the balance sheet

EUR million	2007	2006
1 January	124	117
Exchange rate differences	-4	0
Impact of acquired/sold companies	0	4
Structural changes in pension fund arrangements	0	3
Total expense charged in the income statement	12	15
Contributions paid	-29	-15
31 December Net asset (-)/liability (+)	103	124
Defined benefit obligations	117	124
Defined benefit assets included in assets	-14	0
Net asset (-)/liability (+)	103	124

Contributions expected to be paid during the year 2008 are EUR 21 million.

Movement in the present value of defined benefit obligations

EUR million	2007	2006
1 January	367	377
Exchange rate differences	-7	0
Service cost	11	12
Interest cost	15	16
Increase in obligation	0	0
Effect of settlement	-5	-4
Actuarial gains (-)/losses (+) on obligations	25	-16
Benefits paid	-16	-18
31 December	390	367

Movement in the fair value of plan assets

EUR million	2007	2006
1 January	250	224
Exchange rate differences	0	-2
Expected return of plan assets	15	14
Actuarial gains and losses	1	17
Contributions by employer	24	7
Effect of settlement	-5	-2
Benefits paid	-9	-8
31 December	276	250

Fair value of plan assets comprise

EUR million	2007	2006
Equity instruments	73	74
Debt instruments	53	53
Property occupied by the Group	65	59
Company's own ordinary shares	9	6
Other assets	76	58
Total	276	250

When the pension plan has been financed through insurance company, the specification of plan assets has not been available. In these cases the fair value of plan assets has been included in the Other assets.

Amounts recognised in the balance sheet by country

EUR million	2007			Total
	Finland	Sweden	Other countries	
Present value of funded obligations	202	153	35	390
Fair value of plan assets	-230	-25	-21	-276
Deficit (+)/Surplus (-)	-28	128	14	114
Present value of unfunded obligations	0	0	0	0
Unrecognised actuarial gains and losses	28	-32	-7	-11
Net asset (-)/ liability (+) in the balance sheet	0	96	7	103
Defined benefit asset included in the assets (Note 24)	14	0	0	14
Pension obligations in the balance sheet	14	96	7	117

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

The principal actuarial assumptions used

EUR million	2007			2006		
	Finland	Sweden	Other countries	Finland	Sweden	Other countries
Discount rate, %	5.00	4.50	4.70	4.50	4.00	4.75
Expected return on plan assets, %	6.50	4.50	5.75	6.50	4.00	5.80
Future salary increases, %	4.00	3.50	3.20	3.50	3.50	3.20
Future pension increases, %	2.10	2.00	2.70	2.00	2.00	2.70

The discount rate in Finland is based on the quoted European government bonds with maturity that best reflects the estimated term of the defined benefit pension plans. The discount rate in Sweden and Norway is based on the yield of long-term government bonds which are consistent with the currency and the estimated term of the post-employment benefit obligations.

During 2007, new mortality tables were published by the Swedish Insurance Supervisory Board (Finansinspektionen). The new tables are based on updated data and present mortality rates for different age cohorts. The Group has adopted the new mortality tables as at December 31, 2007. The change of mortality table results in an actuarial loss in aggregate of 7% due to the increase in average life expectancy.

37 Nuclear Related Assets and Liabilities

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

through the State Nuclear Waste Management Fund. The text below should be read in conjunction with information in Note 1 Accounting principles.

EUR million	2007	2006
Carrying values in the balance sheet		
Nuclear provisions	516	450
Share in the State Nuclear Waste Management Fund	516	450
Legal liability and actual share of the State Nuclear Waste Management Fund		
Liability for nuclear waste management according to the Nuclear Energy Act	816	685
Funding obligation target	698	649
Fortum's share of the State Nuclear Waste Management Fund	673	636

Nuclear related provisions

The nuclear provisions are related to future obligations for nuclear waste management including decommissioning of the power plant and disposal of spent fuel. The fair values of the provisions are calculated according to IAS 37 based on future cash-flows regarding estimated future costs for each of the provisions separately. The cash-flows used are based on the cash-flows which are also the basis for the legal liability. Both provisions are included in Nuclear provisions in the balance sheet.

In September 2007 Fortum submitted the yearly proposal for the nuclear waste management legal liability regarding the Loviisa nuclear power plant to the Ministry of Employment and the Economy (previously Ministry of Trade and Industry). The legal liability is calculated according to the Nuclear Energy Act in Finland and is decided by the Ministry of Employment and the Economy in January every year. The proposal was based on an updated cost estimate, which is done every year, and on a new technical plan, which is made every third year. Based on the new plan, the future costs are estimated to increase mainly due to the new technical solution related to filling material for the tunnels in the final repository.

The updated legal liability at the end of 2007 amounted to EUR 816 million (2006: 685 million). The carrying value of the nuclear provisions in the balance sheet increased with EUR 66 million compared to 31 December 2006, totalling EUR 516 million as of 31 December 2007. The main reason for the difference between the carrying value of the provision and the legal liability is the fact that the legal liability is not discounted to net present value.

The increase of the provision for spent fuel caused a negative one-time effect of EUR 13 million in comparable operating profit in Q3 2007 due to higher nuclear waste management costs related to already spent fuel. The increase of the provision for spent fuel also caused negative one-time interest costs, due to unwinding of the provision for the period during which the spent fuel provision has been accumulated and present point in time, which are recognised immediately in the income statement.

The increase of the provision for decommissioning is added to the nuclear decommissioning cost and depreciated over the remaining estimated operating time of the nuclear power plant. See Note 22 Property, plant and equipment.

EUR million	2007	2006
Nuclear provisions		
At 1 January	450	418
Additional provisions	46	24
Used during the year	-15	-17
Unwinding of discount	35	25
At 31 December	516	450
Carrying value of Fortum's share in the State Nuclear Waste Management Fund	516	450

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

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

According to the Nuclear Energy Act, Fortum is obligated to contribute the funds in full to the State Nuclear Waste Management Fund to cover the legal liability. Based on the law, Fortum applied for periodising of the payments to the Fund over six years, due to the proposed increase in the legal liability. The application was approved by Council of State in December 2007.

The periodisation of the payments to the State Nuclear Waste Management Fund has an impact on cash-flow, but also on operating profit since the carrying value of the Fund in the balance sheet cannot exceed the carrying value of the nuclear provisions according to IFRIC Interpretation 5. The Fund is from an IFRS perspective overfunded with EUR 157 million, since Fortum's share of the Fund as of 31 December 2007 is EUR 673 million and the carrying value in the balance sheet is EUR 516 million.

Operating profit for 2007 includes a positive cumulative adjustment of EUR 17 (0) million, due to the increase of the carrying value of the Fund in the balance sheet as a result of the increased provision. The positive effect on Q3 2007 was EUR 33 (-2) million. In Q4 the adjustment is negative, EUR -7 (-4) million, since the value of the Fund has increased more than the carrying value of the provision. These adjustments are included in "Other items effecting comparability" in the Power Generation segment, see Note 4 Primary segment information, and are not included in comparable operating profit. As long as the Fund stays overfunded from an IFRS perspective, positive accounting effects to Operating profit will always occur when the nuclear provision is increasing more than the net payments to the Fund. Negative accounting effects will occur when the net payments to the Fund are higher than the increase of the provision.

The funding obligation target

The funding obligation target for the each year is decided by the Ministry of Employment and the Economy retrospectively in January each year after the legal liability has been decided. The difference between the funding obligation target for Fortum and Fortum's actual share of the State Nuclear Waste Fund is paid in Q1 each year.

The funding obligation target corresponding to both the new legal liability and the new decision for periodisation to the Fund amounts EUR 698 (649) million. The difference between the legal

liability at year end 2007 and the corresponding funding obligation target, EUR 25 million (2006: 13 million) is covered by a security which has been given in the end of June 2007. The real estate mortgages given also covers unexpected events according to the Nuclear Energy Act, see also Note 40 Pledged assets.

Borrowing from the Finnish State Nuclear Waste Management Fund

Finnish participants in the State Nuclear Waste Management Fund are allowed to borrow from the Fund according to certain rules. Fortum uses the right to borrow back and has pledged Kemijoki shares as security for the loan. See also Note 25 Long-term and short-term interest-bearing receivables and Note 40 Pledged assets.

Associated companies

Fortum has minority shareholdings in associated Finnish and Swedish nuclear production companies. The shareholdings entitle Fortum to electricity produced according to consortium agreements.

Regarding the Finnish company Teollisuuden Voima Oy (TVO), similar IFRS nuclear accounting adjustments are made when accounting for the share of profit from the associate company. Regarding the two Swedish shareholdings, OKG AB and Forsmarks Kraftgrupp AB, Fortum has not been able to account for the nuclear assets and provisions according to Fortum accounting principles since the separate cash-flow information for the two provisions is not available.

Fortum has according to law given guarantees to the Finnish and Swedish nuclear Funds on behalf of the associated companies, to guarantee that sufficient funds exist to cover future expenses of decommissioning of the power plants and disposal of spent fuel, see Note 42 Contingent liabilities.

Through the shareholding in TVO, Fortum uses the right to borrow from the Fund.

38 Other Non-current Liabilities

EUR million	2007	2006
Connection fees	405	400
Other liabilities	81	85
Total	486	485

Connection fees to the electricity network in Finland that are paid before 2003 are refundable, if the customer would ever disconnect the initial connection. The connections fees to the electricity network amounted to EUR 307 million (2006: 307 million).

Connection fees to the district heating network in Finland amounted to EUR 98 million (2006: 93 million).

39 Trade Payables and Other Current Liabilities

EUR million	2007	2006
Trade payables	272	242
Accrued expenses and deferred income		
Personnel expenses	89	93
Interest expenses	107	154
Other accrued expenses and deferred income	201	127
Other liabilities		
VAT-liability	34	61
Energy taxes	36	31
Advances received	62	78
Other liabilities	68	58
Total	869	844

The management consider that the amount of trade and other payables approximates fair value.

40 Pledged Assets

EUR million	2007	2006
On own behalf		
For debt		
Pledges	170	176
Real estate mortgages	138	49
For other commitments		
Real estate mortgages	103	56
On behalf of associated companies and joint ventures		
Pledges and real estate mortgages	3	3

Pledged assets for debt

Finnish participants in the State Nuclear Waste Management Fund are allowed to borrow from the Fund. Fortum has during 2007 increased the loan from the fund and has pledged additional shares in Kemijoki as security. The carrying value of the pledged shares is EUR 145 million as of 31 December 2007 (2006: 102 million).

In October 2007, Fortum terminated the financing agreement with AP-fonden relating to Fortum's Swedish subsidiary, Nybroviken Kraft AB. Shares in subsidiaries and associated companies to Nybroviken Kraft AB amounting to EUR 51 million as of 31 December 2006, that had been pledged as security for the loan, were hereby released. Pledges also include bank deposits as trading collateral of EUR 5 million (2006: 2 million) for trading of electricity and CO₂ allowances in Nord Pool and trading of CO₂ with Intercontinental Exchange (ICE) and European Energy Exchange (EEX).

During 2007 Fortum Tartu in Estonia (60% owned by Fortum) has given real estate mortgages for a value of EUR 95 million as a security for an external loan. Real estate mortgages are also given for loans from Fortum's pension fund for EUR 41 million (2006: 41 million). Regarding the relevant interest-bearing liabilities, see Note 33 Interest-bearing Liabilities.

Pledged assets for other commitments

Fortum has given real estate mortgages in Naantali and Inkoo power plants in Finland for a value of EUR 102 million (2006: 56 million) as a security to the State Nuclear Waste Management Fund for the uncovered part of the legal liability and unexpected events relating to costs for future decommissioning and disposal of spent fuel in the wholly owned Loviisa nuclear power plant. The legal liability, based on the situation as of 31 December, is decided by the the Ministry of Employment and the Economy in January the following year and the amount of the security is adjusted by the end of June. See also Note 37 Nuclear related assets and liabilities.

41 Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows

EUR million	2007	2006
Property, plant and equipment	425	266
Intangible assets	11	0
Total	436	266

Operating lease commitments

Fortum leases office equipment and cars under various non-cancellable operating leases, some of which contain renewal options.

The future costs for non-cancellable operating leasing contracts are stated below.

Lease rental expenses amounting to EUR 12 million (2006: 19 million) are included in the income statement in other expenses.

Future minimum lease payments include land leases with long lease periods.

Future minimum lease payments on operating leases

EUR million	2007	2006
Not later than 1 year	21	20
Later than 1 year and not later than 5 years	31	38
Later than 5 years	69	78
Total	121	136

42 Contingent Liabilities

EUR million	2007	2006
On own behalf		
Other contingent liabilities	224	144
On behalf of associated companies and joint ventures		
Guarantees	235	213
Other contingent liabilities	125	125
On behalf of others		
Guarantees	10	12
Other contingent liabilities	1	1

Other contingent liabilities on own behalf include guarantees issued for the fulfillment of various contractual obligations relating to Fortum's Service business in the UK, amounting to a maximum of EUR 85 million (2006: 99 million). The increase by EUR 80 million since 31 December 2006 is mainly due to guarantees given to suppliers for the new CHP plant being built by business unit Heat in Częstochowa, Poland.

Guarantees and other contingent liabilities on behalf of associated companies and joint ventures mainly consist of guarantees relating to Fortum's associated nuclear companies Teollisuuden Voima Oy (TVO), Forsmarks Kraftgrupp AB (FKA) and OKG AB (OKG). The guarantees are given in proportion to Fortum's respective ownership in each of these companies.

According to law, nuclear companies operating in Finland and Sweden shall give securities to the Finnish State Nuclear Waste Management Fund and the Swedish Nuclear Waste Fund respectively, to guarantee that sufficient funds exist to cover future expenses of decommissioning of the power plant and disposal of spent fuel. In Finland, Fortum has given a guarantee on behalf of TVO to

the Finnish State Nuclear Waste Management Fund amounting to EUR 32 million (2006: 20 million) to cover Fortum's part of TVO's uncovered part of the legal liability and for unexpected events. In Sweden, Fortum has given guarantees on behalf of FKA and OKG to the Swedish Nuclear Waste Fund to cover Fortum's part of FKA's and OKG's liability relating to unexpected events for EUR 195 million (2006: 185 million). The guarantees are changed the year after new decisions have been made regarding the level of the legal liabilities and the payment schedules to fund the Nuclear Waste Funds.

Meri-Pori power plant in Finland is owned by Fortum 54.55% and Teollisuuden Voima Oy (TVO) 45.45%. Based on the participation agreement Fortum has to give a guarantee to TVO against possible loss of asset or breach in contract of TVO's share of the asset, EUR 125 million (2006: 125 million).

Fortum's 100% owned subsidiary Fortum Heat and Gas Oy has a collective contingent liability with Neste Oil Oyj of the demerged Fortum Oil and Gas Oy's liabilities based on the Finnish Companies Act's (734/1978) Chapter 14a Paragraph 6.

43 Legal Actions and Official Proceedings

The Swedish Energy Authority (EMI), which regulates and supervises the distribution network tariffs in Sweden, has performed supervision of distribution prices concerning year 2003. EMI utilizes a model called Nätnyttomodellen (NNM) for the supervision. The NNM estimates a reasonable cost for a fictive grid, which equals the maximum income that a distribution company may receive from its customers and any over debited amount, must be repaid.

EMI has given a decision on over debiting during 2003 for an aggregate amount of EUR 25 million to two subsidiaries of Fortum (Ekerö Energi AB and Fortum Distribution AB concerning the concession areas Stockholm and Västskusten). Both companies have filed a complaint to the County Administrative Court. Court decisions regarding these complaints are expected during the second or third quarter of 2008, at the earliest. All companies in the industry which have received decisions on over debiting have filed similar complaints.

Supervision processes regarding 2004, 2005 and 2006 tariffs have been started by EMI but no decisions have been made yet. Decisions regarding the 2004, 2005 and 2006 tariffs are expected only after court decisions for the pricing in 2003 are published.

Subsidiaries of Fortum, Grangemouth CHP Limited and Fortum O&M (UK) Limited, are defendants in a court case regarding greenhouse gas emissions allowances in the High Court of Justice in London. Grangemouth CHP Limited is a party to an Electricity Supply Agreement with Ineos Manufacturing Scotland Limited, pursuant to which Grangemouth CHP Limited provides electricity from its CHP plant to the Grangemouth site in Scotland until April 2016. Ineos Manufacturing Scotland Limited claims that it is entitled to all of the emissions allowances allocated under the EU ETS scheme for greenhouse gas emission allowance trading with respect to the CHP plant. Grangemouth CHP Limited denies this claim. The court decision is expected during 2008.

The Finnish Competition Authority gave on 2 June 2006 its conditional approval to the transaction by which Fortum acquired control in E.ON Finland Oyj. On 3 July 2006 Fortum appealed against the decision to the Market Court.

In addition to the litigations described above, some Group companies are involved in disputes incidental to their business. In management's opinion the outcome of such disputes will not have material effect on the Group's financial position.

44 Related Party Transactions

At the beginning of 2007 the Finnish State owned 50.82% of the company and at the end of 2007 50.86%. See The Fortum share and shareholders section of the Operating and Financial Review for further information on Fortum shareholders. All transactions between Fortum and other companies owned by the Finnish State are on arms length basis. In the ordinary course of business Fortum engages in transactions on commercial terms with associated companies and other related parties, which are on same terms as they would be for third parties, except for some associates as discussed later in this note.

Board of Directors and Fortum Management Team

Fortum has not been involved in any material transactions with members of the Board of Directors or Fortum Management Team. No loans exist to any member of the Board of Directors or Fortum Management Team at 31 December 2007. Members of the Board of Directors and Fortum Management Team holdings of options and shares are disclosed in Note 31 Employee bonus and Incentive Schemes. Compensation to members of the Supervisory Board, the Board of Directors and Fortum Management Team are disclosed in Note 14 Management remuneration and employee costs.

Finnish State and companies owned by the Finnish State

All transactions between Fortum and other companies owned by the Finnish State are on arms length basis.

The service agreement with Neste Oil concerning services from Fortum's Shared Financial Service Center was terminated in August 2007. The service agreement was on arms length.

Associated companies and joint ventures

Fortum owns shareholdings in associated companies and joint ventures which in turn own hydro- and nuclear power plants. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership or other agreements. Each owner is liable for an equivalent portion of costs regardless of output. The associated companies are not profit making, since the owners purchase electricity at production cost including interest costs and income taxes, which generally is lower than market price. For further information of transactions and balances with associated companies and joint ventures, see Note 23 Investments in associated companies and joint ventures.

45 Events After the Balance Sheet Date

Norwegian Renewable Energy Corporation (REC) is partly owned by Fortum's associated company Hafslund ASA. Fortum shows the fair value changes of REC in equity. At year end, the cumulative fair value change booked in Fortum's equity was approximately EUR

790 million. REC's share price has decreased since the year end. Based on REC's closing price on 29 January 2008, the cumulative fair value change in Fortum's equity would have been approximately EUR 400 million.

46 Subsidiaries by Segment on 31 December 2007

- = Power Generation
- = Heat
- ▲ = Distribution
- = Markets
- ▼ = Other Operations

- ¹⁾ Acquired
- ²⁾ Founded
- ³⁾ Shares held by the parent company
- ⁴⁾ Dormant

Company Name	Country	Segment	Group holding %
Asunto Oy Imatran			
Voimakaaari	Finland	▼	100.0
Fortum			
Asiakaspalvelu Oy ³⁾	Finland	■▲●	100.0
Fortum Assets Oy	Finland	▼	100.0
Fortum Espoo			
Distribution Oy ³⁾	Finland	▲	100.0
Fortum Heat and Gas Oy ³⁾	Finland	■▼	100.0
Fortum Lämpö Oy	Finland	■	100.0
Fortum Markets Oy	Finland	●	100.0
Fortum Nuclear			
Services Oy	Finland	●	100.0
Fortum Portfolio			
Services Oy	Finland	●	100.0
Fortum Power and Heat Oy ³⁾	Finland	●■▲	100.0
Fortum Sähkönsiirto Oy ³⁾	Finland	▲	100.0
Hexivo Oy	Finland	●	52.0
Imatran Voima Oy	Finland	▲	100.0
Imatrankosken Voima Oy	Finland	▲	100.0
Jyväskylän			
Energiantuotanto Oy	Finland	■	60.0
Kiinteistö Oy Espoon			
Energiaatalo	Finland	▼	100.0
Killin Voima Oy	Finland	●	60.0
Koillis-Pohjan			
Energiantuotanto Oy	Finland	●	100.0
Koskivo Oy	Finland	▲	100.0
KPPV-Sijoitus Oy	Finland	▲	100.0
Linnankosken Voima Oy	Finland	▲	100.0
Lounais-Suomen			
Lämpö Oy	Finland	▲	100.0
Mansikkalan Voima Oy	Finland	▲	100.0
Oy Pauken Ab	Finland	▼	100.0
Oy Tersil Ab	Finland	▲	100.0
Oy Tertrade Ab	Finland	▲	100.0
Rajapatsaan Voima Oy	Finland	▲	100.0
Saimaanrannan			
Voima Oy	Finland	▲	100.0
Tunturiuuli Oy	Finland	●	55.4
Varsinais-Suomen			
Sähkö Oy	Finland	▲	100.0
Viikinki Energia Oy	Finland	●	100.0
Fortum Liegenschafts-verwaltungs Gmbh	Austria	▼	100.0
Fortum Project			
Finance N.V. ³⁾	Belgium	●▼	100.0

Company Name	Country	Segment	Group holding %
Fortum Energi A/S ⁴⁾	Denmark	●	100.0
AS Anne Soojus	Estonia	■	60.0
AS Fortum Tartu	Estonia	■	60.0
AS Tartu Joujaam	Estonia	■	60.0
AS Tartu Keskkatlamaja	Estonia	■	60.0
Fortum CFS Eesti			
osauhing	Estonia	▼	100.0
Fortum Elekter AS	Estonia	▲	99.3
Fortum Termest AS	Estonia	■	99.7
Lauka Turvas OU	Estonia	■	60.0
Fortum Service			
Deutschland GmbH	Germany	●	100.0
Fortum Direct Ltd	Great Britain	●	100.0
Fortum Energy Ltd	Great Britain	●	100.0
Fortum Gas Ltd	Great Britain	●	100.0
Fortum Insurance Ltd	Great Britain	▼	100.0
Fortum O&M(UK) Limited	Great Britain	●	100.0
Grangemouth			
CHP Limited	Great Britain	●	100.0
IVO Energy Limited	Great Britain	●	100.0
Kildare Energy Ltd	Ireland	●	55.0
Fortum Latvija SIA ¹⁾	Latvia	■	100.0
UAB Fortum Ekosiluma	Lithuania	■	100.0
UAB Fortum Heat Lietuva	Lithuania	■	100.0
UAB Fortum Klaipeda ²⁾	Lithuania	■	51.0
UAB Joniskio energija	Lithuania	■	66.0
UAB Svencioniu energija	Lithuania	■	50.0
Fortum Sendi			
Prima Sdn Bhd	Malaysia	●	100.0
Baerum Fjernvarme AS	Norway	■	100.0
Fortum Distribution AS	Norway	▲●	100.0
Fortum Förvaltning AS	Norway	●	100.0
Fortum Holding			
Norway AS	Norway	●■▲●	100.0
Fortum Leasing AS ²⁾	Norway	■	100.0
Fortum Markets AS	Norway	●	100.0
Fortum Service AS	Norway	●	100.0
Mosjøen Fjernvarme AS	Norway	■	100.0
Fortum S.A.			
Fortum DZT S.A.	Poland	■	98.7
Fortum DZT			
Service Sp.z.o.o	Poland	■	99.9
Fortum Heat			
Polska Sp z.o.o.	Poland	■▼	100.0
Fortum Plock Sp z o.o.	Poland	■	98.7
Fortum Wroclaw SA	Poland	■	99.2

- = Power Generation
- = Heat
- ▲ = Distribution
- = Markets
- ▼ = Other Operations

- ¹⁾ Acquired
- ²⁾ Founded
- ³⁾ Shares held by the parent company
- ⁴⁾ Dormant

Company Name	Country	Segment	Group holding %
LLC Fortum Energy			
OOO Fortum Energija	Russia	● ■ ▼	100.0
AB Fortum Värme Holding samägt med Stockholms stad	Sweden	■	50.1
AB Fortum Värme samägt med Stockholms stad	Sweden	■	50.1
AB Ljusnans Samkörning	Sweden	▲	80.0
Akallaverket AB	Sweden	■	37.6
Arvika Fjärrvärme AB	Sweden	■	30.1
Blybergs Kraft AB	Sweden	●	66.7
Brännälven Kraft AB	Sweden	●	67.0
Bullerforsens Kraft AB	Sweden	●	88.0
Ekerö Energi AB	Sweden	▲	81.7
Ekerö Energi Försäljning AB	Sweden	●	81.7
Fortum 1 AB ¹⁾	Sweden	▼	100.0
Fortum Alfa AB	Sweden	●	100.0
Fortum Beta AB	Sweden	▼	100.0
Fortum Dalälvens Kraft AB	Sweden	●	100.0
Fortum Delta AB ¹⁾	Sweden	▼	100.0
Fortum Distribution AB	Sweden	▲	100.0
Fortum Distribution Ryssa AB	Sweden	▲	100.0
Fortum Fastigheter AB	Sweden	▼	100.0
Fortum Generation AB	Sweden	●	100.0
Fortum Indalskraft AB	Sweden	●	100.0
Fortum Jota AB ¹⁾	Sweden	▼	100.0
Fortum Ljunga Kraft AB	Sweden	●	100.0
Fortum Ljusnans Kraft AB	Sweden	●	100.0
Fortum Markets AB	Sweden	●	100.0
Fortum Nordic AB ³⁾	Sweden	▼	100.0
Fortum Portfolio Services AB	Sweden	● ●	100.0
Fortum Power and Heat AB	Sweden	● ■ ● ▼	100.0
Fortum Produktionsnät AB ¹⁾	Sweden	●	100.0
Fortum Service AB	Sweden	●	100.0
Fortum Service Öst AB	Sweden	●	100.0
Fortum Sweden AB ³⁾	Sweden	▼	100.0
Fortum Värme Alpha AB ²⁾	Sweden	■	50.1
Fortum Värme Fastigheter AB	Sweden	■	50.1

Company Name	Country	Segment	Group holding %
Fortum Värme Nynäshamn AB	Sweden	■	100.0
Fortum Zeta AB ²⁾	Sweden	▼	100.0
Fortum Älvkraft i Värmland AB	Sweden	●	100.0
Hällefors Värme AB	Sweden	■	47.6
Mellansvensk Kraftgrupp AB	Sweden	●	86.9
NGI Naturgasinvest AB	Sweden	■	52.1
Nybroviken Kraft AB	Sweden	●	100.0
Oreälvens Kraft AB	Sweden	●	65.0
Parteboda Kraft AB	Sweden	●	100.0
Recotech AB	Sweden	●	100.0
Ryssa Energi AB	Sweden	●	100.0
Sigtuna-Väsby Fastighets AB	Sweden	■	50.1
Stockholm Gas AB ²⁾	Sweden	■	50.1
Säffle 5:35 Fastighets AB	Sweden	■	50.1
Säffle Fjärrvärme AB	Sweden	■	25.6
Uddeholm Kraft AB	Sweden	▼	100.0
Voxnan Kraft AB	Sweden	●	100.0
Värmlandsenergi AB	Sweden	▼	100.0
Värmlandskraft OKG-delägarna AB	Sweden	●	73.3
Fortum FB Generation Services B.V.	The Netherlands	●	75.0
Fortum Alpha B.V. ²⁾	The Netherlands	▼	100.0
Fortum East China Energy Investments B.V.	The Netherlands	●	100.0
Fortum Finance 2 BV	The Netherlands	▲ ▼	100.0
Fortum Holding B.V. ³⁾	The Netherlands	● ■ ▼	100.0
Fortum Power Holding B.V.	The Netherlands	●	100.0
Fortum Russia BV ²⁾	The Netherlands	▼	100.0
Fortum Russia Holding B.V.	The Netherlands	▼	100.0

Key Figures

Financial Key Figures

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

Oil operations have been presented as discontinued operations in years 2004 and 2005.

As from 2005, Fortum applies International Financial Reporting Standards (IFRS) for the annual and interim reports. The 2005 annual report included one comparison year 2004, which was restated to IFRS. Years 1998–2003 have not been restated to comply with IFRS. They are presented under Finnish Accounting Standards (FAS).

EUR million or as indicated	FAS	FAS	FAS	FAS	FAS	FAS	IFRS	IFRS	IFRS	IFRS	Change
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	07/06 %
Sales total Fortum	8,494	8,232	10,614	10,410	11,148	11,392	11,659	5,918			
Sales continuing operations							3,835	3,877	4,491	4,479	0
EBITDA total Fortum ¹⁾	1,049	1,192	1,431	1,501	1,952	1,917	2,443	2,307			
EBITDA continuing operations							1,583	1,754	1,884	2,298	22
Operating profit total Fortum	586	705	906	914	1,289	1,420	1,916	1,864			
– of sales %	6.9	8.6	8.5	8.8	11.6	12.5	16.4	31.5			
Operating profit continuing operations							1,195	1,347	1,455	1,847	27
– of sales %							31.2	34.7	32.4	41.2	
Comparable operating profit continuing operations							1,148	1,334	1,437	1,564	9
Profit before income tax total Fortum	363	954	623	702	1,008	1,184	1,700	1,776			
– of sales %	4.3	11.6	5.9	6.7	9.0	10.4	14.6	30.0			
Profit before income tax continuing operations							962	1,267	1,421	1,934	36
– of sales %							25.1	32.7	31.6	43.2	
Profit for the period continuing operations							703	936	1,120	1,608	44
– of which attributable to equity holders							670	884	1,071	1,552	45
Capital employed, total Fortum	8,647	9,425	11,365	11,032	13,765	12,704	12,890				
Capital employed continuing operations							10,739	11,357	12,663	13,544	7
Interest-bearing net debt	3,898	3,818	4,626	3,674	5,848	5,626	5,095	3,158	4,345	4,466	3
Capital expenditure and gross investments in shares, total Fortum	1,702	1,059	3,131	713	4,381	1,136	830	578	1,395	972	–30
– of sales %	20.0	12.9	29.5	6.8	39.3	10.0	7.1	9.8	31.1	21.7	
Capital expenditure and gross investments in shares continuing operations							514	479	1,395	972	–30
Capital expenditure continuing operations							335	346	485	655	35
Net cash from operating activities, total Fortum	793	524	424	1,145	1,351	1,577	1,758	1,404			
Net cash from operating activities continuing operations							1,232	1,271	1,151	1,670	45

	FAS	FAS	FAS	FAS	FAS	FAS	IFRS	IFRS	IFRS	IFRS	Change
EUR million or as indicated	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	07/06
											%
Return on capital employed, total Fortum, %	7.7	8.4	9.4	8.7	11.1	11.4	15.8	16.6			
Return on capital employed continuing operations, %							11.4	13.5	13.4	16.5	
Return on shareholders' equity, total Fortum, %	5.7	7.7	8.6	8.3	10.5	12.3	18.2	18.7			
Return on shareholders' equity continuing operations, % ²⁾							13.5	14.4	19.1		
Interest coverage	2.6	3.4	3.7	4.3	4.7	5.8	8.0	11.6	11.5	12.8	
Funds from operations/interest-bearing net debt, %	17.9	14.3	19.9	28.8	21.6	26.1	36.4	43.2	30.6	36.3	
Gearing, % ³⁾	93	79	73	54	80	85	67	43	53	52	
Net debt / EBITDA	3.7	3.2	3.2	2.4	3.0	2.9	2.1	1.4			
Net debt / EBITDA continuing operations							–	1.8	2.3	1.9	
Equity-to-assets ratio, %	36	39	43	48	41	40	44	49	48	49	
Dividends ⁴⁾	99	141	194	220	262	357	506	987	1,122	1,197 ⁵⁾	7
Dividends continuing operations								511	650	683 ⁵⁾	5
Dividends additional in 2006 and 2007/ discontinued operations in 2005								476	472	514 ⁵⁾	9
Research and development expenditure	92	72	58	53	33	35	26	14	17	21	24
– of sales %	1.1	0.9	0.5	0.5	0.3	0.3	0.2	0.2	0.4	0.5	
Average number of employees total Fortum	19,003	17,461	16,220	14,803	14,053	13,343	12,859	10,026	8,910	8,304	
Average number of employees continuing operations							8,592	8,939	8,910	8,304	

¹⁾ EBITDA is defined as Operating profit continuing operations + Depreciation, amortisation and impairment charges. According to Finnish Accounting Standards (FAS) share of profit of associated companies were included in operating profit. In calculating EBITDA presented under FAS share of profit of associated companies have been excluded in 1998–2003.

²⁾ Return on equity for continuing operations for 2005 is calculated based on profit for the period from continuing operations divided by total equity at the end of the period. Profit for the period from discontinued operations has been subtracted from total equity on 31 December 2005.

³⁾ Gearing is defined as interest-bearing net debt over shareholders' equity plus minority interest. In 2000–2002 minority interest included the preference shares amounting to EUR 1.2 billion, carrying fixed income dividend of 6.7 percent, issued by Fortum Capital Ltd.

⁴⁾ In addition to cash dividend Fortum distributed approximately 85% of Neste Oil Corporation shares as dividend in 2005.

⁵⁾ Board of Directors proposal for the Annual General Meeting 1 April 2008. The total amount is calculated based on the number of registered shares on 30 January 2008.

Definitions of Key Figures on pages 94 and 95.

Share Key Figures

	FAS	FAS	FAS	FAS	FAS	FAS	IFRS	IFRS	IFRS	IFRS	Change
EUR or as indicated	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	07/06
											%
Earnings per share total Fortum	0.27	0.41	0.55	0.57	0.79	0.91	1.48	1.55	1.22	1.74	35
Earnings per share continuing operations	–	–	–	–	–	–	0.79	1.01	1.22	1.74	35
Earnings per share discontinued operations	–	–	–	–	–	–	0.69	0.54	–	–	
Diluted earnings per share total Fortum	–	–	0.55	0.57	0.78	0.90	1.46	1.53	1.21	1.74	44
Diluted earnings per share continuing operations	–	–	–	–	–	–	0.78	1.00	1.21	1.74	44
Diluted earnings per share discontinued operations	–	–	–	–	–	–	0.68	0.53	–	–	
Cash flow per share total Fortum	1.01	0.67	0.54	1.43	1.60	1.86	2.06	1.61	1.31	1.88	44
Cash flow per share continuing operations	–	–	–	–	–	–	1.44	1.46	1.31	1.88	44
Equity per share	5.06	6.00	6.32	6.49	6.97	7.55	8.65	8.17	8.91	9.43	6
Dividend per share total Fortum ¹⁾	0.13	0.18	0.23	0.26	0.31	0.42	0.58	1.12	1.26	1.35 ²⁾	7
Dividend per share continuing operations	–	–	–	–	–	–	–	0.58	0.73	0.77 ²⁾	5
Dividend per share additional in 2006 and 2007/ discontinued operations in 2005	–	–	–	–	–	–	–	0.54	0.53	0.58 ²⁾	9
Payout ratio total Fortum, %	46.3	43.4	41.9	45.6	39.2	46.2	39.2	72.3	103.3 ⁴⁾	77.6 ^{2) 4)}	
Payout ratio continuing operations, %	–	–	–	–	–	–	–	57.4 ³⁾	59.8 ⁴⁾	44.3 ^{2) 4)}	
Payout ratio additional dividend in 2006 and 2007/ discontinued operations in 2005, %	–	–	–	–	–	–	–	100.0 ³⁾	43.4 ⁴⁾	33.3 ^{2) 4)}	
Dividend yield, %	2.5	4.0	5.3	5.5	5.0	5.1	4.3	7.1	5.8	4.4 ²⁾	
Price/earnings ratio Fortum (P/E)	18.5	10.9	7.9	8.3	7.9	9.0	9.2	10.2	17.7	17.7	
Share prices											
At the end of the period	5.03	4.50	4.35	4.75	6.25	8.18	13.62	15.84	21.56	30.81	
Average share price	5.66	4.76	4.18	4.79	5.87	6.94	10.29	13.87	20.39	23.57	
Lowest share price	4.86	4.24	3.50	4.05	4.75	5.66	7.45	10.45	15.71	20.01	
Highest share price	6.05	5.80	4.94	5.70	6.52	8.75	13.99	16.90	23.48	31.44	
Market capitalisation at the end of the period, EUR million											
	3,949	3,532	3,456	4,017	5,286	6,943	11,810	13,865	19,132	27,319	
Trading volumes											
Number of shares, 1,000 shares	17,643	112,398	93,900	134,499	251,216	270,278	478,832	900,347	830,764	787,380	
In relation to the weighted average number of shares, %	2.2	14.3	11.9	16.8	29.7	31.9	59.2	103.2	94.3	88.5	
Number of shares, 1,000 shares	784,783	784,783	845,609	845,609	845,776	849,813	867,084	875,294	887,394	886,683	
Number of shares excluding own shares, 1,000 shares	NA	NA	794,571	NA	NA	NA	NA	NA	NA	NA	
Average number of shares, 1,000 shares	784,783	784,783	787,223	798,346	845,642	846,831	852,625	872,613	881,194	889,997	
Diluted adjusted average number of shares, 1,000 shares	–	–	787,223	798,308	851,482	858,732	861,772	887,653	886,929	891,395	

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 April 2008.

³⁾ 2005 payout ratio for continuing and discontinued operations are calculated based on the respective earnings per share from continuing and discontinued operations.

⁴⁾ Payout ratios for dividends in 2006 and 2007 are based on the total earnings per share.

Years 1998–2003 have not been restated to comply with IFRS. They are presented under Finnish Accounting Standards (FAS).

Definitions of Key Figures on pages 94 and 95.

Operational Key Figures, Volumes

		2004	2005	2006	2007
Fortum's total power and heat generation					
Power Generation	TWh	55.5	52.3	54.4	52.2
Heat Generation	TWh	25.4	25.1	25.8	26.1
Fortum's own power generation by source, total in the Nordic countries					
Hydropower	TWh	19.1	21.2	19.8	20.0
Nuclear power	TWh	25.8	25.8	24.4	24.9
Thermal power	TWh	9.5	4.2	9.0	6.2
Total	TWh	54.4	51.2	53.2	51.1
Fortum's own power generation by source, total in the Nordic countries					
Hydropower	%	35	42	37	39
Nuclear power	%	47	50	46	49
Thermal power	%	18	8	17	12
Total	%	100	100	100	100
Fortum's total electricity and heat sales					
Electricity sales	EUR mill.	2,017	2,002	2,437	2,370
Heat sales	EUR mill.	809	867	1,014	1,096
Fortum's total electricity sales by area					
Finland	TWh	31.1	26.0	29.6	29.0
Sweden	TWh	27.6	30.4	28.5	27.6
Other countries	TWh	3.6	3.3	3.5	3.1
Total	TWh	62.3	59.7	61.6	59.7
Fortum's total heat sales by area					
Finland	TWh	10.5	9.8	10.7	11.1
Sweden	TWh	9.6	9.5	9.3	9.2
Other countries	TWh	3.7	4.5	6.8	6.8
Total	TWh	23.8	23.8	26.8	27.1
Volume of distributed electricity in distribution networks					
Finland	TWh	6.2	6.3	7.7	9.2
Sweden	TWh	14.2	14.4	14.4	14.3
Norway	TWh	2.1	2.2	2.3	2.3
Estonia	TWh	0.2	0.2	0.2	0.2
Total	TWh	22.7	23.1	24.6	26.0

Operational Key Figures, Segments

As from 2005, Fortum applies International Financial Reporting Standards (IFRS) for the annual and interim reports. The 2005 annual report included one comparison year 2004, which was restated to IFRS. Segment numbers are presented based only on IFRS for

comparison purposes, because in the transition to IFRS reportable segments were redefined and segment reporting as such was reassessed.

Sales by segment, EUR million	2004	2005	2006	2007
Power Generation	2,084	2,058	2,439	2,350
– of which internal	128	–97	–133	323
Heat	1,025	1,063	1,268	1,356
– of which internal	49	–12	–32	38
Distribution	707	707	753	769
– of which internal	10	–8	8	9
Markets	1,387	1,365	1,912	1,683
– of which internal	92	–101	149	155
Other	90	91	78	81
– of which internal	93	–63	62	72
Eliminations	–1,458	–1,407	–1,959	–1,760
Total	3,835	3,877	4,491	4,479

Comparable operating profit by segment, EUR million	2004	2005	2006	2007
Power Generation	730	854	985	1,093
Heat	207	253	253	290
Distribution	240	244	250	231
Markets	23	30	–4	–1
Other	–52	–47	–47	–49
Comparable operating profit	1,148	1,334	1,437	1,564
Non-recurring items	18	30	61	250
Other items effecting comparability	29	–17	–43	33
Operating profit	1,195	1,347	1,455	1,847

Depreciation, amortisation and impairment charges by segment, EUR million	2004	2005	2006	2007
Power Generation	104	112	108	102
Heat	124	123	144	163
Distribution	133	145	147	162
Markets	16	15	19	11
Other	11	12	11	13
Total	388	407	429	451

Share of profits in associates and joint ventures by segment, EUR million	2004	2005	2006	2007
Power Generation	–18	23	30	196
Heat	15	11	23	24
Distribution	16	20	15	18
Markets	0	1	1	3
Other	–1	0	0	0
Total	12	55	69	241

Capital expenditure by segment, EUR million	2004	2005	2006	2007
Power Generation	84	83	95	93
Heat	123	124	184	309
Distribution	106	115	183	236
Markets	10	10	8	3
Other	12	14	15	14
Total	335	346	485	655

Gross investments in shares by segment, EUR million	2004	2005	2006	2007
Power Generation	126	47	145	297
Heat	53	87	589	18
Distribution	0	–	130	1
Markets	0	–	6	0
Other	0	–	40	1
Total	179	134	910	317

Net assets by segment, EUR million	2004	2005	2006	2007
Power Generation	6,218	5,954	6,734	7,148
Heat	2,440	2,551	3,407	3,507
Distribution	3,091	3,021	3,412	3,243
Markets	194	228	176	247
Other and Eliminations	–43	139	85	140
Total	11,900	11,893	13,814	14,285

Return on net assets by segment, %	2004	2005	2006	2007
Power Generation	12.1	14.0	16.1	19.2
Heat	9.8	11.6	9.6	9.3
Distribution	8.1	8.8	8.4	14.5
Markets	25.3	17.4	–1.6	6.9

Comparable return on net assets by segment, %	2004	2005	2006	2007
Power Generation	11.5	14.5	16.9	17.7
Heat	9.3	11.0	9.2	9.2
Distribution	8.3	8.6	8.3	7.5
Markets	17.1	16.4	–0.8	–0.6

Average number of personnel	2004	2005	2006	2007
Power Generation	4,588	4,374	4,147	3,475
Heat	1,605	2,186	2,345	2,302
Distribution	995	1,008	983	1,060
Markets	682	745	825	936
Other	722	626	610	531
Total	8,592	8,939	8,910	8,304

Definitions of Key Figures

EBITDA (Earnings before interest, taxes, depreciation and amortisation) continuing operations	=	Operating profit continuing operations + Depreciation, amortisation and impairment charges continuing operations
Comparable operating profit	=	Operating profit – non-recurring items – other items effecting comparability
Non-recurring items	=	Mainly capital gains and losses
Other items effecting comparability	=	Includes effects from financial derivatives hedging future cash-flows where hedge accounting is not applied according to IAS 39 and effects from the accounting of Fortum's part of the State Nuclear Waste Management Fund where the asset in the balance sheet cannot exceed the related liabilities according to IFRIC interpretation 5.
Funds from operations (FFO)	=	Net cash from operating activities before change in working capital
Capital expenditure	=	Capitalised investments in property, plant and equipment and intangible assets including maintenance, productivity, growth and investments required by legislation including borrowing costs capitalised during construction period. Maintenance investments expand lifetime of an existing asset, maintain useage/availability and/or maintains reliability. Productivity improves productivity an existing asset. Growth investments' purpose is to build new assets and/or to increase customer base within existing businesses. Legislation investments are done at certain point of time due to legal requirements.
Gross investments in shares	=	Subsidiary shares, shares in associated companies and other shares in available for sale financial assets. Investments in subsidiary shares are net of cash and grossed with interest-bearing liabilities in the acquired company.
Return on shareholders' equity, %	=	$\frac{\text{Profit for the year}}{\text{Total equity average}} \times 100$
Return on capital employed, %	=	$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Capital employed average}} \times 100$
Return on capital employed continuing operations, %	=	$\frac{\text{Profit before taxes continuing operations + interest and other financial expenses continuing operations}}{\text{Capital employed continuing operations average}} \times 100$
Return on net assets, %	=	$\frac{\text{Operating profit + Share of profit (loss) in associated companies and joint ventures}}{\text{Net assets average}} \times 100$
Comparable return on net assets, %	=	$\frac{\text{Comparable operating profit + Share of profit (loss) in associated companies and joint ventures (adjusted for IAS 39 effects)}}{\text{Comparable net assets average}} \times 100$
Capital employed	=	Total assets – non-interest bearing liabilities – deferred tax liabilities – provisions
Net assets	=	Non-interest bearing assets + interest-bearing assets related to the State Nuclear Waste Management Fund – non-interest bearing liabilities – provisions (non-interest bearing assets and liabilities do not include finance related items, tax and deferred tax and assets and liabilities from fair valuations of derivatives where hedge accounting is applied)

Comparable net assets	=	Net assets adjusted for non-interest bearing assets and liabilities arising from financial derivatives hedging future cash-flows where hedge accounting is not applied according to IAS 39	
Interest-bearing net debt	=	Interest-bearing liabilities – cash and cash equivalents	
Gearing, %	=	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}}$	× 100
Equity-to-assets ratio, %	=	$\frac{\text{Total equity including minority interest}}{\text{Total assets}}$	× 100
Net debt / EBITDA	=	$\frac{\text{Interest-bearing net debt}}{\text{Operating profit} + \text{Depreciation, amortisation and impairment charges}}$	
Net debt / EBITDA continuing operations	=	$\frac{\text{Interest-bearing net debt}}{\text{Operating profit continuing operations} + \text{Depreciation, amortisation and impairment charges continuing operations}}$	
Interest coverage	=	$\frac{\text{Operating profit}}{\text{Net interest expenses}}$	
Earnings per share (EPS)	=	$\frac{\text{Profit for the period} - \text{minority interest}}{\text{Average number of shares during the period}}$	
Cash flow per share	=	$\frac{\text{Net cash from operating activities}}{\text{Average number of shares during the period}}$	
Equity per share	=	$\frac{\text{Shareholders' equity}}{\text{Number of shares at the end of the period}}$	
Payout ratio, %	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$	× 100
Payout ratio continuing operations, %	=	$\frac{\text{Dividend per share continuing operation}}{\text{Earnings per share continuing operation}}$	× 100
Dividend yield, %	=	$\frac{\text{Dividend per share}}{\text{Share price at the end of the period}}$	× 100
Price/earnings (P/E) ratio	=	$\frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$	
Average share price	=	$\frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$	
Market capitalisation	=	Number of shares at the end of the period × share price at the end of the period	
Trading volumes	=	Number of shares traded during the period in relation to the weighted average number of shares during the period	

Parent Company Financial Statements, Finnish GAAP (FAS)

Income Statement

EUR million	Note	2007	2006
Sales	2	84	82
Other income	3	15	5
Employee costs	4	-51	-45
Depreciation, amortisation and write-downs		-11	-8
Other expenses		-62	-65
Operating profit		-25	-31
Financial income and expenses	5	1,797	38
Profit after financial items		1,772	7
Group contributions ¹⁾		724	638
Profit before income taxes		2,496	645
Income tax expense	6	-145	-123
Profit for the period		2,351	522

¹⁾ Taxable profits transferred from Finnish subsidiaries.

Balance Sheet

EUR million	Note	2007	2006
ASSETS			
Non-current assets	7		
Intangible assets		17	15
Property, plant and equipment		13	12
Investments in group companies		12,255	11,605
Interest-bearing receivables from group companies		1,978	2,159
Investments in associated companies		0	0
Interest-bearing receivables from associated companies		1	2
Other non-current assets		3	2
Total non-current assets		14,267	13,795
Current assets			
Trade and other receivables from group companies	8	768	673
Trade and other receivables from associated companies	8	0	0
Trade and other receivables	8	126	43
Deferred tax assets		-	2
Cash and cash equivalents	9	372	73
Total current assets		1,266	791
Total assets		15,533	14,586

EUR million	Note	2007	2006
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	11		
Share capital		3,040	3,023
Share issue		0	0
Share premium		2,822	2,822
Retained earnings		768	1,543
Profit for the period		2,351	522
Total shareholders' equity		8,981	7,910
Provisions for liabilities and charges		1	1
LIABILITIES			
Non-current liabilities			
External interest-bearing liabilities	12	3,821	3,540
Interest-bearing liabilities to group companies	12	1,831	2,528
Interest-bearing liabilities to associated companies	12	172	164
Other non-current liabilities		19	27
Total non-current liabilities		5,843	6,259
Current liabilities			
External interest-bearing liabilities	12	542	71
Trade and other payables to group companies	13	32	135
Trade and other payables to associated companies	13	7	5
Trade and other payables	13	125	205
Deferred tax liabilities		2	-
Total current liabilities		708	416
Total liabilities		6,551	6,675
Total equity and liabilities		15,533	14,586

Cash Flow Statement

EUR million	2007	2006
Cash flow from operating activities		
Profit for the period	2,351	522
Adjustments:		
Income tax expense	145	123
Group contributions	-725	-638
Financial costs – net	-1,797	-38
Depreciation, amortisation and write-downs	11	9
Operating profit before depreciations	-15	-22
Non-cash flow items and divesting activities	2	2
Interest and other financial income	151	134
Interest and other financial expenses paid, net	-291	-217
Dividend income	1,939	156
Group contribution received	638	482
Realised foreign exchange gains and losses	-261	220
Income taxes paid	-108	-158
Funds from operations	2,055	597
Increase/decrease in trade and other short-term receivables	-7	-15
Decrease/increase in trade and other short-term payables	5	-42
Change in working capital	-2	-57
Net cash from operating activities	2,053	540
Cash flow from investing activities		
Capital expenditures	-14	-15
Acquisition of shares and capital contributions in subsidiaries	-650	-6,439
Acquisition of other shares	-1	0
Proceeds from sales of fixed assets	3	1
Proceeds from sales of shares in associates	1	3
Change in interest-bearing receivables and other non-current assets	182	5,655
Net cash used in investing activities	-479	-795
Cash flow before financing activities	1,574	-255
Cash flow from financing activities		
Proceeds from long-term liabilities	210	1,338
Payment of long-term liabilities	-37	-725
Change in short-term liabilities	-167	41
Proceeds from stock options exercised	17	49
Repurchase of own shares	-175	-31
Dividends paid	-1,122	-987
Net cash used in financing activities	-1,274	-315
Net increase (+)/ decrease (-) in cash and cash equivalents	300	-570
Cash and cash equivalents at the beginning of the period	73	643
Cash and cash equivalents at the end of the period	373	73
Net increase (+)/ decrease (-) in cash and cash equivalents	300	-570

Notes to the Financial Statements

1 Accounting Policies and Principles

The Financial Statements of Fortum Oyj are prepared in accordance with Finnish Accounting Standards (FAS).

Sales

Sales include sales revenues from actual operations and exchange rate differences on trade receivables, less discounts and indirect taxes such as value added tax.

Other income

Other income includes gains on the sales of tangible assets and shareholdings, as well as all other income not related to the sales of products or services, such as rents.

Foreign currency items and derivative instruments

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the financial net in the income statement.

Fortum Oyj enters into derivative contracts mainly for hedging foreign exchange and interest rate exposures.

Derivatives used to hedge balance sheet items e.g. bank accounts, loans or receivables are valued employing the exchange rate quoted on the balance sheet date, and gains or losses are recognised in the income statement. The interest element on forward contracts is accrued for the period.

Option premiums are treated as advances paid or received until the option matures, and any losses on options entered into other than for hedging purposes are entered as an expense in the income statement.

Interest income or expense for derivatives used to hedge the interest rate risk exposure is accrued over the period to maturity and is recognised as an adjustment to the interest expense of the liabilities.

Income taxes

Income taxes presented in the income statement consist of accrued taxes for the financial year and tax adjustments for prior years.

Property, plant and equipment and depreciation

The balance sheet value of property, plant and equipment consists of historical costs less depreciation and other deductions. Property, plant and equipment are depreciated using straight-line depreciation based on the expected useful life of the asset.

The depreciation is based on the following expected useful lives:

Buildings and structures	15–40 years
Machinery and equipment	3–15 years
Other intangible assets	5–10 years

Pension expenses

Statutory pension obligations are covered through a compulsory pension insurance policy or Group's own pension fund. Payments to Group's pension fund are recorded in the income statement in amounts determined by the pension fund according to the actuarial assumptions pursuant to the Finnish Employees' Pension Act.

Equity-related compensation benefits

Costs related to the Fortum long-term incentive plans are accrued over the plan period and the related liability is booked to the balance sheet. Since 2006 the premium basis for social charges has changed, and there is no obligation to pay social charges from the option income anymore.

Provisions

Foreseeable future expenses and losses that have no corresponding revenue to which Fortum is committed or obliged to settle, and whose monetary value can be reasonably assessed, are entered as expenses in the income statement and included as provisions in the balance sheet.

2 Sales by Market Area

EUR million	2007	2006
Finland	81	66
Sweden and other countries	3	16
Total	84	82

3 Other Income

EUR million	2007	2006
Gain on sales of shareholdings	1	–
Rental income and other	14	5
Total	15	5

4 Employee Costs

EUR million	2007	2006
Personnel expenses		
Wages, salaries and remunerations	36	34
Indirect employee costs		
Pension costs	12	6
Other indirect employee costs	2	2
Other personnel expenses	1	3
Total	51	45

Salaries and remunerations

President and CEO, members of the Board of Directors and the Supervisory Board	2	2
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Average number of employees	594	565
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5 Financial Income and Expenses

EUR million	2007	2006
Dividend income from group companies	1,939	147
Interest and other financial income from group companies	127	121
Interest and other financial income	24	17
Exchange rate differences	6	–21
Interest and other financial expenses to group companies	–112	–84
Interest and other financial expenses	–187	–142
Total	1,797	38

Total interest income and expenses

Interest income	151	137
Interest expenses	–292	–221
Interest net	–141	–84

6 Income Tax Expense

EUR million	2007	2006
Taxes on regular business operations	–43	–43
Taxes on group contributions	188	166
Total	145	123

Current taxes for the period	140	129
Current taxes for prior periods	0	–5
Changes in deferred tax	5	–1
Total	145	123

7 Non-current Assets

Intangible assets

EUR million	Intangible assets total
Cost 1 January 2007	29
Additions	8
Disposals	–3
Cost 31 December 2007	34
Accumulated depreciation 1 January 2007	14
Disposals	–3
Depreciation for the period	6
Accumulated depreciation 31 December 2007	17
Carrying amount 31 December 2007	17
Carrying amount 31 December 2006	15

Property, plant and equipment

	Buildings and structures	Machinery and equipment	Advances paid and construction in progress	Total
EUR million				
Cost 1 January 2007	1	21	3	25
Additions	–	7	2	9
Disposals	–	–1	–3	–4
Cost 31 December 2007	1	27	2	30
Accumulated depreciation 1 January 2007	0	13	–	13
Disposals	–	–1	–	–1
Depreciation for the period	0	5	–	5
Accumulated depreciation 31 December 2007	0	17	–	17
Carrying amount 31 December 2007	1	10	2	13
Carrying amount 31 December 2006	1	8	3	12

Investments

	Shares in Group companies	Receivables from Group companies	Shares in associated companies	Receivables from associated companies	Other non current assets	Total
EUR million						
1 January 2007	11,605	2,159	0	2	2	13,768
Additions ¹⁾	650	1,568	–	0	1	2,219
Disposals	–	–1,750	–	0	–	–1,750
31 December 2007	12,255	1,977	0	2	3	14,237

¹⁾ Additions regarding shares comprise acquisitions of shares and capital contributions.

8 Trade and Other Receivables

EUR million	2007	2006
Trade and other receivables from group companies		
Trade receivables	33	25
Other receivables	724	638
Accrued income and prepaid expenses	11	10
Total	768	673
Trade and other receivables from associated companies		
Accrued income and prepaid expenses	0	0
Trade and other receivables		
Trade receivables	1	1
Other receivables	1	2
Accrued income and prepaid expenses	124	40
Total	126	43

9 Cash and Cash Equivalents

EUR million	2007	2006
Cash at bank and in hand	372	73

10 Pension Commitments to Corporate Management

For the President and CEO and the members of the Fortum Management Team, the retirement age is 60. The pension obligations are covered either through insurance companies or Fortum Pension Fund. See also Note 36 to the Consolidated Financial Statement.

11 Changes in Shareholders' Equity

EUR million	Share capital	Share issue	Share premium	Retained earnings	Total
Total equity 31 December 2006	3,023	0	2,822	2,065	7,910
Stock options exercised	17	0	–	–	17
Cash dividend	–	–	–	–1,122	–1,122
Repurchase of own shares	–	–	–	–175	–175
Profit for the period	–	–	–	2,351	2,351
Total equity 31 December 2007	3,040	0	2,822	3,119	8,981
Total equity 31 December 2005	2,976	2	2,818	2,561	8,357
Stock options exercised	47	–2	4	–	49
Cash dividend	–	–	–	–987	–987
Repurchase of own shares	–	–	–	–31	–31
Profit for the period	–	–	–	522	522
Total equity 31 December 2006	3,023	0	2,822	2,065	7,910

EUR million	2007	2006
Distributable funds 31 December	3,119	2,065

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12 Interest-bearing Liabilities

External interest-bearing liabilities

EUR million	2007	2006
Bonds	2,865	2,782
Loans from financial institutions	280	98
Other long-term interest-bearing debt	676	660
Total long-term interest-bearing debt	3,821	3,540
Current portion of long-term bonds	541	10
Current portion of loans from financial institutions	1	5
Commercial papers	–	55
Other short-term interest-bearing debt	0	1
Total short-term interest-bearing debt	542	71
Total external interest-bearing debt	4,363	3,611

Maturity of external interest-bearing liabilities

EUR million	
2008	542
2009	265
2010	499
2011	254
2012	477
2013 and later	2,326
Total	4,363

External interest-bearing liabilities due after five years

EUR million	2007	2006
Bonds	1,519	1,248
Loans from financial institutions	131	52
Other long-term liabilities	676	660
Total	2,326	1,960

Other interest-bearing liabilities due after five years

EUR million	2007	2006
Interest-bearing liabilities to group companies	17	17
Interest-bearing liabilities to associated companies	172	164
Total	189	181

13 Trade and Other Payables

EUR million	2007	2006
Trade and other payables to group companies		
Trade payables	7	1
Other liabilities	19	127
Accruals and deferred income	6	7
Total	32	135
Trade and other payables to associated companies		
Accruals and deferred income	7	5
Total	7	5
Trade and other payables		
Trade payables	10	8
Other liabilities	3	2
Other short-term accruals and deferred income	112	195
Total	125	205

14 Contingent Liabilities

EUR million	2007	2006
On own behalf		
Other contingent liabilities	3	5
On behalf of group companies		
Guarantees	544	460
On behalf of others		
Guarantees	4	6
Contingent liabilities total	551	471

Operating leases

EUR million	2007	2006
Lease payments		
Not later than 1 year	1	1
Later than 1 year and not later than 5 years	0	1
Total	1	2

Derivatives

EUR million	2007			2006		
	Contract or notional value	Fair value	Not recognised as an income	Contract or notional value	Fair value	Not recognised as an income
Forward rate agreement	741	0	0	–	–	–
Interest rate swaps	3,476	–16	–26	2,245	11	–6
Forward foreign exchange contracts ¹⁾	13,158	41	8	12,756	–38	5
Currency swaps	3,191	76	–2	2,358	–63	7

¹⁾ Includes also closed forward and future positions

Proposal for Distribution of Earnings

Parent company's distributable equity as of 31 December 2007 amounted to EUR 3,119,070,357.96. After the end of the financial period there have been no material changes in the financial position of the Company.

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a cash dividend of

EUR 1.35 per share for 2007, totalling EUR 1,197 million based on the number of registered shares as of 30 January 2008. Of this total dividend, EUR 0.77 per share is to be paid from Fortum's recurring earnings. An additional dividend of EUR 0.58 per share is proposed in order to steer Fortum's capital structure towards the agreed target.

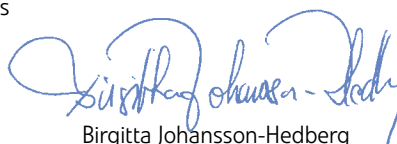
Espoo, 30 January 2008



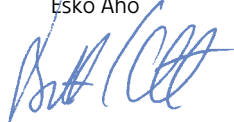
Peter Fagernäs



Esko Aho



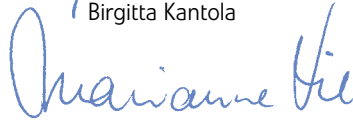
Birgitta Johansson-Hedberg



Birgitta Kantola



Matti Lehti



Marianne Lie



Christian Ramm-Schmidt



Mikael Lilius
President and CEO

Auditors' Report

To the shareholders of Fortum Corporation

We have audited the accounting records, the financial statements, the Operating and Financial Review and the administration of Fortum Corporation for the period 1. 1.–31. 12. 2007. The Board of Directors and the The President and CEO have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the Operating and Financial Review and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the parent company's financial statements, the Operating and Financial Review, and the administration.

The audit has been conducted in accordance with generally accepted auditing standards. In our audit we have examined the bookkeeping and accounting principles, contents and presentation sufficiently enough in order to evaluate that the financial statements and the Operating and Financial Review are free of material misstatements or deficiencies. In our audit of the administration we have evaluated if the actions of the members of the Supervisory Board and Board of Directors and the The President and CEO of the parent company have legally complied with the rules of the Companies Act.

Consolidated financial statements

The consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, the Operating and Financial Review and administration

The parent company's financial statements and the report of the Board of Directors have been prepared in accordance with the Accounting Act and other applicable rules and regulations governing the preparation of financial statements and the Operating and Financial Review.

The consolidated financial statements and parent company's financial statements and the Operating and Financial Review give a true and fair view, as defined in the Accounting Act, of the group and parent company's result of operations as well as of the financial position. The Operating and Financial Review is consistent with the financial statements.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Supervisory Board and the Board of Directors and the The President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Companies Act.

Espoo, January 30, 2008

Deloitte & Touche Ltd
Authorized Public Audit Firm



Mikael Paul
APA

Statement by the Supervisory Board

The Supervisory Board has today in their meeting reviewed Fortum Corporation's income statement, balance sheet and notes to the financial statements for the year 2007 as well as consolidated financial statements, the Board of Director's proposal for the distribution of earnings and the auditors' report provided by the Company's auditors. The Supervisory Board has no comments to make on these.

The Supervisory Board recommends that the income statement, balance sheet and consolidated financial statements can be approved and concurs with the Board of Director's proposal for the allocation of profit.

The Supervisory Board states that it has received adequate information from the Board of Directors and the company's management.

Espoo, 6 February 2008



Timo Kalli



Martti Alakoski



Lasse Hautala



Rakel Hiltunen



Mikko Immonen



Kimmo Kiljunen



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a success factor*

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