

Annual Report 2007

Review of Operations





Responsibility on all fronts

Responsibility for the future must be taken care of in many ways. At power plants and other work places, but also in the ways we interact with the communities around us. For the sake of a secure energy future, in 2007, Fortum continued its investments in new production capacity, improved efficiency and environmental performance and stepped-up its research and development work. Furthermore, better customer care and interaction with society through sponsorships and other support schemes were a focus. Fortum believes all these actions together will make Fortum the energy supplier of choice.

Assessing new nuclear power

New investment possibilities are evaluated continuously. In Finland, Fortum started an environmental impact assessment (EIA) process for a new

1,000–1,800 MW nuclear power unit possibly to be built adjacent to the existing two units in Loviisa. As part of the EIA, Fortum arranged several public citizens' meetings in the town of Loviisa. In these meetings, the public has the opportunity to give feedback, ask questions and express their opinions directly to Fortum. The EIA process proceeded as planned and will be finalised by summer 2008.

Renewed hydropower

Refurbishing existing generation assets is an important investment area at Fortum. In 2007, the renewal of one of two hydro power plants in Avesta, Sweden, was completed. The new Avestaforsen power plant replacing an old plant was inaugurated in October. The new power plant will increase the production in Avesta from 171 GWh to 206 GWh annually.

The next generation

In Fortum's opinion, the role of the energy industry goes beyond purely supplying energy; it is also to advise and help customers with energy-related issues.

These kinds of services are provided within Fortum's Energy Companion concept, which was rolled-out successfully in



The new Avestaforsen power plant was the biggest investment in hydro power in a decade in Sweden.

Sweden in 2007 and will expand to Finland in 2008. The concept brings added value to consumers in the form of advice, for instance on how to save energy at home. The concept includes a facilitated energy and society-related discussion, EnergiSnackis, and game for secondary school pupils. The game has been extremely popular and so



Meetings with Loviisa residents are very important; neighbours' trust and public opinion in Fortum as a responsible nuclear power company, is crucial.



The prime ministers of Finland and Sweden visited Fortum's EnergiSnackis energy discussion event in Stockholm. High school students from Jakobsbergs Gymnasium played the game with the prime ministers.

"The pictures in the Annual Report reflect the four seasons of northern Europe. They remind the reader how important it is to slow down climate change."

Fortum in 2007

far more than 9,000 games have been delivered to Swedish schools, free of charge.

An active member of society

Fortum wants to be active in many ways in the societies it operates in. In Finland, Fortum and the City of Espoo are co-operating to make the city safer, for example by illuminating dark places, and more enjoyable, for



The Power on the parquet! dance event brought together 4,000 people from babies to grandparents, free of charge.

example by arranging cultural events. In 2007, the Power on the parquet! dance event for the whole family was arranged for the first time. At the event, a drawing was organised and funds were donated to the city's elderly; a dance band toured in local nursing homes, giving senior citizens the opportunity dance "at home". Power on the parquet! will be made a tradition and the funds will be directed to charitable causes also in the future.

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.

 Follow this icon beside text columns to find more information.

Focusing on the Nordic and Baltic Rim areas

This is Fortum

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




In the Nordic countries, Fortum is currently number one in electricity distribution and sales as well as district heating,



and the second largest in power generation. While in Poland, the Baltic countries and Russia, the company actively investigates further growth opportunities.

In 2007, Fortum's sales totalled EUR 4.5 billion and operating profit was EUR 1.8 billion. The company employs approximately 8,300 people. Fortum's shares are quoted on the OMX Nordic Exchange Helsinki.

Finland	
 Power generation, capacity	5,011 MW
 Heat sales	11.1 TWh
 Distribution, customers	591,000
 Share of electricity customers	16%

Sweden	
 Power generation, capacity	5,764 MW
 Heat sales	9.2 TWh
 Distribution, customers	871,000
 Share of electricity customers	14%


Norway	
 Heat sales	0.1 TWh
 Distribution, customers	98,000
 Share of electricity customers	3%

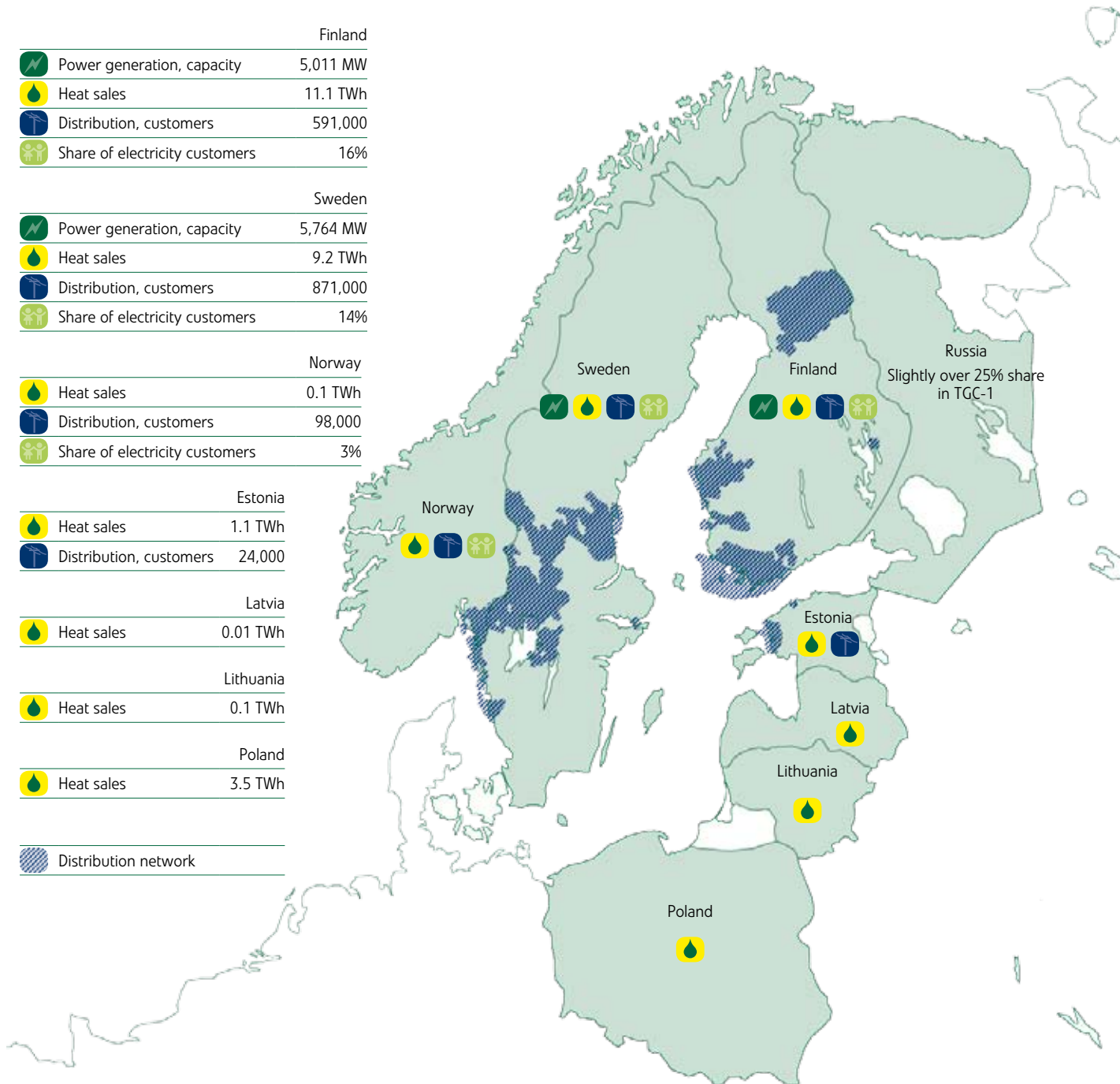
Estonia	
 Heat sales	1.1 TWh
 Distribution, customers	24,000

Latvia	
 Heat sales	0.01 TWh

Lithuania	
 Heat sales	0.1 TWh

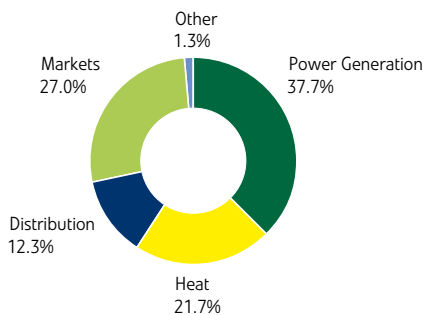
Poland	
 Heat sales	3.5 TWh

 Distribution network	
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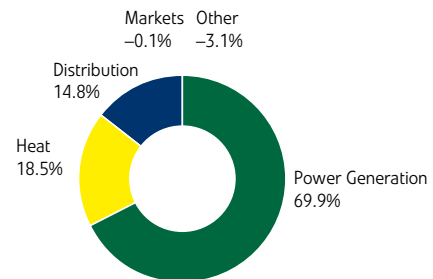


	Power Generation			Heat		Distribution	Markets
Sales	EUR 2,350 million			EUR 1,356 million		EUR 769 million	EUR 1,683 million
Comparable operating profit	EUR 1,093 million			EUR 290 million		EUR 231 million	EUR -1 million
Business units	Generation	Portfolio Management and Trading	Service	Heat	Värme	Distribution	Markets
	Generation manages and develops Fortum's 300 partly or fully-owned hydro, nuclear, and thermal power production.	PMT is responsible for production planning and optimisation of Fortum's power generation assets as well as for the sale of electricity both on the physical and financial wholesale market.	Service is an operation and maintenance competence centre that offers its services and expertise to Fortum as well as external customers.	Heat generates and sells district heating, industrial steam, electricity generated in CHP plants, as well as cooling.	Värme delivers district heating and cooling, power and gas to industries and private customers in Sweden.	Distribution is responsible of the distribution and regional transmission of electricity and network asset management at Fortum.	Markets is responsible for retail sales of electricity to 1.3 million private and business customers as well as to other electricity retailers. Markets buys its electricity through Nord Pool.
Nordic market position	# 2 in power generation			# 1 heat		# 1 distribution	# 1 electricity sales

Sales ¹⁾

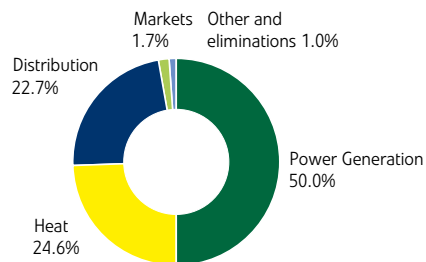


Comparable operating profit

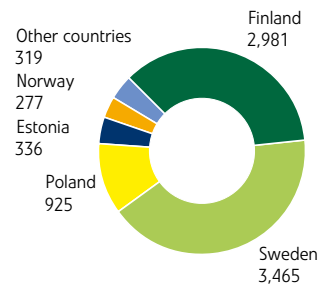


¹⁾ Percentages based on sales before eliminations.

Net assets



Employees per country



Financial Summary

In 2007, Fortum again improved its performance compared to previous years and exceeded its key financial targets. The Group's strong cash flow enables both higher investments and dividend to shareholders in 2008.

Financial summary, continuing operations

	2007 adjusted ¹⁾	2007	2006	2005
Sales, MEUR		4,479	4,491	3,877
EBITDA, MEUR		2,298	1,884	1,754
Operating profit, MEUR		1,847	1,455	1,347
Comparable operating profit, MEUR		1,564	1,437	1,334
Profit for the period attributable to equity holders, MEUR		1,552	1,071	884
Capital employed, MEUR		13,544	12,663	11,357
Interest-bearing net debt, MEUR		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, MEUR		972	1,395	479
Net cash from operating activities, MEUR		1,670	1,151	1,271

¹⁾ Adjusted for REC and Lenenergo gains.

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			

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⁾

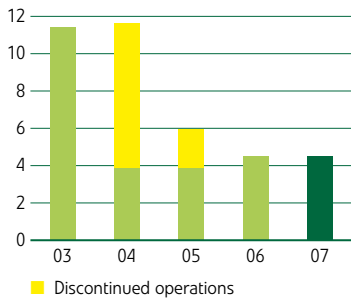
¹⁾ Board of Directors' proposal for the Annual General Meeting in 1 April 2008.

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

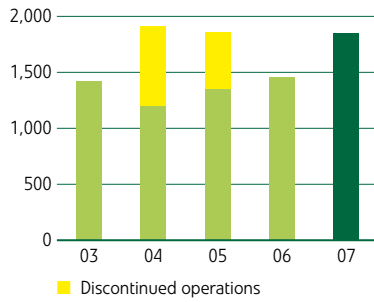
³⁾ In addition to cash dividend Fortum distributed approximately 85% of Neste Oil Corporation shares as dividend in 2005.

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

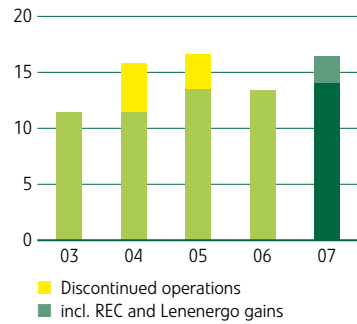
Sales, EUR billion



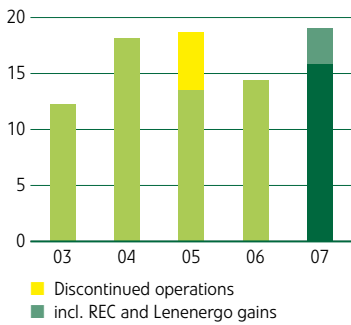
Operating profit, EUR million



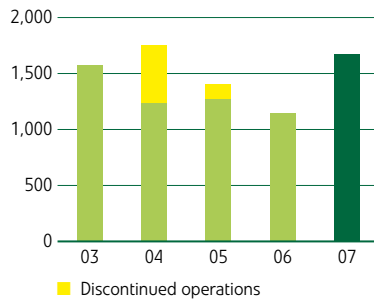
Return on capital employed, %



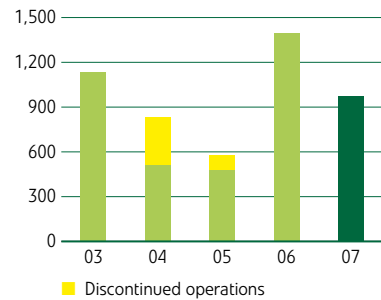
Return on shareholders' equity, %



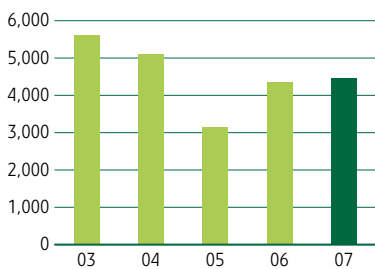
Net cash from operating activities, EUR million



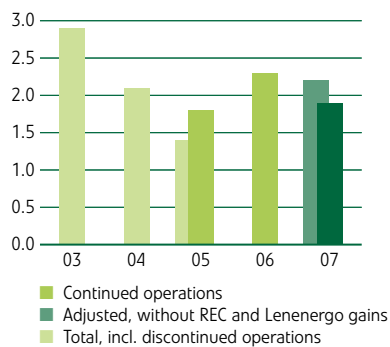
Capital expenditure and gross investments in shares, EUR million



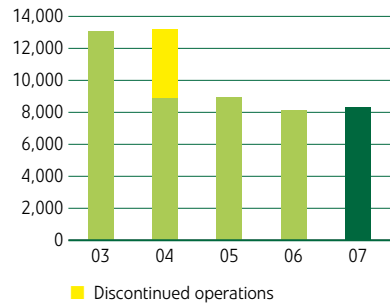
Interest-bearing net debt, EUR million



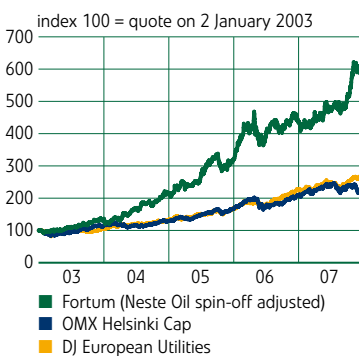
Net debt / EBITDA



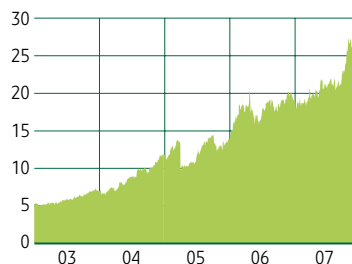
Number of employees



Share quotations, index



Market capitalisation, EUR billion



2004, 2005, 2006 and 2007 under IFRS. Year 2003 presented according to Finnish Accounting Standards (FAS).

"Making sustainability a success factor"

Fortum is committed to sustainability in all its operations. In 2007, we took a firm step further in this field. We added the notion of sustainability to our vision, set stricter targets for reduction of our emissions, stepped up R&D and took several measures in order to cut emissions from non-production activities. This expresses our desire to be a forerunner and our firm belief that sustainability can be a success factor also in our business. Our environmental performance as well as various external recognitions substantiate that we have acted with responsibility, but, as a forerunner, we need to raise the bar to achieve further success.

Last year was a financial success for Fortum; we recorded our all-time best annual result. We met and exceeded all of our financial key targets even though the market conditions in the Nordic electricity market were very challenging. A significant surplus in the Nordic water reservoirs had a strong impact on the wholesale price of electricity, which fell by more than 40%. Fuel prices were historically high, but the price for CO₂ emission allowances dropped close to zero. Under these demanding market conditions – thanks to our flexible power generation portfolio and successful hedging – Fortum was able to raise its achieved Nordic generation power price by 7% and achieve excellent business results.

In 2007, we continued to deliver on our growth strategy. The EUR 3 billion Nordic capacity investment programme was taken forward and new investment possibilities were evaluated. In Finland, we started the environmental impact assessment for a new nuclear unit, possibly to be built adjacent to the two existing units at Loviisa. The Suomenoja combined heat and power (CHP) plant project in Finland proceeded, as did waste- and biomass-based CHP projects in Sweden. We also continued our hydropower refurbishment programme and opened a new power plant in Avesta.

In Russia, we made the strategic decision to focus on power generation and sold our share in the distribution company JSC Lenenergo. We participated in a share issue of TGC-1 that was executed to raise funds for the extensive capacity investment programme aimed at increasing TGC-1's power generation capacity by over 50%. Following this share issue, we retain our position as the second-largest shareholder of the company, holding slightly more than 25% of the shares. In Poland, our plan to build a new biomass- and coal-fired CHP plant proceeded and in Estonia we announced a plan to replace old natural-gas-based power production with a new biomass- and peat-fired CHP plant.

Our work to further improve customer care and maintain reliable supply continued as well. Efforts in these areas included, for example, installing automated meter reading in Sweden and introducing Energy Companion services. Thanks to these and many other long-term commitments, customer satisfaction improved in Sweden and particularly in Finland, where the number of electricity customers increased.

The EU took a strong role in energy and climate policy

The role of policymaking in the energy sector is challenging. It is a demanding task to combine the goals of competitiveness, sustainability, and security of supply. Legislative proposals presented by the European Commission in 2007 and early 2008 indicated that EU energy and climate policy is moving in the right direction. Creating an internal energy market is now a clearly set target.

In the Energy Package published in January 2007, the EU made a commitment to find a solution for combining European competitiveness with sustainability and security of supply. In practice the EU is now committed to cutting CO₂ emissions by 20%, increasing the share of renewable resources by 20%, and increasing energy efficiency by 20% by the year 2020. It goes without saying that the challenge is huge, considering that during the same period up to 1,300 TWh of new production is needed. To reach these goals with the lowest cost, a well-functioning and efficient market is crucial.

Throughout the year, the Commission scrutinised the national CO₂ emission allowance allocations for the 2008–2012 trading period. The decisions that emerged clearly proved that the current way of distributing allowances has come to an end, because it resulted in unequal treatment of similar installations in different member states.

Since cooperation between Transmission System Operators (TSOs) is widely seen as a precondition for development of the integration, the Energy Package prompted a discussion around TSO unbundling. Finally, in September,

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.



the commission came out with the Internal Energy Market Package. Key proposals were full ownership unbundling of TSOs or, alternatively, setting up Independent System Operators (ISOs); the establishment of bodies for cooperation for the regulators and the TSOs; and creation of regional retail markets. We welcomed these alternatives while recognising that policy harmonisation is increasingly important for the development of the internal market.

In our view, effective unbundling is necessary for a well-functioning electricity market. Fortum welcomes full ownership unbundling, as long as all TSOs – and all players – are treated equally. We also promote closer cooperation between the Nordic TSOs.

We believe that the fastest way to integrate the European electricity market is to proceed through regional markets. The ongoing step-by-step formation of a North European electricity market consisting of the Nordic and the north-western Continental markets is a good example. Development of the necessary interconnections together with market coupling is already today effectively integrating the Nordic market into a wider European power market.

The Commission further clarified its policy goals in the EU Energy and Climate Package in January 2008. CO₂ emissions trading will remain the cornerstone of the climate policy also after 2012. Allowances will be allocated at the EU level, and electricity production will face full auctioning

of allowances. As climate policy and emissions trading are EU-level measures, no national ad hoc manoeuvres within emissions trading should be tolerated.

The package also includes targets for energy efficiency as well as for the share of renewable energy in the end consumption. The renewables targets are very challenging and will require significant subsidies. For example, the estimated extra cost of increasing the share of renewables in Finland by the required 9.5% is close to one billion euros annually. The EU approach to renewables with completely national targets is quite contradictory to the internal energy market development. To reach the renewables target at the lowest cost, a Europe-wide, market-based green certificates system should be adopted.

Improving energy efficiency is a crucial part of the equation; without it, the goals can hardly be achieved. One must remember, however, that energy is much more than electricity. Plans related to road transportation and traffic – for instance plug-in hybrid vehicles – will, in fact, increase electricity consumption.

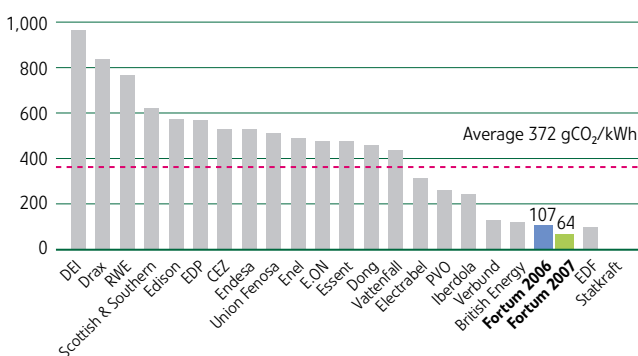
Fortum is committed to cutting emissions

Our vision is to be the benchmark power and heat company excelling in sustainability. Because most greenhouse gas emissions are generated in the use and production of energy, our industry needs to assume an active role in the work against climate change. Fortum takes this responsibility seriously.

In 2007, we took several measures to make our vision reality. Even if we already are one of the best power companies in Europe with regard to emissions, we defined new stricter specific CO₂ emission targets for our company. These commitments were possible thanks to our systematic investments in CO₂-free power based on bio-fuels and waste incineration, as well as nuclear and hydro.

Since the beginning of the 2000s, we have invested seven billion euros in climate-benign energy production: we

Fortum's CO₂ emissions are among the lowest of European power generators, power generation gCO₂/kWh, 2006



Source: PWC and Entrepresse 2007, Fortum

have doubled our capacity for CO₂-free power generation and systematically increased our utilisation of renewable energy resources. In 2007, almost 90% of our electricity production was CO₂-free and renewables accounted for 40% of production. Several measures and initiatives not directly related to production show our determination to systematically work toward our long-term goal of being a CO₂-free company.

Developing the future energy system

Building a CO₂-free energy system requires new technological breakthroughs. Basic research and industrial product development both play important roles. In 2007, we revised our research and development strategy and directed our research programmes clearly toward long-term competitive advantage. Consequently, we strengthened our R&D resources and intensified cooperation with partners.

Despite the European climate policy and positive development within the power producing industry, fossil fuels will continue to dominate the world's energy system in the coming decades. This will result in a sharp increase in CO₂ emissions. Therefore, carbon capture and storage (CCS) technology is expected to be the most important technological innovation of the coming years. Fortum wants to contribute to that development. In 2007, we commenced carbon capture pilot projects at power plants in Sweden and Finland, and in Norway we are participating in a partner-led development programme. Our intention is to start a large-scale CCS demonstration in Finland and to have that demonstration in Meri-Pori included in the EU's CCS demonstration programme to be started in 2015.

Over the past year, renewables were in focus in many ways. We invested in wave energy in Finland and Sweden and made a decision to invest in wind power in Sweden. A new Renewables unit was established; its aim is to build competence in that area and to further increase the proportion of renewables in our power generation – one key area being offshore wind power. Furthermore, to prospect possible future business opportunities, we made a decision to invest in clean-technology funds.

Important steps ahead

Fortum believes that climate change and the need for reduction of CO₂ emissions are the biggest challenges for the power and heat industry and, in fact, among the biggest for the whole of society. We are well prepared to meet these challenges. We support the rapid implementation of the EU energy and climate policies, and we continue to participate in the discussion actively with the key interest groups and policymakers with a view to promoting the development of a functioning integrated European electricity market.

Growth will remain our key target, with European and Russian market development as the main drivers. Year 2008 will be a crucial year in the Russian energy market; the privatisation of those energy assets that are part of the



power market reform will be completed by July. We will continue to seek new opportunities in our current market areas, and beyond, to ensure future growth.

We will also continue to invest in CO₂-free energy production – such as nuclear and hydropower – and maintain our R&D efforts in the areas of clean coal and other climate-benign technologies. It remains to be seen which paths and steps should be taken to obtain the necessary permits for a new nuclear unit and renewables, such as wind power. Most of these decisions are in the hands of the policymakers.

We will continue our journey toward our vision: to be the benchmark power and heat company excelling in sustainability. We will constantly keep up our efforts for better customer care and more efficient internal processes. Providing the right kind of products and services, such as eco-labelled electricity, energy efficiency and reliable supply, will help us to reach our goals. For our employees, we want to provide a safe working environment. Even though our lost workday incident rate decreased substantially from the 2006 level, we did not reach our ambitious goals and thus need to continuously focus on safety.

In 2007, Fortum achieved its all-time best result. I wish to express my gratitude to all stakeholders, especially to the Fortum employees. I believe we are well positioned to repeat this success in 2008.

Mikael Lilius

Strategy

Fortum's Core Purpose and shared values are the underlying basis of all actions. The vision and strategy lay the direction and path that guide the company's strategic choices and actions regarding its business.

"Our energy improves life for present and future generations" summarises the ultimate reason for Fortum's existence. The Core Purpose embraces all the aspects of the company – from the energy of the Fortum employees to the products and services Fortum provides for its customers. It emphasises the responsible, long-term view that Fortum acknowledges is needed in the increasingly demanding global energy industry development.

Fortum's vision is to be the benchmark power and heat company excelling in sustainability. During 2007, the vision was revisited and the aim to excel in sustainability was added. This clearly demonstrates Fortum's long-standing

commitment to sustainable development, especially climate change mitigation, but it also indicates the notion of a significant future business opportunity for forerunners in sustainability.

The Group strategy describing how Fortum strives towards its vision remained unchanged. Fortum focuses on the Nordic and Baltic Rim markets. Being a leading power and heat company in these chosen market areas and the customers' energy supplier of choice, together with benchmark business performance, will enable Fortum to continue on a profitable growth track also in the future.

Strategic agenda defines the areas of focus for the whole organisation

The Fortum strategic agenda that supplements the Fortum Compass defines the focus areas for the organisation to ensure aligned development throughout the company. All units' plans, decisions and actions shall reflect the strategic agenda as relevant for each unit.

Growth

Actions related to leveraging organic growth opportunities, participating in Nordic consolidation, seizing Russian and Baltic Rim opportunities and also actively assessing growth opportunities in new countries.

Contribute to mitigating climate change

Actions related to making sustainability a success factor.

Become the energy supplier of choice

Actions related to driving customer focus and sales culture.

Promote a market-driven development of the energy market

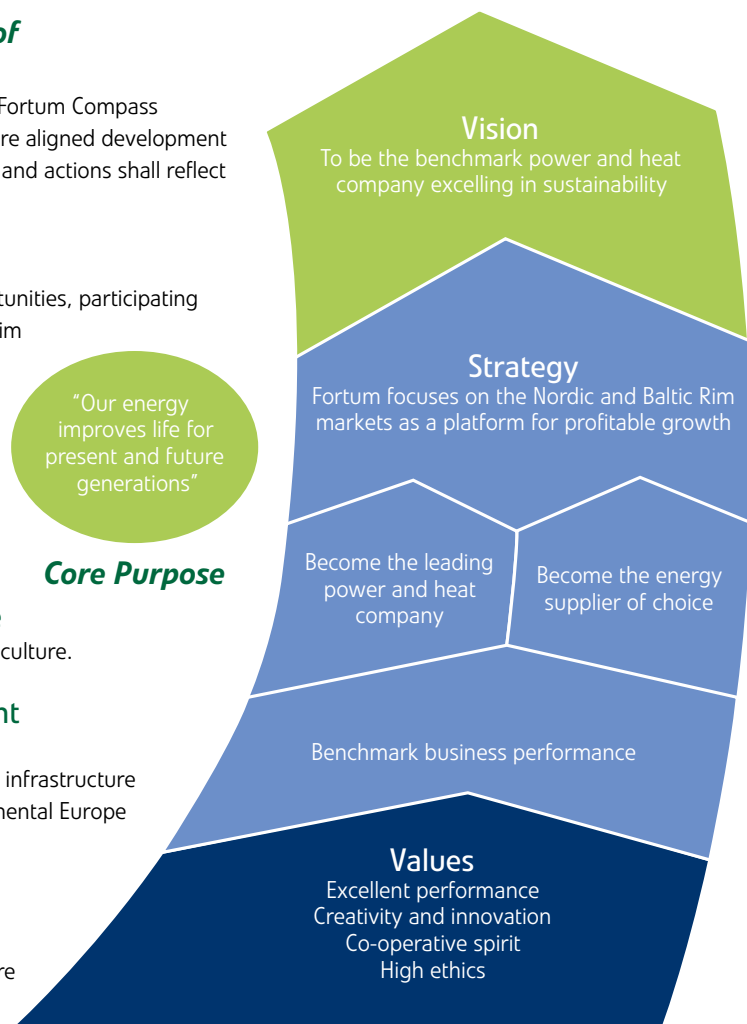
Actions related to driving Nordic harmonisation and infrastructure development, promoting integration towards continental Europe and ensuring viability of regulated businesses.

Reinforce focus on performance – target world class

Actions related to strengthening performance culture and delivering on stretched targets.

Continue people development

Actions related to improving the quality of leadership on all levels of the organisation and encouraging individual initiative.



Fortum Compass is the key management tool in Fortum and the link between the Group and Business, Service and Corporate Units' strategies. All units have their own adapted versions of the Compass.

Strategy in action 2007

Fortum continued to carry out structural and operational development according to its strategy. Several steps were taken towards the vision to be the benchmark power and heat company excelling in sustainability.

Fortum made good progress in 2007 on delivering on its strategy. Implementation of the Nordic 1,300-MW power and heat generation growth investment programme continued and several power supply agreements with large customers were made. Fortum continued to develop its offerings for increased end-customer value with a special focus on AMM (Automated Meter Management). A new Energy Efficiency Solutions unit was established. According to plan, it will first start operations in Sweden and later, during 2008, also in Finland. Fortum's systematic work towards becoming the energy supplier of choice was positively reflected in independent customer satisfaction surveys released in January 2008 in Finland and Sweden.

During 2007, Fortum received several acknowledgements regarding its accomplishments on sustainability. To further strengthen Fortum's focus and competitiveness in this area, new more strict specific emissions* targets were set for power and heat generation. A new corporate-level sustainability function based on the former corporate EHS

* Carbon dioxide emissions per produced energy, gCO₂/kWh

function was established, and the focus on research and development of future clean power and heat production technologies was increased in 2007. During the year, Fortum also established a Renewables unit within its Power Generation business. The new unit will assess, for example, the potential for off-shore wind power generation in the Baltic Sea and Nordic Sea areas.

Key strategic actions and accomplishments in 2007

January–March 2007

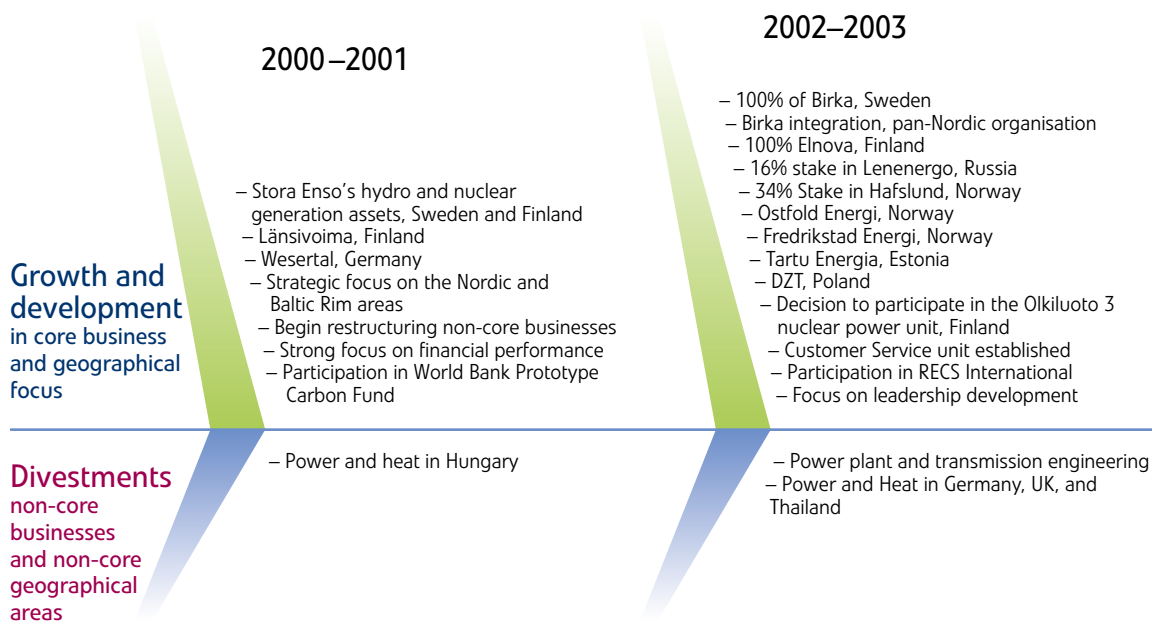
- Decision on Tartu CHP plant investment in Estonia
- Acquisition of Vattenfall heat businesses in Pärnu, Estonia and Riga, Latvia
- Plan for a CHP plant in Częstochowa, Poland
- Initiation of an EIA on a third nuclear unit in Loviisa, Finland

April–June 2007

- Plan for a bio-CHP plant in Järvenpää, Finland
- Plan for wind power investment in Sweden
- Plan for a waste-CHP plant in Brista, Sweden
- Decision on Suomenoja CHP plant in Finland
- Cancelling of Inkoo, Finland, gas turbine plant due to increased costs and initially challenging financial basis
- Sale of distribution company JSC Lenenergo stake in Russia due to focusing on power generation in Russia

Fortum's strategic route year 2000 onwards

Established 1998



July–September 2007

- Participation in TGC-1 share issue to maintain Fortum's stake
- Acquisition of district heating company EC Wojkowice in Poland
- Sale of 0.7% stake in WGC-5 in Russia
- Renewables unit established
- Corporate Sustainability unit established
- New targets for specific emissions on power and heat production
- Included on the Dow Jones Sustainability Index
- Included on the Climate Leadership Index

October–December 2007

- Environmental permit for Värtan CHP plant in Sweden received
- Energy Efficiency Solutions unit established

Continuing along the chosen course

During the 2000s, Fortum has in its strategy consistently focused on developing Fortum into a strong actor in the Nordic and Baltic Rim areas. Consequently, Fortum today has a leading market presence and high-quality competences in the power and heat businesses it operates in the Nordic countries. Also, in line with its geographical focus, Fortum has developed its presence in the power and heat businesses in north-west Russia, Poland and the Baltic countries and is today well positioned for further growth in these markets.

The geographical areas Fortum has strategically focused on face changes in the future. The ongoing integration of the Nordic market towards the continental European markets, together with the increasing demands regarding the environment, create challenges, but also present business opportunities for competent companies. The well-progressing power sector reform in Russia together with the huge need for new power production provides growth opportunities.

Fortum aims to successfully continue to deliver on its strategy. Fortum will continue to focus on power and heat businesses. Driven by its growth ambition, Fortum will actively pursue profitable growth opportunities, both organic and acquisition-based, in its focus market areas.

Fortum sees climate change as a major challenge for the energy industry as well as an opportunity for insightful companies. Over the years, Fortum has consistently developed its production portfolio and related capabilities and today has one of the lowest specific emissions in power production among its peers in Europe. Fortum aims to further strengthen its competitive position as a CO₂-free power and heat producer through investments in CO₂-free power and heat production. Fortum's R&D activities also have an increased focus on CO₂-free production, including the increased use of biomass, future renewable production forms, clean coal and gas production (carbon capture and storage, CCS) and nuclear, which Fortum considers a necessary production form to combat climate change during the coming decades. Fortum's long-term aim is to become a CO₂-free company.

2004–2005

- Högdalen waste CHP-plant, Sweden
- >33% stake in Lenenergo, Russia
- UAB Suomijos, Lithuania
- PESC, Poland
- Plock, Poland
- MPEC Wrocław, Poland
- Loviisa nuclear plant automation renewal initiated
- Customer Ombudsman function established
- Customer guarantees established
- Distribution reliability programme

- North Transgas
- Separation of oil activities (Neste Oil)
- Teknik och Miljö, Sweden
- ETV-Eröterv, Hungary

2006–2007

- Acquisition and integration of Fortum Espoo
- 12.5% share in St. Petersburg Generating Company and 0.7% stake in WGC-5, Russia
- Heat operations in Poland, Estonia and Latvia
- CHP investment decisions in Tartu, Estonia, and Suomenoja, Finland,
- Environmental license for Värtan bio-CHP plant, Sweden
- Swedish nuclear upgrades initiated
- EIA for third nuclear unit in Loviisa
- CHP plans for Värtan and Brista, Sweden, and Częstochowa, Poland
- AMM in Sweden
- TGC-1 share emission
- MoU with RAO UES on Kyoto mechanisms
- Participation in Baltic Sea Region TGF carbon fund
- New targets for specific emissions

- Hämeenlinna and Haapavesi power plants, Finland ¹⁾
- Industrial maintenance service business
- Enprima, Finland
- Lease of Meri-Pori share until 2010 ¹⁾
- JSC Lenenergo stake, Russia
- WGC-5 stake, Russia

Acquisitions
EUR 8 billion

Shareholder value added
EUR 27.7 billion ²⁾

Divestments
EUR 7 billion

¹⁾ As part of the Finnish Competition Authority's conditions for the E.ON Finland (Fortum Espoo) acquisition in 2006.

²⁾ Based on 31 January 2008 quotation. For further information on added shareholder value, see Financials, page 5.



Accelerated investments in future growth

During 2007, Fortum continued its 1,300-MW Nordic investment programme, issued the environmental impact assessment for a new nuclear unit in Finland, initiated plant investments in Estonia and Poland and revised its R&D vision and strategy to secure future growth.

Demand in the Nordic market is expected to grow from 400 TWh to approximately 440 TWh by 2020, i.e. on average somewhat less than 1% annually. In 2007, committed plans for new generation capacity in the order of 45 TWh by the year 2020 were in place in the Nordic market. Despite ongoing plans and projects to increase capacity, decisions for some 35 TWh of new generation are still needed to fill the supply gap in 2020.

Energy investments accelerated throughout the world. Consequently, the investment climate changed considerably from 2006; the elevated activity level led to tightening competition for professional project resources and an increased demand for key components, and thereby significantly lengthened lead-times and higher cost levels. These changes have put pressure on the execution of already committed investment projects and the planning of new ones. At year-end 2007, the cost for building new generation was estimated to require a long-term power price of over EUR 50 per MWh.

Despite the challenging investment climate, Fortum wants to act responsibly and secure power generation capacity also in the future. Fortum continuously evaluates opportunities to invest in new production capacity and assesses new production technologies within its R&D. At year-end 2007, Fortum had an investment programme of 1,300 MW of new capacity in the Nordic market. New initiatives were made in nuclear, wind and wave energy as well as in R&D related to clean coal production. In Fortum's opinion, all production methods will be needed also in the coming decades.

Strong nuclear agenda in Finland

In Finland, three new initiatives to build new nuclear reactors were announced. In March, Fortum and Teollisuuden

Voima Oyj (TVO) announced their decisions to commence environmental impact assessment (EIA) processes in Loviisa and Olkiluoto, respectively, and later in fall a new consortium, Fennovoima*, announced its plan with several alternative locations.

Fortum's EIA process for a new 1,000–1,800 MW nuclear power unit possibly to be built adjacent to the existing two units at its Loviisa nuclear power plant started in April. As stipulated in the Finnish Nuclear Energy Act, an EIA process must be carried out before an application for a decision-in-principle can be submitted to the Council of State. In the EIA process, possible alternatives for carrying out the nuclear power project, a detailed report on how the new unit possibly impacts on the surrounding communities, the environment, nature and utilisation of natural resources, are described. During the EIA process, the citizens of Loviisa and surrounding communities as well as other stakeholders are provided an opportunity to express their opinions. The whole process is estimated to be completed by summer 2008.

In the Nordic market, nuclear upgrading plans in the Forsmark and Oskarshamn power plants in Sweden progressed; however, upgrades in Forsmark are postponed by one year to 2009–2011 following the problems at the plant during summer and autumn 2006. The construction of the fifth nuclear unit in Finland proceeded as well, but commission is delayed until 2011. Several combined heat and power (CHP), combined cycle gas turbine (CCGT) and wind park plans were moving ahead in the Nordic market, as well.

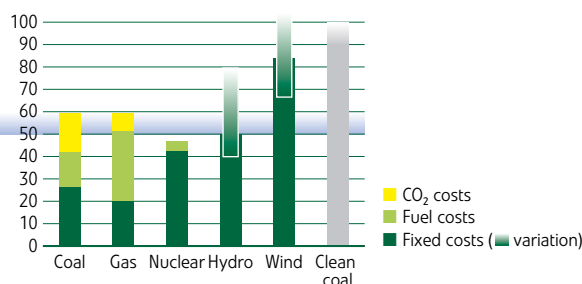
As a minority owner, Fortum is participating in the upgrades of the Forsmark and Oskarshamn nuclear power

* Fennovoima is owned by E.ON, Finnish trade, industry and service companies as well as regional and local energy companies.

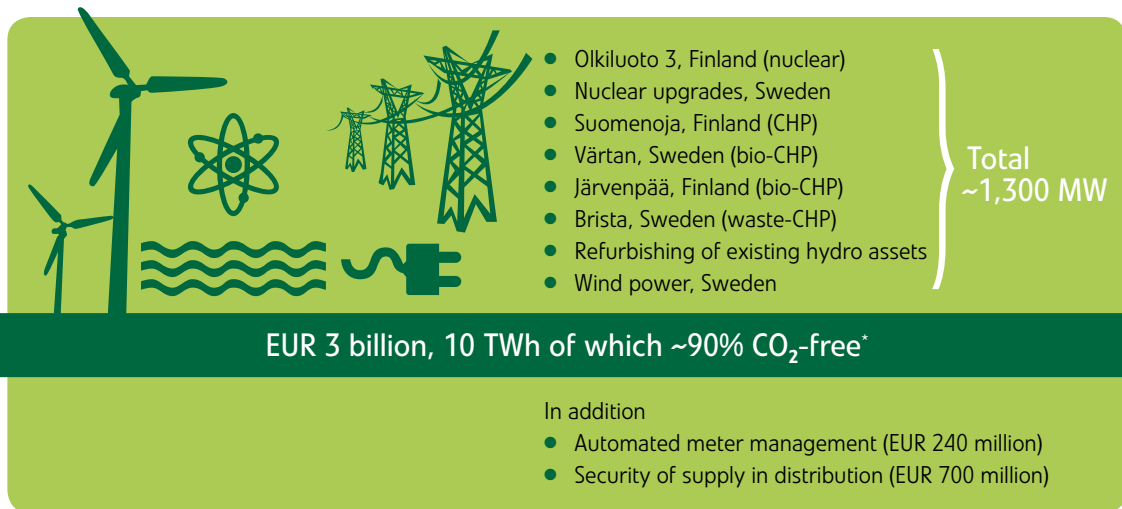
New capacity will require an EUR 50+ power price, EUR/MWh



Source: Nord Pool, futures as of 28 January 2008.



Fortum's Nordic investment plan as of December 2007



* compared to 2006 production

plants in Sweden. Fortum's share of the planned capacity additions is estimated at 290 MW. The upgrades are scheduled to be completed by 2012, but some of them still require licences. In 2007, Fortum's affiliate Oskarshamn Kraftgrupp AB decided to investigate the possibility of increasing the power of unit 2 at the Oskarshamn nuclear power plant. The power increase is projected to be completed in 2011. After the power increases of units 2 and 3, Fortum's share of the Oskarshamn nuclear power plant's production will increase by a total of approximately 185 MW.

In Finland, Fortum is participating in the country's fifth nuclear unit with an approximately 25% share representing some 400 MW in capacity.

More production based on renewables

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

Fortum is a leading company in district heating and CHP production in the Nordic market. In Stockholm, Sweden, the plan to build a biomass fuel-fired CHP plant with an approximate production capacity of 300 MW of heat and 140 MW of electricity proceeded and the environmental permit was granted in November. The plant will be operational in 2012 at earliest. Fortum is also planning to invest in a new waste-fuelled CHP plant in Stockholm. The new plant can process 240,000 tonnes of waste annually, which is equivalent to the amount of waste produced by all Stockholm households. The planned capacity is approximately 57 MW of heat and 20 MW of electricity; a demand of a medium-sized Swedish town.

In Finland, Fortum is planning to build a new biofuel-fired CHP plant in Järvenpää. The capacity of the plant will be approximately 50 MW of heat and 25 MW of electricity.

Furthermore, a new natural gas-fired reserve heat boiler (45 MW) will be build adjacent to the power plant. The power plant is planned to be ready for production by 2012.

Plans on the new natural gas-fired CHP plant adjacent to the existing Suomenoja CHP plant in Espoo proceeded, and the construction work will start in spring 2008. The unit is planned to have a production capacity up to 300 MW of electricity and 240 MW of heat, and its scheduled commissioning is in late 2009. The new plant will replace the old oil- and coal-based production, which will remain as reserve capacity.

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

Fortum, together with the land and forest cooperative Orsa Besparingskog, is planning to build a wind park in the Orsa Finnmark area in the Dalarna province of Sweden. The area is considered to be of national interest due to its favourable wind conditions. The plan consists of up to eight 2-3 MW wind power plants with the calculated annual generation equalling the electricity consumption of 10,000 average households. Both owners have a 50% interest in the project.

New CHP in the Baltic Rim

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

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

Construction of a new CHP plant in Częstochowa, Poland, proceeded. The biomass- and coal-fired plant is scheduled to be in operation in early 2010. The production capacity will be 120 MW of heat and 64 MW of electricity.

In addition to investments in power and heat generation, Fortum has a substantial, EUR 700 million investment plan to increase its distribution network reliability. Fortum is also investing EUR 240 million in Automated Meter Management (AMM) in Sweden. AMM implementation proceeded in Sweden, and other Nordic countries will follow at a later stage.

In total, Fortum's operational investments totalled EUR 445 million during 2007. These investments aimed at compliance with future legislation and improved productivity and maintenance in current facilities.

Fortum's R&D – enabling a sustainable, CO₂-free future

Research and development (R&D) is important to Fortum's competitiveness and contributes to the company's goal to grow sustainably.

Fortum's long-term goal is to become a CO₂-free energy company. To this aim, Fortum set new, stricter near-term targets for CO₂ emissions. In electricity production, the new target is to decrease the specific CO₂-emissions to less than 80 g/kWh by 2020 as a five-year average level. The previous corresponding target was 120 g/kWh. In the EU25 area, the average specific emissions from power plants have been around 400 g/kWh during recent years. In heat production, the 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.

With the tightened emission targets and focus on both structural and organic growth, R&D is becoming more essential than before. 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.

Stepping-up R&D activities

Fortum's R&D vision is to enable a CO₂-free and sustainable future for Fortum. Efforts are focused in the following areas.

- **Enable growth**

Fortum uses R&D to create investment opportunities in new production technologies and to identify new business opportunities.

- **Contribute to climate change mitigation**

Investments are made in technologies that most effectively mitigate climate change: energy efficiency, renewable energy sources, nuclear technology and clean coal technology.

- **Contribute to the long-term non-emitting energy system**

Fortum actively monitors technologies that can prove to be breakthroughs in energy production. The company conducts R&D that advances the development of a non-emitting energy system in the longer term.

- **Performance excellence in current operations**

Through R&D Fortum ensures that it has all the know-how necessary to be the benchmark company in power and heat production and distribution.

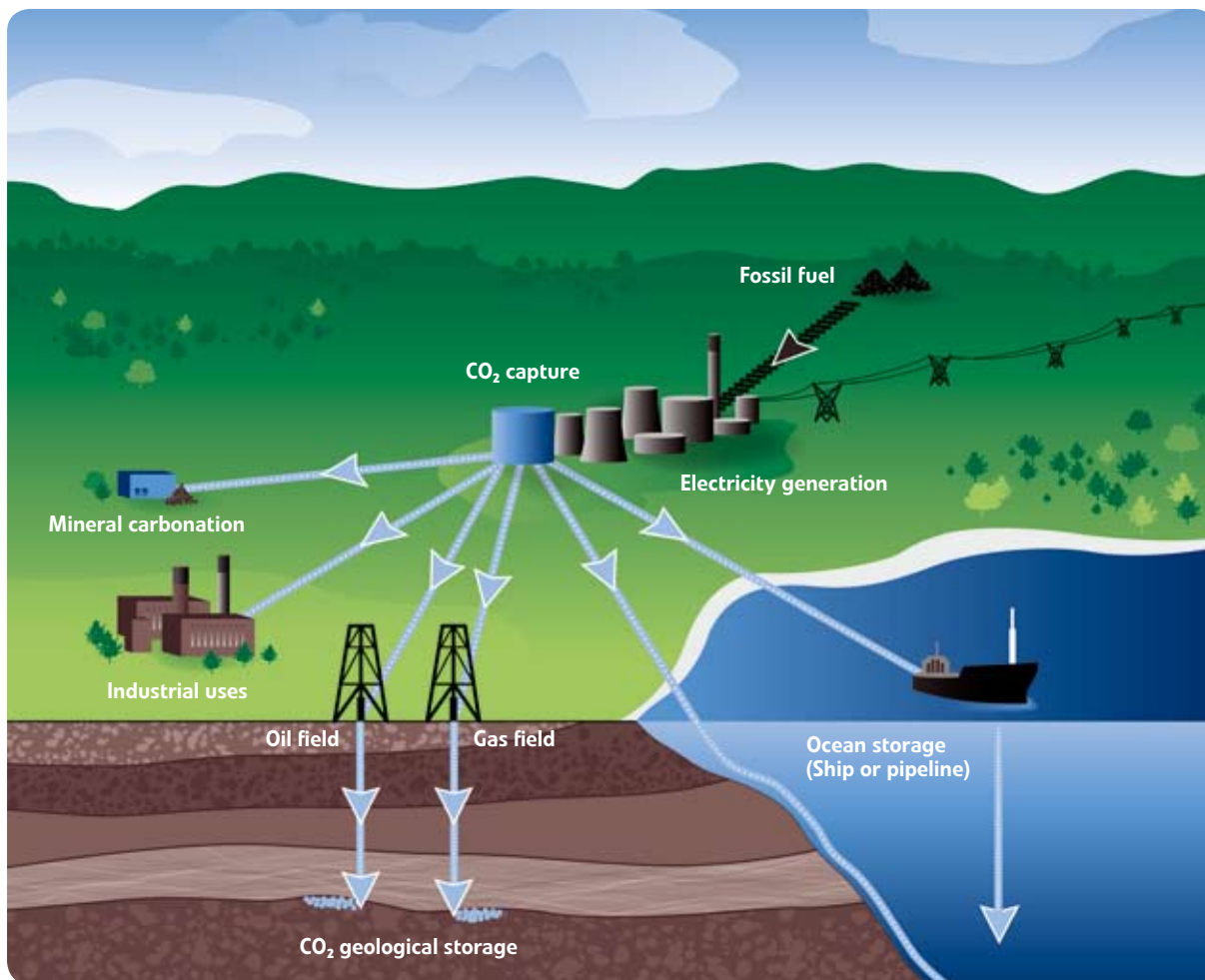
New R&D programmes launched

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, growth in bioenergy, future production technologies, energy optimisation for customers and growth in Russia.

In October, Fortum started a demonstration of carbon capture at the Värtan power plant in Stockholm as a part of its clean coal and gas technologies programme. In Norway, Fortum cooperates with Aker Kvaerner in developing carbon capture technologies, and in Finland, Fortum has initiated carbon capture studies applicable to the Meri-Pori power plant in cooperation with Babcock-Hitachi of Japan and the VTT Technical Research Centre of Finland. Fortum's goal is to begin a large-scale carbon capture and storage (CCS) demonstration at the Meri-Pori plant and to have the demonstration included in the EU CCS demonstration programme to be initiated in 2015. The demonstration is planned to be executed together with TVO, Meri-Pori's minority owner.

Fuel flexibility is an important development area within power and heat production. Fortum launched a lignin combustion test at the Värtan power plant as part of its R&D programme in bioenergy. Lignin is a fibre-binding agent detrimental in paper production. The thermal value of lignin is about the same as of coal and the material can thus partly replace coal in energy production.

In October, Fortum acquired an 8.4% share in AW-Energy, a Finnish wave energy technology company. AW-Energy's innovation, WaveRoller, is a patented product design for the generation of electricity from near-shore bottom waves. The technology is being tested in Portugal with a 10-kW unit and the goal is to implement a 1-MW pilot attached to the grid in Portugal during 2008–09. In January



Creating a reliable and cost-efficient system for carbon capture and storage is one of the biggest challenges of the energy industry today. Fortum is testing carbon capture at its Värtan power plant in Stockholm and is planning a large-scale demonstration at its Meri-Pori power plant in Finland.

2008, Fortum signed a cooperation agreement with Uppsala University according to which Fortum acquires a share in the Islandsberg wave power test site. The site, located on the western coast of Sweden, will consist of 10 wave power units of which Fortum acquired two. Wave energy is estimated to have the potential to contribute with up to 10% of the global electricity need in the future.

During the year, Fortum also established a Renewables unit within its Power Generation business. The new unit will assess, for example, the potential for off-shore wind power generation in the Baltic Sea and Nordic Sea areas.

Developing existing production

Fortum also continuously engages in R&D to improve the efficiency and secure use of the existing production units.

Within nuclear power, R&D work has focused on extending the lifetime of the Loviisa nuclear power plant units safely. Fortum is also involved in research on nuclear waste management and nuclear safety. In 2007, a new solidification facility for liquid low and medium-active waste was taken into use in Loviisa. Within hydropower, development of dam safety, mapping of growth opportunities and O&M optimisation have been key development areas, while in thermal power, the focus has been on finding energy efficiency improvements and good ways to reduce emissions.

Increasing expenditure in R&D

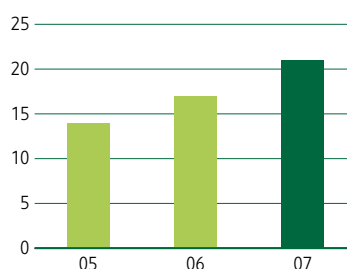
The group's total R&D expenditure in 2007 was EUR 21 million (EUR 17 million in 2006). The increase in expenses is mainly attributable to new programmes and activities initiated in 2007.

Fortum's R&D expenditure in 2007 was 0.5% (0.4%) of net sales and 0.8% (0.6%) of total expenses. The ratio of R&D expenditure to net sales is on the average level compared to European power and heat companies.

Read more on Fortum's research and development at www.fortum.com/research



Fortum's R&D expenditure, EUR million



Evolving global energy policy in the era of climate change

The discussion around energy intensified in 2007. The main focus was on climate change mitigation, market liberalisation and security of supply.

Products and services that use energy are an integral part of modern society. The International Energy Agency (IEA) confirmed in its World Energy Outlook 2007 the extensive growth in energy demand. According to the IEA's reference scenario – a scenario without major policy changes – the world's energy needs would increase by over 50% by 2030, with the rapidly developing China and India accounting for 45% of this. Fossil fuels continue to dominate the fuel mix globally. These trends lead to continued growth in energy-related emissions of carbon dioxide (CO₂).

Global climate challenge

The need for global action to mitigate climate change was further stressed in reports by the Intergovernmental Panel on Climate Change (IPCC). The IPCC reports have quantified the impact of climate change and have also collected key policies and technologies to reduce emissions. For energy supply, actions include energy efficiency, fuel switching, the use of renewable energy forms, combined heat and power production, nuclear power and early applications of carbon capture and storage technologies.

The IPCC, jointly with Al Gore, was awarded the Nobel Peace Prize for "their efforts to build up and disseminate greater knowledge about man-made climate change, and to lay the foundations for the measures that are needed to counteract it."

The Kyoto protocol period for reducing greenhouse gases is from 2008 to 2012. During 2007, preparations for the post-Kyoto period emissions-reduction targets and methods intensified. In December, a roadmap charting the course for a new negotiating process to be concluded by 2009 and ultimately leading to a post-2012 international agreement on climate change was adopted at the United Nations (UN) climate change meeting in Bali.

The challenge for the energy industry is to put in motion a transition to a more secure, lower-carbon energy system, without undermining economic and social development. During recent years, several multinational, multi-

industry initiatives contributing to climate change mitigation have been initiated.

Strong growth in demand

The discussion around investments in power generation have intensified during the recent years. The focus has been both on the climate impact of different production forms and the security of supply. There are different initiatives in the industry to address the combination of growth in demand, the climate challenge and security of supply. These initiatives involve increased efficiency, carbon capture and storage development for fossil fuels and an increased focus on renewable energy sources. In addition, the discussion around nuclear power as a partial solution to increase CO₂-free production began in the EU and several other countries.

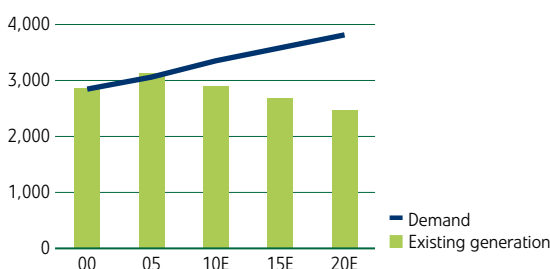
According to Fortum's estimate, the gap between demand and remaining existing capacity in 2020 in Europe is almost 1,300 TWh. Growth in demand accounts for about 700 TWh and the decommissioning of existing capacity about 600 TWh. Committed projects to install new capacity or to increase power output at existing facilities are estimated to amount to about 300 TWh. This means that new investment decisions are still needed to cover 1,000 TWh.

Demand in the Nordic market is expected to grow from 400 TWh to approximately 440 TWh by 2020, i.e. on average somewhat less than 1% annually. Despite ongoing plans and projects to increase capacity, decisions for some 35 TWh of new generation are still needed to fill the supply gap in 2020.

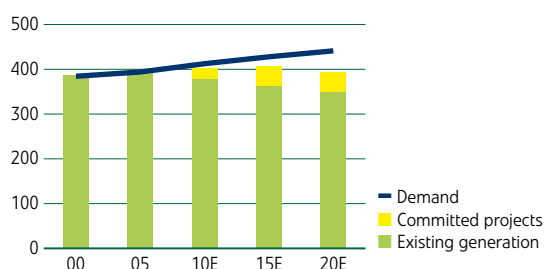
European energy market development

In the EU, energy is part of the internal market and the Commission has set a clear goal for a common energy policy. EU legislation and the EU Commission strategy define the framework for liberalisation, integration and harmonisation of the European power markets. The driver for this market-based development is to increase competition and efficiency for the benefit of customers as well as society as a whole.

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



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



Historically high fuel prices, the approach of the second emissions trading period and a tightening supply/demand balance raised electricity prices throughout the EU towards the end of 2007. The growing dependence on imported fossil fuels together with an ageing infrastructure and a growing demand increased concerns about the security of supply.

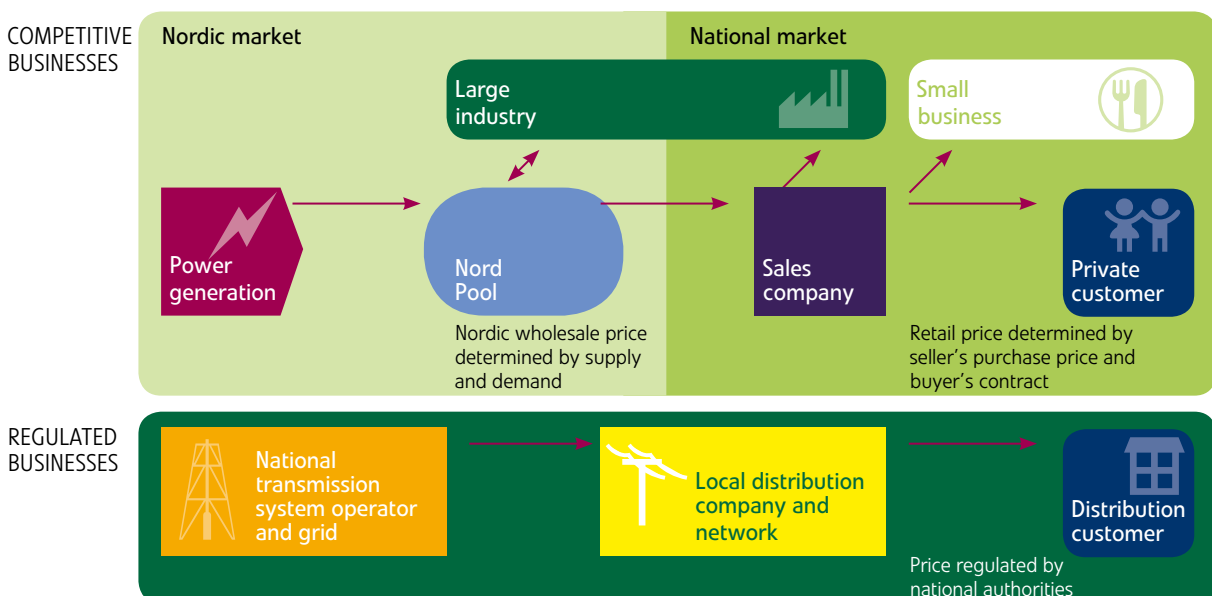
In January 2007, the European Commission presented its so-called Energy Package – an energy policy to secure competitive and clean energy for Europe against a backdrop of climate change, escalating global energy demand and future supply uncertainties.

The EU adopted a unilateral CO₂ reduction target of 20% by 2020 compared to the 1990 level. If other industrialised countries would agree, the EU would be ready to adopt a 30% reduction target. Furthermore, a binding target for the share of renewable energy, also 20% for 2020, was set. These were accompanied by a target for energy efficiency improvements as well as improved R&D actions.

In September 2007, a further step was taken by the Commission when it introduced the third liberalisation legislative package proposal on internal gas and electricity markets. This proposal clearly encourages European market integration. Concrete proposals include full ownership unbundling of Transmission System Operators (TSO), greater transparency, increased cooperation between the national energy regulators and stronger TSO cooperation on the European and regional levels. The adaptation of the package is estimated to take place by mid-2009 i.e. before the next EU elections.

The energy package was complemented in November by a communication from the Commission on carbon capture and storage and with a strategic energy technology plan to give guidance on the future energy-related research and development activities. Proposal for national targets was published in January 2008.

Fortum and the electricity value chain



Nordic electricity market

Several studies during recent years have concluded that the Nordic market functions rather well, however further harmonisation is needed. Politicians and authorities have a key role in setting the framework for energy market operations.

The physical spot volumes in the Nordic power exchange, Nord Pool, continued to grow. The volume traded corresponded to 69% of the total Nordic demand in 2007. Also the volumes in the financial market, including over-the-counter (OTC) derivatives clearing, grew during 2007.

During 2007, Nord Pool's intraday Elbas market was extended from Finland and Sweden to cover also western Denmark. The plan is to include Norway during the first half of 2008.

According to a follow-up report on the Swedish energy policy by the Swedish Energy Agency, Energimyndigheten, the price of electricity in the Nordic wholesale market has been below the long-term marginal cost during eight of the past 11 years. The wholesale price exceeded the long-term marginal cost only during 1996, 2003 and 2006. These years do not represent normal years, due to an unusually low hydrological balance. This low price level is not sustainable in the long run for the needed new investments.

Development on the Nordic market

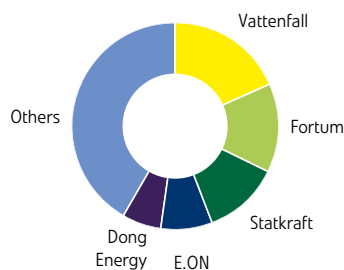
The Nordic market development during 2006 was shadowed by a few nationally-driven issues, while 2007 saw several new initiatives by politicians and authorities to further develop the common Nordic electricity market.

Efficient TSO operation is a key to a well-functioning wholesale power market, i.e. access to the grid, pricing, handling of bottlenecks as well as grid investments including cross-border capacity. The Nordic energy ministers decided to investigate setting up a Nordic Independent System

Still a highly fragmented Nordic electricity market

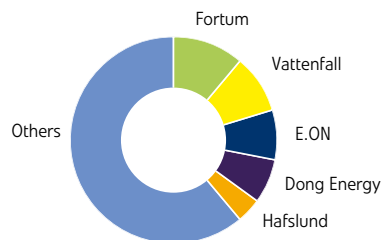
Generation

384 TWh
> 350 companies



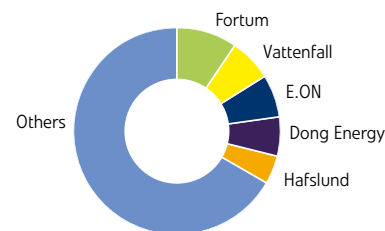
Distribution

14 million customers
~ 500 companies



Retail

14 million customers
~ 350 active companies



Source: Fortum, company data, shares of the largest actors 2006 figures. Effects of structural changes taken into account.

Generation and consumption in the Nordic countries

Electricity consumption, TWh

	2007	2006
Finland	90	90
Sweden	145	146
Norway	126	123
Denmark	36	36
Total	397	395

Power generation by source, TWh

	2007	2006	2005	2004
Hydro	213	192	222	184
Nuclear	86	87	92	97
Other Thermal	86	97	73	91
Wind	9	8	8	8
Total	394	384	395	380
Net import*	3	11	-1	12

* import-export

Operator (ISO). It would mean that while the ownership in the transmission network would remain unchanged, there would be a Nordic ISO operating and making investment decisions. The aim is to change the current national focus of the TSOs to a more Nordic one. The investigation has started and will be finalised during 2008.

In September 2007, Nordic competition authorities released an assessment on the competition in the Nordic electricity market. The report, *Capacity for competition*, gives suggestions to support further competitive development. A basic requirement for competition, and for a well-functioning electricity market, is sufficient transmission capacity and efficient utilisation of the connections between countries.

According to the competition authorities, investments in new production and transmission capacity require a stable, predictable and long-term regulatory framework where investments are to be based on correct price signals, which should not be diluted by political decisions.

The discussion about an integrated Nordic retail market continues. The competition authorities emphasised the importance of consumers' price awareness and online metering to support the demand side response to reduce peak demand. A proactive approach by the Nordic stakeholders to Automatic Meter Management (AMM) would make AMM a powerful tool to strengthen the link between the wholesale and retail markets. It would also allow relaying consumption information to the consumers and thus open new opportunities for energy saving and efficiency.

Market integration proceeds

The organisation for the Nordic TSOs, Nordel, published its new strategic agenda and action plans for more efficient

functioning of the Nordic electricity market and strengthened cooperation with the TSOs in the neighbouring northern European regions in September 2007.

The five priority grid projects proposed by Nordel in June 2004 support the Nordic market integration. When completed between 2009 and 2013, these projects will add about 3,000 MW of transmission capacity to reduce bottlenecks in the Nordic grid. During 2007, Nordel started preparations for a proposal for new Nordic grid investment projects.

In addition to preparing enhancements for the Nordic grid, also integration to the European markets proceeded. In January 2007, a 350-MW cable between Finland and Estonia was commissioned. A second connection to Estonia has also been discussed. The commercial operation of the NorNed link between Norway and the Netherlands was delayed to 2008, due to a cable fault. This connection is an important step in integrating the Nordic and continental European markets.

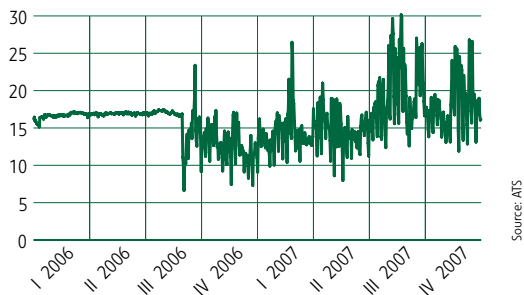
In Continental Europe, the French Powernext, Belgian Belpex and Dutch APX took market coupling into use in December 2006. As a result, the prices have converged and utilisation of cross-border capacity has improved significantly. In addition, the cooperation between European power exchanges is increasing, with German EEX and French Powernext announcing in December an integration of their spot and derivatives markets.

EU emissions trading – to the Kyoto period

The first phase of the EU ETS (Emission Trading Scheme) was concluded in the end of 2007. The first period's realised emissions were clearly below the allocations at the EU level and the price for emission allowances crashed nearly to zero during 2007.

Preparations for the second period of the EU ETS, the so-called Kyoto period 2008–2012, proceeded in the member

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



states and the Commission during 2007. In its decisions on national allocation plans, the Commission imposed heavy reductions on the countries' proposals and cut the suggested allocation by a total of about 10%. In the national allocation plans, the manufacturing industry was typically allocated close to its expected need whilst the allocations to the energy industry were well below the foreseen need.

Even though a global solution on the post-2012 measures to reduce emissions was not reached in the UN negotiations, it is already clear that emissions trading will continue as the main instrument in the EU's climate policy.

Power market consolidation continues

The Nordic electricity market is highly fragmented in a European comparison, with consolidation proceeding slowly. Nevertheless, industrial logic arising from economies of scale and providing advantages both to customers and industry actors, will speak for further consolidation. As the biggest transaction in the area, German E.ON announced in October that it intends to consolidate its Nordic position by acquiring the remaining 44.6% stake in E.ON Sverige, currently held by Statkraft, in an asset swap.

The European majors took action to strengthen their positions as the future leaders in Europe both through acquisitions and investments in new capacity. The Italian Enel and the Spanish Acciona gained control of the Spanish Endesa in October 2007 after E.ON's withdrawal and agreement to acquire certain assets from them. Spanish Iberdrola finalised its acquisition of Scottish Power. The French Gaz de France and Suez merger process is currently pending, and the merger between the Dutch Essent and Nuon was called off. Other majors, such as the Russian Gazprom and the Czech CEZ also continued to actively seek growth opportunities in Europe.

Russian power reform to be finalised in 2008

The Russian economy continued to boom on high oil and gas prices. This also means growth in electricity demand and a need for new capacity. In 2006, the annual increase in consumption was over 4% and the increase is estimated to continue during the coming years. The Government of the Russian Federation adopted a demand increase forecast of almost 400 TWh at minimum by 2015, compared to the about 980 TWh demand in 2006.

Fortum positions

The need for energy and the importance of energy affairs are constantly increasing in our society. Climate change, security of supply and the price of electricity are already every-day conversation topics and causes for concern. In this context, Fortum wants to promote:

- Open, competitive and transparent electricity markets both on wholesale and retail levels.
- Market-based and harmonised mechanisms to protect the environment.
- A political and legal framework that allows investments in all methods for producing electricity and heat.
- Secure and cost-efficient electricity transmission and distribution.
- Good quality and neutrality in customer services in the sales and distribution of electricity and heat.

Read more on Fortum's position at www.fortum.com/public_affairs



The power sector reform, launched to secure the vast future investments needed in the power sector and to increase sector efficiency, proceeded in 2007 with the reorganisation of RAO UES. Initial Public Offerings (IPOs) and sales of the State stakes in several Territorial Generating Companies, TGCs, and Wholesale Generating Companies, WGCs, took place in 2007. Corresponding manoeuvres in the remaining TGC's and WGC's are scheduled to take place during the first half of 2008. Reorganising the RAO UES asset ownership is planned to be finalised by mid-2008 with a distribution of remaining RAO UES ownership to its own shareholders.

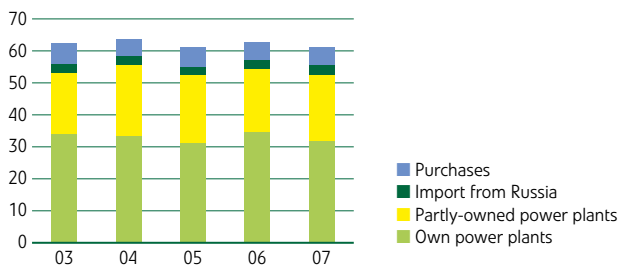
Liberalisation of competitive businesses is a key enabler of a successful power sector reform. During 2007, all electrical energy supply and demand was matched through the spot market. However, financial agreements with regulated prices – vesting agreements – covered 90% of the volume in the latter half of 2007. These agreements reduce the effect of a liberalised power price on the business result of generation and sales companies. The plan is to gradually reduce the share of the vesting agreements and to completely abolish them by 2011. In addition, a liberalisation of gas pricing is planned to take place by 2011.

Liberalised electrical energy prices brought natural volatility to power prices in the Russian power exchange ATS, as prices are based on the supply and demand balance. In 2007, the mean price in the European and Urals part of Russia was 578 RUB/MWh (16.7 EUR/MWh). In August, prices for electrical energy reached historically high levels and were 1,043 RUB/MWh (30 EUR/MWh) on a daily level. Discussions on a more market-based use of the transmission capacity between Russia and Finland were initiated.

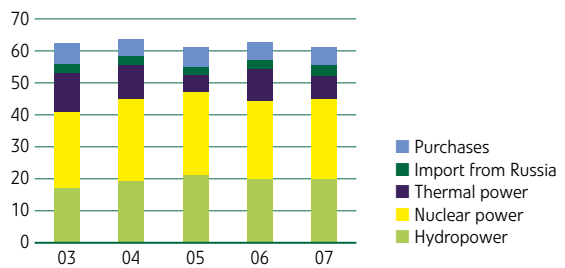
Preparations to launch a capacity market proceeded, and at the end of 2007 the capacity market rules were under government preparation. A capacity market is planned to be taken into use in early 2008. In 2008, the share of energy and capacity sold with liberalised prices will increase to 20%.



Fortum's total electricity procurement by type, TWh



Fortum's total electricity procurement by source, TWh





Segment Reviews

2007 was characterised by high precipitation, mild temperatures and low Nordic spot prices. Despite challenging conditions, Fortum made record results.

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

Fortum's power generation capacity, 31 December 2007, MW

	Finland	Sweden	Other	Total
Hydropower	1,472	3,160	0	4,632
Nuclear power	1,433	1,664	0	3,097
Combined heat and power	659	531	145	1,335
Condensing power	1,441	297	0	1,738
Other	6	112	0	118
Total	5,011	5,764	145	10,920

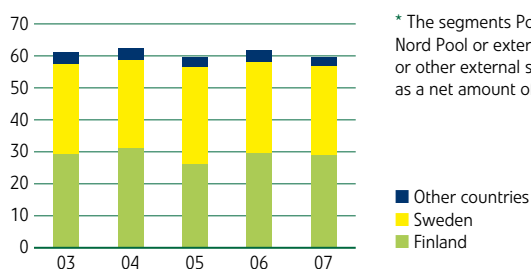
Fortum's heat production capacity, 31 December 2007, MW

	Finland	Sweden	Other	Total
Heat	4,116	5,095	2,012	11,223

Fortum's power generation by source, TWh

	2007	2006
Hydropower	20.0	19.8
Nuclear power	24.9	24.4
Thermal power	7.3	10.2
Total	52.2	54.4

Fortum's total electricity sales by area*, TWh



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

Investing in sustainable power generation

Mitigating climate change with an environmentally-benign production portfolio is one of Fortum's success factors. The company is continuing investments in new CO₂-free and renewables-based production.

The Power Generation segment generates and sells power, manages and develops Fortum's power generation assets and is responsible for risk management operations relating to power generation. The segment sells power to the Nordic power exchange Nord Pool and the over-the-counter (OTC*) market. Power Generation also provides operation and maintenance services for power and heat companies in the Nordic area and a few international markets. The segment has three business units: Generation, Portfolio Management and Trading (PMT) and Service.

Power Generation's flexible and environmentally-benign generation portfolio is instrumental in reaching Fortum's vision of becoming the benchmark power and heat company excelling in sustainability. The focus is on securing a high level of power plant availability, investing in growth, upgrading existing production assets as well as on operational excellence in physical and financial portfolio management. Furthermore, the company actively follows the development of the Russian power market reform and seeks new growth opportunities there.

Commitment to sustainability shows in all of Fortum's actions and investments. All of the company's Nordic power generation operations have ISO 14001 environmental certification. About 4 TWh, 20%, of Fortum's annual hydro production has been certified by Finnish and Swedish societies for nature conservation.

Low spot prices and rising fuel costs

In addition to power plant availability, the main financial performance driver in the power generation business is the wholesale price for electricity. The main factors affecting the wholesale price are the inflow to the Nordic water reservoirs, prices for CO₂ emission allowances and fuels in the international markets as well as the overall supply and demand balance.

In 2007, wholesale prices on the Nordic electricity market were characterised by above-average water reservoirs and emission prices that crashed close to zero and in contrast, by historically high fuel prices.

The year started with hydro reservoirs being slightly above the long-term average level and with above average levels of snow in the hydro production areas. The hydro reservoirs stayed above average for all of the year. Almost this entire surplus was in Norway and especially in southern Norway. Norwegian hydro power accounts for about 60%

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

of the hydropower in the Nordic countries. At the end of December, the Nordic water reservoirs were 8 TWh above the long-term average.

The prices for emission allowances for the first EU trading period started to decrease already at the end of 2006. During spring and early summer 2007, the prices crashed to almost zero. Prices for the second emissions trading period, 2008–2012, fluctuated between EUR 15–25 per tonne CO₂. At the end of 2007, the quotation for 2008 emission allowances was EUR 22 per tonne CO₂. 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. However, the weakening of the US dollar against the euro slightly softened the price increase in euros.

The average spot price for electricity in 2007 in Nord Pool was EUR 27.9 (48.6) per MWh, which is 43% lower than in 2006. During late summer and autumn, the Nordic market experienced exceptionally high differences in area prices, with Norwegian prices well below the system levels. However, the Finnish and Swedish area prices were exactly the same 95% of the time in 2007. During the year, forward quotations for the coming years increased from around EUR 40 per MWh to above EUR 50 per MWh.

At the end of the year, both the spot prices and the forward quotations increased significantly. This development was mainly due to the Kyoto emissions trading period commencing at the beginning of 2008 with higher emission allowance prices than for the first period 2005–2007. This gave hydro producers an incentive to move hydropower production from 2007 to 2008, if possible.

The German spot price in 2007 was above the Nordic spot price. This resulted in a net export from the Nordic area to Germany. Increasing the interconnection capacity between Nordic and the Continental Europe will increase convergence of Nordic and Continental prices.

Increased nuclear and hydropower generation

The segment's power generation in 2007 was 47.2 (49.4) TWh, of which 46.1 (48.3) TWh originated in the Nordic countries. Of the segment's power generation in the Nordic countries, 20.0 (19.8) TWh, or 43% (41%), was based on hydropower, 24.9 (24.4) TWh, or 54% (51%), on nuclear power, and 1.2 (4.1) TWh, or 3% (8%), on thermal power.

The increase in hydropower generation was due to the stronger hydrological situation and the lower thermal



Commitment to sustainability shows in all of Fortum's actions and investments. All of the company's Nordic power generation operations have ISO 14001 environmental certification.

Key figures, EUR million

	2007	2006	Change %
Sales	2,350	2,439	-4
power sales	2,019	2,059	-2
other sales	331	380	-13
Operating profit	1,125	980	15
Comparable operating profit	1,093	985	11
Net assets (at end of period)	7,148	6,734	6
Return on net assets, %	19.2	16.1	19
Comparable return on net assets, %	17.7	16.9	5
Gross investments	390	240	63
Average number of employees	3,475	4,147	-16

Segment's power generation by source, TWh

	2007	2006
Hydro	20.0	19.8
Nuclear	24.9	24.4
Thermal	1.2	4.1
Total in the Nordic countries	46.1	48.3
Thermal in other countries	1.1	1.2
Total	47.2	49.4

production was due to low spot-price levels for most of the year.

Although the availability of the Swedish Forsmark and Oskarshamn nuclear power plants increased slightly in 2007 compared to 2006, the prolonged outages and unplanned shutdowns caused Fortum a production loss of approximately 1.3 TWh. In Finland, 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. Furthermore, the Olkiluoto nuclear power plant, in which Fortum is a minority owner, reached the best production results in its operational history.

In 2007, 89% (84%) of Fortum's power generation was CO₂-free. The increase was caused by lower use of thermal power and higher use of hydro and nuclear power. At year-end, the segment's power generating 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's achieved Nordic power price (excluding pass-through sales) was EUR 39.7 (37.1) per MWh, 7% higher than the year before due to improved hedging prices. The related sales volume was 46.6 (49.4) TWh.

During the past years, the increased production tax for nuclear power in Sweden and the property tax for hydropower plants have affected Fortum's financial results by about EUR 100 million on an annual level. In addition, for 2008 in Sweden there are further increases in these taxes that will raise the negative effect by about EUR 30 million.

Investments in renewables

Fortum's investment programme includes refurbishment investments in several hydropower plants to increase capacity and maintain good plant availability. During 2007, Fortum completed two refurbishment projects. One of the completed projects was the renewal of one of the two Avesta plants in Sweden. The new Avestaforsen power plant was inaugurated in October. The other project was the renewal of one unit in Fortum's largest hydropower plant in Sweden, Krångede. Fortum is also making extensive investments into dam safety. The work is part of an industry effort in Sweden to increase safety of the class 1 category dams to withstand floods with an estimated return period of ten thousand years or more.

In April 2007, Fortum announced a plan to invest in wind power in Sweden. Fortum, together with Orsa Besparingskrog, is planning to build a wind park in the Orsa

Finnmark area. Fortum is also investigating other possibilities to invest in new wind power and other renewables.

In April 2007, Fortum announced that it will not build the planned new 250–300-MW gas turbine reserve power plant in Inkoo, Finland. The decision was influenced by the power plant's increased construction costs, as well as the already initially challenging financial basis and the cooperation structure.

Preparing for new nuclear power

Fortum's Loviisa power plant has produced nuclear power for thirty years. In July, the Finnish Government granted new operating licences to Loviisa units 1 and 2. For Loviisa 1, the new licence is valid until the end of 2027 and for Loviisa 2, until the end of 2030. Normal annual refuelling outages were conducted in both units over the year and work to modernise the plant's automation systems continued. All new automation systems will be in operation in 2014.

In March 2007, Fortum decided to commence an environmental impact assessment (EIA) process for a new 1,000–1,800 MW nuclear power unit possibly to be built adjacent to Fortum's existing two units on Hästholmen Island in Loviisa. The EIA programme was submitted to the Finnish Ministry of Trade and Industry in June and 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 of 2008. Fortum will also prepare for the decision in principle to be submitted to the Ministry following the accepted EIA report. Also Teollisuuden Voima Oyj (TVO), in which Fortum is a minority shareholder, has initiated an EIA process for possibly building a new nuclear power unit at its existing site in Olkiluoto.

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

Capacity increases at existing nuclear power plants in Sweden are also an important part of Fortum's investment programme. As a minority owner, Fortum will participate in the planned upgrades of the Oskarshamn and Forsmark power plants. Fortum's share of the added generation capacity is estimated to be about 290 MW. The upgrades are subject to approval by the Swedish Government and are scheduled for completion by 2012. In May 2007, as a part of the upgrade program, a decision was made to increase the capacity for the Oskarshamn second unit by about 180 MW,

of which Fortum's share is about 80 MW. This capacity increase is planned for 2011 and is also subject to approval by the Swedish Government.

Fortum's nuclear engineering unit signed in 2007 several new contracts for the delivery of expert services to external customers. The unit also provides its services to Fortum and nuclear assets partially owned by Fortum.

Russian market reform proceeds

The Russian power market restructuring proceeded well during 2007. This progress makes the Russian power sector an increasingly attractive business environment for Fortum. One objective of the sector reform and privatisation is to secure funding for upcoming, much-needed investments in the country.

Fortum has a slightly over 25% share in Territorial Generating Company 1 (TGC-1), which operates in north-west Russia. In September, Fortum participated in TGC-1's share issue maintaining its share and its position as the second largest shareholder in the company.

[Read more on the Russian market reform on page 19.](#)



Excellence in O&M

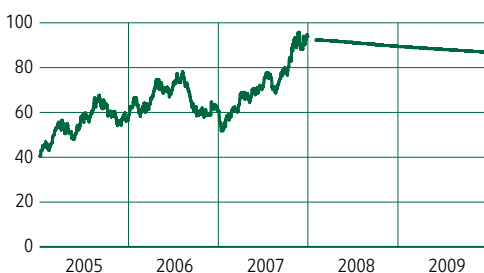
Service offers operation and maintenance (O&M) services for power, heat and distribution companies as well as industrial companies that have their own power production. At Fortum, Service is the competence centre for the company's power plant operation and maintenance, ensuring high availability and cost-efficient utilisation of generation assets.

Service is looking for growth both in Fortum's home market and selected international O&M markets including Russia, Germany and the Middle East. Service's operations in the international market support competence development in Fortum.

The availability and efficiency of Fortum's own power plants as well as of those operated globally by Fortum is very good by international standards. In 2007, the operation-time energy availability (tgde) of power plants in Fortum's O&M fleet excluding hydropower, was 96.7% (95.3 in 2006).

During 2007, Fortum signed a 3-year operation and maintenance contract with Jyväskylän Energiantuotanto Oy in Finland. The contract covers the operation and maintenance of the Rauhanlahti and Savela combined heat and power plants as well as ten heat plants in the Jyväskylä region. Service carried out several Low-NO_x burner installations in Finland. New burners that significantly lower the plants' NO_x emissions were installed at Fortum's Naantali power plant and at power plants owned by Lahti Energia Oy and Pohjolan Voima Group. The design of the Low-NO_x

Oil price, USD/bbl



Gas price (UK), GBP/therm



burners is a result of Fortum's research and development work.

In Russia, Service signed agreements on the delivery of hydropower consulting, owners' engineering services and consulting on Maximo maintenance management system implementation with TGC-1. In June, a support facility for expert services, the Performance Centre, was opened at Fortum's St. Petersburg office. The Performance Centre offers remote support to thermal power plants in various locations in Russia and is a method to improve power plant availability and operating efficiency.

In Latvia, Service is carrying out dam inspections of three power plant dams along the river Daugava during 2007–2010 for AS Latvenergo.

At year-end, Fortum announced the founding of a new unit, Energy Efficiency Solutions, within Service. The unit provides expert and consulting services related to energy efficiency to energy producers and distributors as well as to industrial and business customers.

Securing successful power plant operations with R&D

The majority of Fortum's research and development is conducted in Power Generation. The work is aimed at securing the continuous and very efficient operation of Fortum's power plants and developing sustainable solutions for power generation.

The main focus of this work has been to develop and enhance the availability of Fortum's existing power plants. The work with current nuclear, hydro and thermal power plants has aimed at improving the efficiency and secure use of the existing production units.

Within nuclear power, R&D work has focused on extending the lifetime of the Loviisa nuclear power plant units safely and securely. Fortum is also involved in research

on nuclear waste management and nuclear safety. In 2007, a new solidification facility for liquid low- and medium-active waste was completed in Loviisa. Within hydropower, development of dam safety, mapping of growth opportunities and O&M optimisation have been key development areas, while in thermal power, the focus has been on finding energy efficiency improvements and good ways to reduce emissions.

For more information on Fortum's R&D work, please see page 14–15.



New capacity investments expected

Fortum will continue to invest in power generation capacity during the coming years. The focus in these investments is in climate-benign and renewables-based production. Fortum wants to keep all production methods available when making decisions on future capacity investments.

Segment's Nordic electricity sales volume, TWh

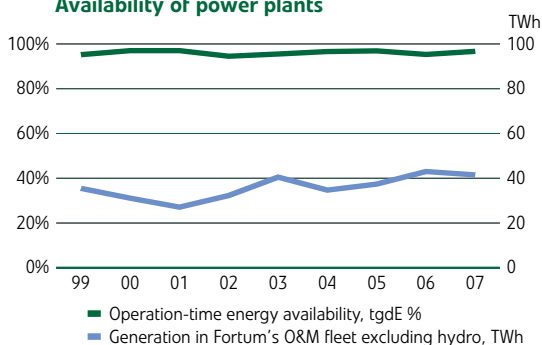
	2007	2006
Sales	51.8	53.9
of which pass-through sales	5.2	4.5

Segment's Nordic sales price, EUR/MWh

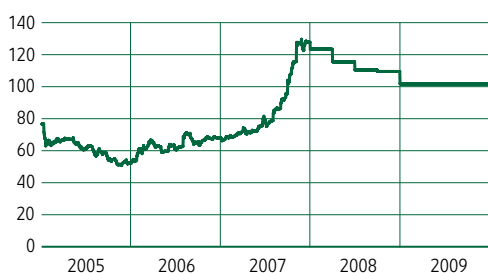
	2007	2006
Power price*	39.7	37.1

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

Availability of power plants



Coal price, USD/t



Nordic wholesale electricity price on Nord Pool, EUR/MWh



CO₂ allowance price (EU), EUR/tCO₂



Source: Nord Pool. Futures as of 1 January 2008.

Source: Reuters. Future prices as of 1 January 2008.

Customer care and climate issues in focus

Heat continued with its environmentally-benign investment programme. A new target for CO₂ emissions was set to contribute to climate change mitigation.

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

Heat's goal is to become the benchmark of the industry in the Nordic countries and in the Baltic Rim area. Today, the segment is the leading provider of heat in the Nordic countries and has growth platforms in the Baltic Rim area, especially in Poland. Heat is a competence centre for CHP production, waste incineration, district heating and outsourced energy services for local communities and industries.

Competitive district heating with successful new sales

The segment's heat sales totalled 25.1 (24.7) TWh. Finland and Sweden accounted for 11.1 (10.7) and 9.2 (9.3) TWh respectively, and other countries for 4.8 (4.7) TWh. In the Nordic countries, industrial steam accounted for 4.4 (5.2) TWh and district heating for 16.0 (14.9) TWh. Power generation at CHP plants was 5.0 (5.0) TWh.

Successful new sales continued in Sweden and Värme reached an all time high in new sales of district heating. Several of the new contracts contained also clearly defined goals for sustainable development. In addition to delivering heat, Värme helps its customers to be more energy efficient.

In Finland, the district heating sales of the former Fortum Espoo (acquired in mid-2006) contributed to the sales growth compared to the previous year.

In Poland, Fortum continued its growth by acquiring district heating company EC Wojkowice. The company located in southern Poland sells around 64 GWh heat annually. The Polish market provides further growth potential for Fortum's heat business in the coming years.

Mitigating the climate impact of heat production

Heat is committed to reducing specific CO₂ emissions by 10% by 2020 compared to the year 2006. The segment contributes to climate change mitigation by promoting energy efficient CHP production and district heating, and by developing the use of renewable fuels in its production. Heat has also a number of sites, where the excess heat from the customers' industrial processes is utilised to heat local homes and real estates.

The use of renewable fuels in heat production decreased compared to 2006. The share biomass fuels was 19% (21%) of the total heat production. In Sweden, the share of renewable fuels of the total fuel usage was 73% (75%).

Värme continued to be an active member of the Round Table on Sustainable Palm Oil and WWF Global Forest and Trade network. The first aims at promoting sustainable use of palm oil and the latter at eliminating illegal harvesting and at improving the management of threatened forests.

Sustainable investments proceeded

Investments in new, sustainable production and distribution continued. The CHP projects in Suomenoja, Finland, in Częstochowa, Poland, and in Tartu, Estonia proceeded during the year. The preparations for investing in new CHP production continued in Värtan and Brista in Sweden and in Järvenpää, Finland.

In November, Fortum was granted an environmental permit for the biomass fuel-fired CHP plant in Värtan. The plant will be operational in 2012 at earliest. Once completed, it will reduce global CO₂ emissions by 800,000 tons annually. The environmental permit also covers the installation of flue gas condensers in the existing units at the Värtan plant. With condensing technology, the heat energy that would otherwise go to waste can be recovered from flue gases. This increases energy efficiency of the existing units to close to 100%.

The work to connect the southern and central district heating grids in Stockholm progressed. A number of new biomass fuel-fired heating plant projects in Finland proceeded or were completed during the year. In Poland, the modernisation programme of the heating plants continued in order to increase energy efficiency and reduce emissions in the area.

Automated meter reading improves customer care

Thanks to acquisitions made in the past few years in Finland and Poland, the number of district heating customers has increased considerably. During 2007, Heat continued with the programme to improve the district heating customer care in its key markets.

A central element in the programme is implementing automated meter reading (AMR) to district heating customers. In Finland and Sweden, the majority of customers have already been connected to the AMR service. In Poland, AMR will be taken into use during 2008–2009.



Ski resorts are becoming popular holiday destinations year-round. Heat provides district heating to the Levi resort in Finnish Lapland. A new heat plant was inaugurated in January 2008. It uses local biomass and peat replacing old oil-fired heat production.

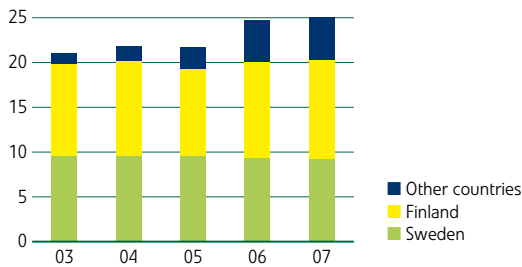
Key figures, EUR million

	2007	2006	Change %
Sales	1,356	1,268	7
heat sales	1,053	976	8
power sales	202	198	2
other sales	101	94	7
Operating profit	294	264	11
Comparable operating profit	290	253	15
Net assets (at end of period)	3,507	3,407	3
Return on net assets, %	9.3	9.6	-3
Comparable return on net assets, %	9.2	9.2	0
Gross investments	327	773	-58
Average number of employees	2,302	2,345	-2

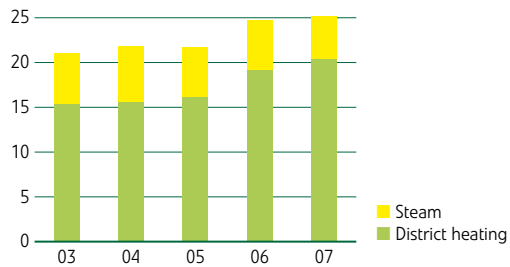
Becoming the benchmark in heat industry

In the up-coming years, Heat will focus on profitable growth and on leveraging its growth platforms around the Baltic Rim area. The CHP investment projects continue, and the first of the new plants will be ready for production by early 2009 in Tartu, Estonia. The work for becoming the benchmark both in sustainable heat production as well as in customer care will continue actively.

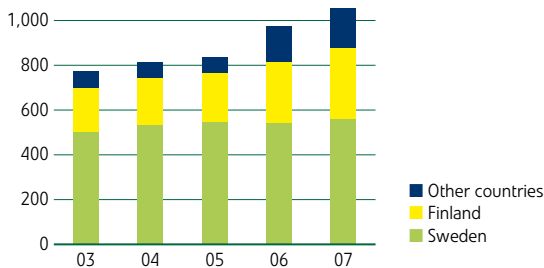
Segment's district heating and industrial steam sales by area, TWh



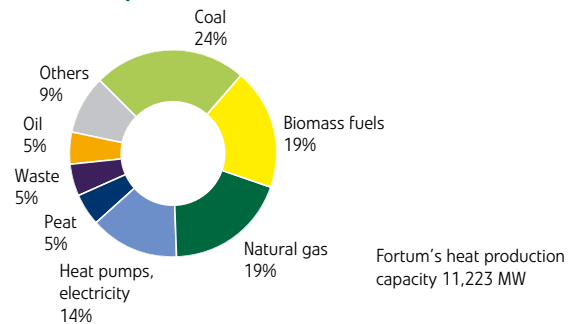
Segment's district heating and industrial steam sales, TWh



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



Fortum's heat production, 26.1 TWh in 2007



Reliable distribution in all circumstances

Measures to further improve network reliability continued. Climate change is expected to impact also electricity distribution in the future.

Distribution is responsible for the reliable and secure electricity supply to 1.6 million customers in Finland, Sweden, Norway and Estonia. Fortum owns and operates distribution and regional networks that have a combined length of 156,100 km corresponding to 3.5 times around the globe.

In 2007, the volume of local 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.

The market share of electricity distribution, based upon volume transmitted in under 20 kV local network, was 20% (20%) in Finland, 15% (15%) in Sweden, 3% (3%) in Norway and 3% (3%) in Estonia. A special feature of the Finnish electricity market is that one single player is allowed a maximum share of 25% of the electricity distributed in the 0.4kV network across the country. At the end of 2007, Fortum's share stood at 20%.

Relying on electricity

The number-one priority for Distribution is the reliability of the networks. Systematic maintenance, renewal and development of the networks is necessary in order to secure safety, quality and reliability of supply. By 2011, Fortum will have invested EUR 700 million in the Nordic networks. A major part of the investments is related to the Reliability Investment Program, which continued according to plan. The aim is to halve the average yearly outage time. Fortum's current network reliability is already over 99.9%.

Distribution is undertaking several measures to improve reliability, such as cabling, isolating overhead lines, building of new lines and installing remote disconnectors. These measures are combined in different ways depending on the network area.

In Sweden, about 1,100 km middle voltage lines were secured by cables in ground or other measures, and about 30 remote-controlled disconnectors were installed. In Finland, around 150 remote-controlled disconnectors were installed. These measures will speed up fault repair and

ultimately reduce the average outage times experienced by customers.

Installing remote disconnectors is an effective method as it allows the Operations Centre to quickly identify and isolate the fault in order to reduce the number of affected customers.

Development of the networks is prioritised based on the customer needs in the different network areas. Customer needs are closely related to the expansion and transformation of cities and communities. In close cooperation with municipalities, Distribution ensures that its network development is aligned with long-term urban development.

Automatic meter management proceeds

Fortum is investing in automatic meter management (AMM). The roll-out of AMM in Sweden progressed well during 2007. All customers in Fortum's Swedish network area will have the new system installed by 2009. During 2007 almost 300,000 automatic meters were installed.

The fundamental element in Fortum's AMM system is Energiboxen™, a self-reporting electricity meter that enables invoicing to be based on actual consumption. At the end of 2007, Fortum launched the first new service based on AMM, the Energy panel. Energy panel is a web-based service enabling customers in Fortum's network areas to follow their electricity consumption via the Internet, and for example, compare consumption over time.

Regulatory development high on the agenda

The distribution business is strictly regulated and supervised by national authorities. Framework and principles differ from country to country. An EU directive states that an evaluation regarding reasonable network pricing shall be done before implementation. This is today the case in Norway, Finland and Estonia, but not in Sweden. The Swedish government is therefore investigating the present regulation. A proposal for a new regulation model has been presented to the government, but no decisions have been made.

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

	2007	2006
Sweden	871	865
Finland	591	580
Norway	98	97
Estonia	24	23
Total	1,584	1,565

Volume of distributed electricity in distribution networks, TWh

	2007	2006
Sweden	14.3	14.4
Finland	9.2	7.7
Norway	2.3	2.3
Estonia	0.2	0.2
Total	26.0	24.6



With climate change, extreme weather conditions are becoming more frequent especially in coastal areas where many of Fortum's distribution networks are located. Systematic maintenance, renewal and development of the networks is necessary in order to secure reliability of supply.

Key figures, EUR million

	2007	2006	Change %
Sales	769	753	2
distribution network transmission	648	636	2
regional network transmission	81	80	1
other sales	40	37	8
Operating profit	465	252	85
Comparable operating profit	231	250	-8
Net assets (at end of period)	3,243	3,412	-5
Return on net assets, %	14.5	8.4	73
Comparable return on net assets, %	7.5	8.3	-10
Gross investments	237	313	-24
Average number of employees	1,060	983	8

The Swedish regulator has decided that Fortum shall refund approximately EUR 29 million (SEK 271 million) to its customers in Stockholm and the West Coast area and Ekerö Energi due to pricing during 2003. Fortum has appealed the decision to county administrative court. During the ongoing process, the authority has decreased the refund to EUR 25 million (SEK 236 million). Two or more of Fortum's price areas and partly owned companies are selected for supervision regarding pricing in 2004, 2005 and 2006. No final decisions have been made yet for 2004-2006.

The Finnish regulation period 2005-2007 ended. The regulator has announced the status regarding reasonable

Fortum's distribution business consists of:

Local network: 148,400 km of 0.4-20 kV cable and overhead lines, and 52,800 distribution transformers

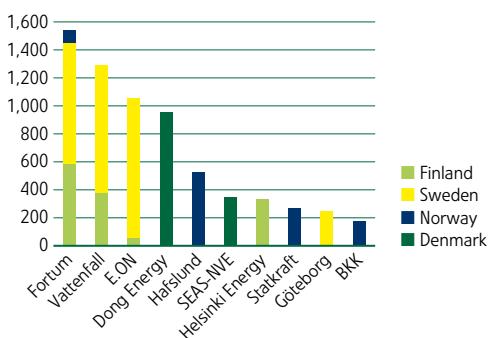
Regional network: 7,700 km of 20-220 kV cable and overhead lines

pricing for 2005 and 2006, but the final decision confirming allowed return for the period will come during 2008. Fortum adjusted the pricing for 2005-2007 with the intention to avoid an income surplus. Fortum has received the regulator's decision regarding the regulation period 2008-2011. This implies no significant changes in income levels.

Climate change affects also electricity distribution

There is reason to believe that climate change will also have an impact on the distribution business through increased weather related disturbances. With a milder winter climate, the storm resistance of forests becomes weaker. This, in turn, might affect how network companies plan and build their networks for the future. Distribution is closely following climate statistics and development to be able to bring also this parameter into the planning of its networks.

Largest Nordic distribution companies, thousand customers



Source: Company data 2006.

An energy partner for versatile needs

Markets is the leading electricity sales company and seller of eco-labelled electricity in the Nordic countries. Customer interest toward sustainable energy solutions is growing rapidly.

Markets sells electricity products and solutions to household and business customers in Finland, Sweden and Norway. The segment buys all the electricity it sells from the Nordic power exchange, Nord Pool. Markets also provides its business customers with extensive energy solutions including energy portfolio management, risk management and energy efficiency consultancy.

Serving 1.3 million customers

Markets is the leading electricity retail company in the Nordic market with the ambition to grow and to become the energy supplier of choice in Finland, Sweden and Norway.

The segment aims to have the most satisfied and loyal customers. The range of products and services both to consumers and business customers is already among the widest in the Nordic electricity market. Customer surveys and other research that Markets continuously conducts, guide the product and service development to increase customer satisfaction and loyalty.

Home customers can choose a contract that best suits their needs. Options include a convenient and eco-labelled continuous-price contract, a fixed-price contract and a flexible contract that is directly based on pricing in Nord Pool.

With the help of Markets' energy experts, business customers can now, even better than before, secure both their electricity procurement and price according to their own risk profile. New solutions introduced during 2007 combine physical delivery of electricity with products involving services, as well as risk and profit sharing.

Leading seller of eco-labelled and CO₂-free electricity

Fortum takes climate change very seriously and actively pursues ways to combat it. For several years now, Markets has delivered to its household customers CO₂-free eco-labelled electricity, without extra cost, through a continuous-price contract. This commitment has made Fortum the biggest seller of eco-labelled electricity and a benchmark company in the Nordic electricity market.

Markets' share of eco-labelled *Norppasähkö* sales in Finland is over 90% and of *Bra Miljöval* electricity sales in Sweden nearly 95%. Markets' business customers can choose to buy electricity produced either completely by hydropower or by both hydro and nuclear power and thereby act against climate change.

Increased challenges in the Nordic electricity sales business

Markets sold 39,6 (42.1) TWh of electricity to its consumer and business customers in Finland, Sweden and Norway. Electricity sales in 2007 decreased slightly from year 2006, mainly due to smaller spot delivery to industrial customers. After Markets' challenging first quarter of the year, the segment's performance recovered and strengthened and was positive at the end of the year.

The integration of Fortum Espoo's sales activities with some 150,000 electricity sales customer proved to be very successful and fulfilled the expectations set for the acquisition.

During the year, the segment both lost and gained customers. By the end of the year, Markets' cumulative customer net flow was slightly negative, due to customer loss reflecting hard market share competition in Sweden. In Finland, the customer flow was clearly positive despite the tough price competition.

The yearly customer satisfaction survey EPSI in Finland and SKI in Sweden showed that customer satisfaction among Fortum's customers improved clearly in 2007.

The future price for electricity in the Nordic retail market for 2008 has increased due to higher CO₂ emissions allowance prices. Consequently, many electricity sales companies announced price increases in their current-price contracts during the latter part of 2007 and in the beginning of 2008. Also the price level of new fixed-price contracts increased in the second half of 2007.

A trusted energy partner

Markets' product and service offering to both home and business customers is among the widest in Nordic countries. The future strategy is to become a full-fledged energy companion instead of being just an electricity retailer. In Sweden, Markets' *Energihjälpen* (Energy help) programme continued. Throughout the year, Markets' energy experts have given customers practical advice on how to save energy and reduce their CO₂ emissions.

In Norway, consumers can reduce their environmental load by buying Renewable Energy Certificates through Fortum.

In Finland, Markets has provided local libraries in its network areas with energy consumption meters enabling people to measure the consumption of their home appli-



Fortum's customers share the company's concern for climate change and are increasingly interested in sustainable energy solutions. For several years now, Markets has delivered eco-labelled, CO₂-free electricity, to its household customers without extra cost.

Key figures, EUR million

	2007	2006	Change %
Sales	1,683	1,912	-12
Operating profit	12	-6	n/a
Comparable operating profit	-1	-4	75
Net assets (at end of period)	247	176	40
Return on net assets, %	6.9	-1.6	n/a
Comparable return on net assets, %	-0.6	-0.8	25
Gross investments	3	14	-79
Average number of employees	936	825	13

ances. The segment has also prepared for the implementation a new *Energy Companion* service concept to be launched in Finland in 2008.

In addition to already extensive online services, home and small business customers can also turn to Fortum's shared Customer Services unit for advice and help with their electricity and district heating matters.

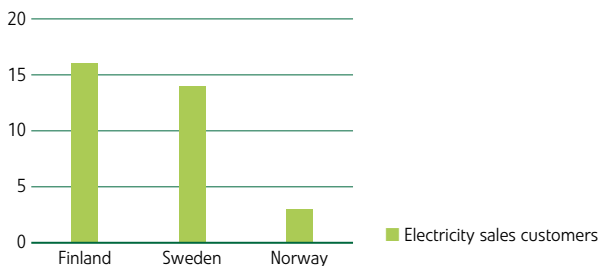
Fortum is one of the few energy companies to offer an independent Customer Ombudsman function that looks after the customers' interest. Ombudsmen in Sweden, Finland and Norway follow-up customer service issues and help customers who are not satisfied with the company's

normal service and feedback processes. The ombudsmen report directly to corporate management. In 2007, the ombudsmen helped to resolve some 530 cases of which around 450 were in Sweden, 70 in Finland and 10 in Norway.

Towards a Nordic retail market

To further improve the customer service on the Nordic electricity market, Markets works with industry organisations to develop the market and to speed up harmonisation of the Nordic electricity market. The ultimate goal is to create a united Nordic retail electricity market on which both customers and electricity sales companies can operate across borders.

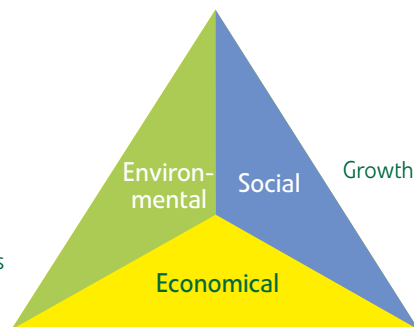
Market share by Nordic country, 31 December 2007, %





Sustainability Agenda

- Enhanced carbon competitiveness
- Promotion of renewable energy
- Efficient use of resources
- Mitigation of local environmental impacts
- 100% environmental certification



- Industry benchmark in financial performance
- Operational excellence

- Industry benchmark in safety
- Growth opportunities for highly-motivated people
- Energy supplier of choice
- Responsible supply chain management
- Good corporate citizenship



Making sustainability a success factor

“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 also revisited its sustainability policy in 2007. The new policy states that our goal is to make sustainability a success factor. Therefore we want to be a forerunner and

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

Our 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.

Rewards and recognitions

Fortum received three significant recognitions for its sustainability performance in 2007. For the fifth year in a row, the company secured its place on the global Dow Jones Sustainability World Index. Furthermore, Fortum was selected to the Climate Disclosure Leadership Index (CDLI) for the first time. The CDLI is comprised of 68 FT500 companies that show distinction in their reporting of greenhouse gas emissions and implementation of climate change strategies. Fortum is the only Nordic energy company in the index. For the first time, Fortum was also chosen for ‘The Global 100 Most Sustainable Corporations’ list. Furthermore, Fortum is included on Storebrand’s Best in Class report.

Code of Conduct

In 2007, Fortum compiled a Code of Conduct, which establishes principles for business conduct applicable throughout the company. The Code was approved by the Board of Directors and is based on Fortum’s shared values. All Fortum employees are expected to conduct themselves, and their business, in compliance with the Code – without exception. The Code of Conduct will be rolled out to all Fortum employees through induction, training and internal communications during 2008.



Forerunner in climate change mitigation

Mitigating climate change is one of Fortum's most important goals. Fortum's long-term vision is to be 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 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 64 g/kWh, which is among the lowest of the major European power companies.

Enhanced carbon competitiveness

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 electricity and heat 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 has 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.

Fortum further decided on new internal actions, which concern, among other things, employee car and air travel. In the future, company cars can only be diesel, hybrid, ethanol, bio ethanol, biogas or electricity-powered vehicles with CO₂ emissions of less than 200 g/km.

The target is to reduce air travel and, consequently, CO₂ emissions by 10% from the current level. Instead of air travel, teleconferencing and videoconferencing are being promoted. Fortum also decided to offset the CO₂ emissions resulting from its personnel's remaining air travel. The carbon dioxide fees paid for the accrued mileage will be channelled for instance to the development of renewable energy and energy efficiency in developing countries.

Fortum has been a pioneer in utilising the Kyoto mechanisms and continued its efforts in this area. In late 2006, Fortum signed a Memorandum of Understanding with the major Russian energy holding RAO UES, on the utilisation of Kyoto mechanisms in Russia. Identification of the projects is ongoing.

Key figures

	2007	2006
CO ₂ emissions, t	10,400,000	11,000,000
SO ₂ emissions, t	14,000	15,300
NO _x emissions, t	14,600	16,500
CO ₂ emissions of power generation, g/kWh (own plants and partly-owned plants)	64	107
Share of renewable energy sources in power generation, %	40	40
Share of carbon-free energy sources in power generation, %	89	84
Share of renewable energy sources in heat production, %	34	38

Additional environmental key figures are available at www.fortum.com/sustainability



Fortum published its position on the review of the European emissions trading (ETS) directive. In Fortum's opinion an EU-level cap for the emissions trading sectors is most appropriate and auctioning is the fairest and most efficient way of distributing the allowances. [Read more on Fortum's positions at www.fortum.com/public_affairs.](http://www.fortum.com/public_affairs)



Promotion of renewable energy

Fortum's goal is to continuously promote the use of renewable and low-carbon energy sources. The company constantly strives to develop its hydropower generation and to increase the use of biomass and waste-derived fuels whenever viable.

In 2007, renewable energy sources accounted for 40% of Fortum's electricity generation and 34% of heat generation. The total use of biomass decreased from 8.9 TWh to 7.8 TWh.

During 2007, a new hydropower plant replacing an old plant at the same site was taken into use in Avesta, Sweden. The new power plant increased the production of Avesta from 171 GWh to 206 GWh annually. In addition, Fortum completed a refurbishment project at another hydropower plant, resulting in 7 GWh of additional renewable energy annually. Fortum participated also in refurbishment projects at Kemijoki hydro power plants, resulting 31 GWh of additional power production for the company.

Fortum is planning several new investments in renewable energy. In Finland, Fortum is preparing for a new biomass-fuelled combined heat and power plant (CHP) in Järvenpää. In Poland, an investment in new coal and



Migratory birds are particularly vulnerable to climate change effects due to their dependency on multiple habitats and sites. Fortum sponsors WWF's Naturewatch programme that aims to increase school children's interest in environmental issues by encouraging them to observe and explore nature.

biomass-fuelled CHP plant has been started in Częstochowa. In Estonia, Fortum is building a new biomass and local peat-fired CHP plant in Tartu. Fortum was also granted an environmental permit for a new biofuel-fired combined heat and power plant to be built in Värtan, Stockholm.

Out of Fortum's total power production capacity of 10,920 MW, wind power currently contributes a little over 5 MW. A Renewables unit was established to substantially increase this share and investigate new investment opportunities. Fortum's most recent wind power construction project is in progress in Orsa, Sweden. Orsa Finmarks vindkraft, a joint venture by Fortum and Orsa Besparingskog, aims at building eight wind power stations, each 2–3 MW, by 2009.

Efficient use of resources

Fortum promotes the responsible use of natural resources by systematically improving the energy efficiency of operations. Energy-efficient CHP production accounts for a significant share of Fortum's energy production.

During 2007, Fortum continued the planning of a new gas-fired CHP plant adjacent to the existing Suomenoja power plant in Espoo, Finland. The power plant will be operational by the end of 2009. Fortum is also planning to invest in a new waste-fuelled CHP plant in Brista, outside Stockholm, Sweden. After completion of this plant, about 90% of the municipal waste in the region will be used by Fortum to produce climate-benign energy to the citizens of Stockholm.

In 2007, the use of waste-derived fuels rose by 3% to 1.6 TWh, representing 5% of Fortum's non-nuclear fuel use.

Mitigation of local environmental impacts

Fortum strives constantly to reduce the environmental impacts of its power and heat production. All of the compa-

ny's major thermal power plants are equipped with state-of-the-art technologies reducing sulphur dioxide, nitrogen oxide (NO_x) and particulate emissions.

In 2007, Fortum invested in new Low-NO_x burners and combustion system at its Naantali power plant in Finland. Fortum also decided to invest in new flue gas condensation at its Värtaverket power plant in Stockholm. Flue gas condensation both decreases the emissions and increases the efficiency of the power plant.

In hydropower generation, restoration projects are implemented in river systems to improve habitats for endangered species and to support the recreational use of waterways. During 2007, Fortum participated in conservation projects at the Oulujoki river in Finland as well as at the Klarälven river and Lake Sommen in Sweden.

Comprehensive environmental certification

The vast majority of Fortum's business units and subsidiaries have certified their management systems in accordance with the ISO 14001 standard, and some units in accordance with ISO 9001 and OHSAS 18001, as well. Today, certificates cover approximately 96% of Fortum's business volume. Newly acquired businesses are to develop readiness for certification within three years of acquisition.

In 2007, new certificates were granted to three business units. A new ISO 14001 environmental certificate was granted to Fortum O&M (UK) Ltd at the Grangemouth CHP plant in Scotland. Fortum Generation's operations in Finland and Sweden were granted the OHSAS 18001 health and safety certificate. Fortum in Lithuania was awarded certification for integrated environmental, health, safety and quality management systems. Also, the certification of Fortum Heat's operations in Finland was expanded to cover environmental, health, safety and quality standards.

Investing in the environment

In 2007, Fortum invested a total of EUR 60 (29) million in improving environmental and safety performance. Environment, health and safety (EHS) related operating costs amounted to EUR 29 (29) million, covering e.g. air-pollution control, soil protection, effluent treatment, waste management and occupational safety.

Fortum's production facilities meet the current regulatory requirements and no major investment needs are foreseen in the near future.

Environmental liabilities under control

Fortum strives to systematically identify environmental and social risks. An internal sustainability assessment procedure is applied to all significant acquisition and other projects. Fortum has evaluated the liabilities relating to past operations and has made the necessary provisions for any future remedial costs concerning environmental damage.

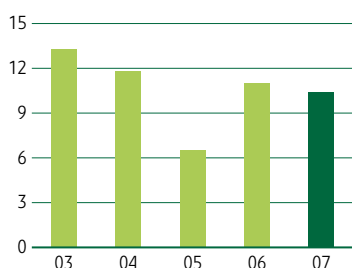
Fortum's management is not aware of any cases that might have a material impact on the company's financial position. Of the provisions for liabilities and charges included in the financial statements in 2007, EUR 8.6 million is for environmental liabilities. Such liabilities primarily relate to contaminated soil cleanup projects.

In accordance with the Finnish Nuclear Energy Act, Fortum has made provisions for future costs relating to nuclear waste management.

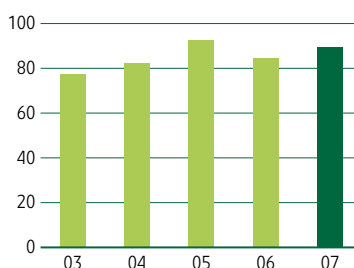
Read more about Fortum's nuclear liabilities in Note 37 in the Financials.



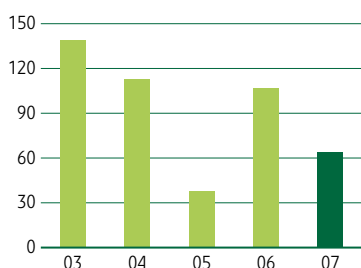
Carbon dioxide emissions, million tons



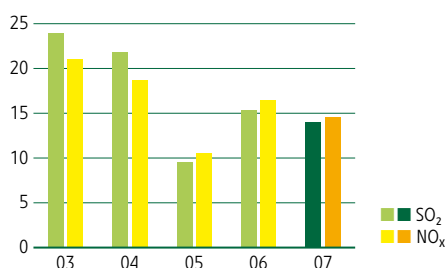
Share of carbon-free energy sources in power generation, %



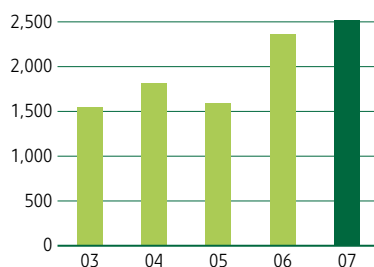
CO₂ emissions from power generation, g/kWh



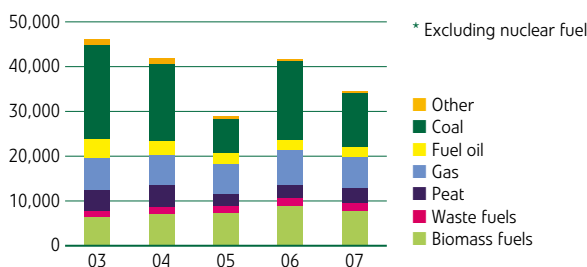
Sulphur and nitrogen emissions, 1,000 t



Particulate emissions, t



Fuel use*, TWh



Environmental indicators are unverified and minor changes are possible during a later assurance process. Total emission figures include Meri-Pori and Kirkniemi power plants, although they were leased out in 2007.



Fortum is implementing restoration projects in river systems to improve habitats for endangered species and to support the recreational use of waterways. During 2007, conservation projects were undertaken at Klarälven river and Lake Sommen in Sweden as well as the Oulujoki river in Finland.

Responsibility to stakeholders

According to its sustainability policy, Fortum wants to actively engage with stakeholders to continuously improve its environmental, social and economical performance.

Through its business, Fortum interacts with millions of people in different ways. Open, honest and proactive communication with stakeholders is of key importance when targeting the strategic aim of becoming the energy supplier of choice.

Supplier of choice

During 2007, Fortum actively engaged in a dialogue with stakeholders on climate issues. The company joined several initiatives that promote business-driven solutions to mitigate climate change including the 3C Initiative (Combat Climate Change), the World Energy Forum Gleneagles Dialogue and the Respect Table network within the EU. Fortum is also a member of the World's Business Council for Sustainable Development. [Read more about these initiatives at www.fortum.com/public_affairs.](http://www.fortum.com/public_affairs)



In Sweden, Fortum's *Energihjälpen* (Energy help) programme continued in its customer communications and interaction. *Energihjälpen* encourages and advises customers to save energy and cut costs.

In Finland, Fortum carried out extensive climate campaigns providing information and advice on saving energy. The campaigns were widely visible in media and

information was also provided directly to customers together with their electricity bills and through the company website. Furthermore, Fortum provided local libraries in its network areas with energy consumption meters that people can use to measure the consumption of their household appliances.

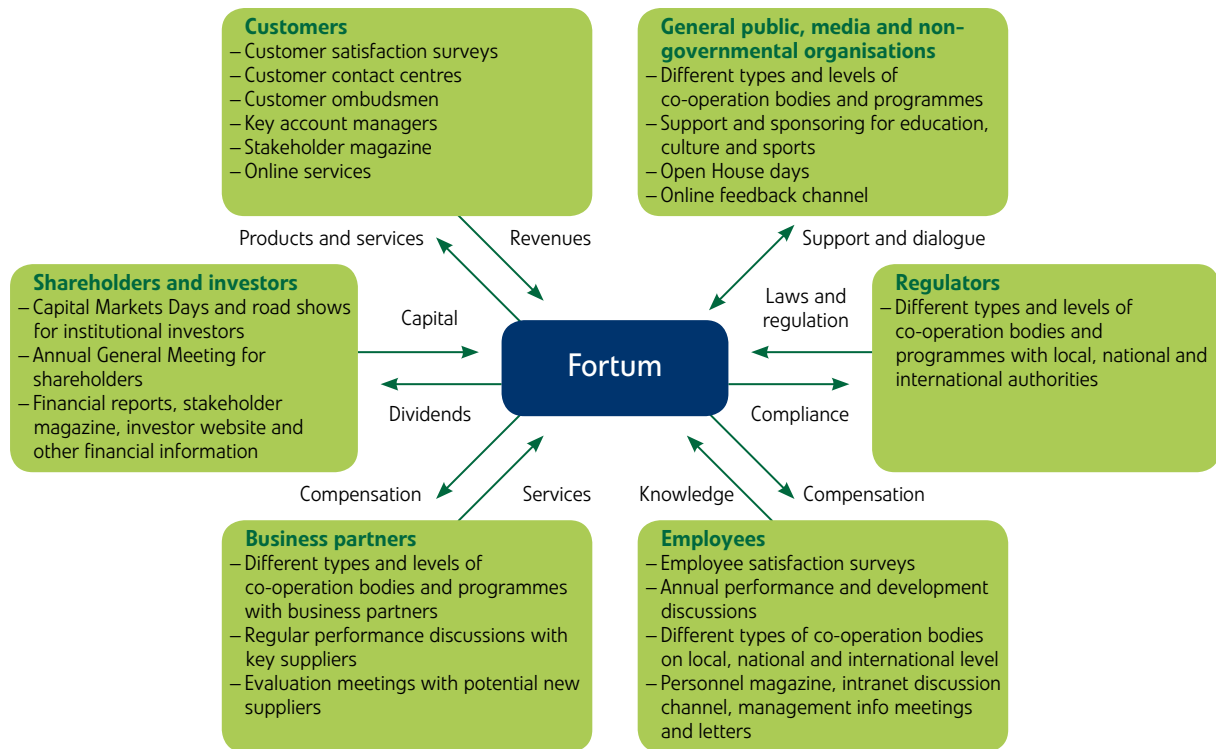
Good corporate citizenship

Fortum has hundreds of sites and offices in its market area. These sites are a part of the surrounding society, and it is in Fortum's interest to maintain good relationships with the closest neighbours and other local stakeholders.

In Finland, Fortum and the City of Espoo agreed in 2006 on long-term cooperation to make the living environment more enjoyable. The cooperation includes, for instance, improved illumination and thus improved safety in public areas, cultural events for families and the elderly as well as support for Honka, a local football club that trains thousands of children and youngsters.

The cultural collaboration culminated with a totally new type of dance and music event called "Power on the parquet!" in September 2007. Over 4,000 Espoo residents danced the day away in this free event. The dancing theme

Stakeholder relations at Fortum



continued also in 20 local nursing homes when Fortum sponsored a dance band enabling senior citizens to dance “at home”.

In Sweden, Fortum started an illumination project with the City of Stockholm. The purpose is to make several dark walkways and parks safer and nicer for pedestrians. Also in this project, special attention is being paid to energy-saving illumination.

Furthermore, Fortum participated in several different cooperation projects with schools in its market area during the year. For example in Joensuu, Finland, Fortum cooperated with the WWF during the national energy saving week to educate local second-graders about energy conservation. Fortum also sponsored related educational materials for dozens of schools around the country. In Sweden, Fortum gives the local secondary school pupils the possibility to learn about energy production and environmental issues through a special *Energisnackis* programme.

Responsible supply chain management

The service and goods providers and contractors Fortum uses play an important part in Fortum’s efforts towards sustainability. Fortum communicates its operating principles to its partners and encourages them to work according to corresponding principles. Special emphasis is put on environmental, health and safety aspects. When purchasing

goods, attention is given to the lifecycle of products and their environmental impacts.

Fortum also regularly conducts performance discussions with its most important suppliers and sets up evaluation meetings with potential new suppliers. In all purchasing, attention is given to the life cycle of products and to their environmental impacts by favouring environmentally-benign products. Procurement activities must, under all circumstances, align with Fortum’s Sustainability Policy.



In September, Fortum and the City of Espoo organised a dance and music event called "Power on the parquet!". Over 4,000 residents from babies to grandparents danced the day away in this free event.

Good people make the results

Increased focus on leadership, motivation and performance.

In 2007, Fortum employed an average of 8,304 (8,910) people. At the end of the year, the number of personnel was 8,303 (8,134) of which 7,954 (7,681) were permanent employees. Out of the permanent employees 3.8% (3.7%) were employed part-time. Altogether there were 70 (373) redundancies resulting from mergers and reorganisations. The majority of these were caused by the centralisation of customer services and some distribution operations as well as the integration of Fortum Espoo. Additionally, 280 people transferred to external service providers.

Women represented 23% (23%) of the total workforce, but accounted for 33% (34%) of corporate and business unit

management. Fortum is committed to promoting equality and diversity in all its operations.

Meeting future resource needs

Over the years, active job rotation across units and countries has been one of Fortum's key tools for developing people and renewing the business. This is supported by group-wide career and development planning processes and individual development discussions and plans.

In addition to job rotation, outside recruitments are also needed in order to bring in new competencies and ideas, and to fill vacancies caused by the increasing number of

Key figures

	2007	2006	2005	Change % (06-07)
Average number of employees	8,304	8,910	8,939	-6.8%
Number of employees at 31 Dec.	8,303	8,134	8,955	2.1%
of whom permanently employed	7,954	7,681	8,769	3.7%
Female, %	23	23	22	
Women in management positions, %	33	34	32	
Training days per person	4.0	4.0	3.7	
Training expenditure, EUR mill.	7.6	7.5	10.8	1.3%
Health care expenditure*, EUR per person	412	445	452	-7.4%
Expenditure on recreation and leisure activities*, % of salaries paid on working time	0.4	0.4	0.4	
Lost workday injury frequency (number of injuries resulting in absence of more than one day per million hours worked)	2.9	3.7	4.8	
Fatalities	2	2	2	

* Finland

retirements. According to current statistics, approximately 40% of all Fortum employees will retire in the next ten years. Workforce plans have been made to guarantee that the company is able to meet the challenge in the tightening labour market competing for best resources. One of the key initiatives in the area is systematically improving Fortum's employer image within its key target groups. Furthermore, a special Fortum Induction Day concept was created in 2007 to support newcomers' settling in by enhancing their overall understanding of Fortum and its business.

September 2007 saw a major reshuffle in Fortum's top management. Two new Fortum Management Team members were appointed, both women. One was an internal nomination and the other an external recruitment. Out of seven business unit heads, four are new and two of them were externally recruited.

In 2007, Fortum had 244 (207) internal vacancies, and there were 358 (215) transfers between units. In business unit management teams, over one third of the members rotated.

From job satisfaction to people engagement

The annual job satisfaction survey, always carried out in autumns, has been a key tool in enhancing the overall job satisfaction and thus improving the motivation and performance of people and organisations. During 2007, the existing survey was analysed and a new approach was developed. The purpose of the new approach is to enhance the level of people engagement. The first Employee Engagement survey will be conducted in the spring 2008.

The results of the previous surveys are still giving input to the organisational development actions. For example, more focus has been put on the managers' ability to efficiently run Fortum's key people processes, especially performance and development discussions.

Competent leaders make the change

In Fortum, the quality of leadership has always been regarded as the prerequisite for a culture of high performance and job satisfaction. Continuous and consistent leadership development is therefore a priority, and several different management training programmes have been implemented through the years. Hundreds of managers have participated in these programmes since 2002.

The two newest, the modular Master programme and the Leading Fortum Forward programme focusing on management teams, were running throughout 2007. Additionally, a Fortum-specific 360 degree process continued. It is designed for giving feedback and identifying development needs of leaders in key positions.

Fortum aims at increasing the role of managers in people issues. Since spring 2007, a new HR IT system has provided managers in Finland and Sweden with online access to the personal and job data of their subordinates. Additional, more sophisticated functionalities will be implemented in the future.

A total of 536 employees have participated in management development programmes. The main part of people development activities, however, take place in business

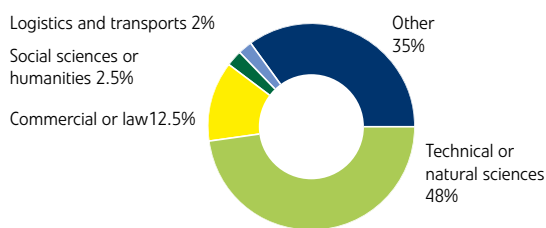
Number of employees by segment, 31 December

	2007	2006	2005	Change % (06-07)
Power Generation	3,519	3,347	4,330	5.1
Heat	2,279	2,290	2,393	-0.5
Distribution	1,063	1,032	946	3.0
Markets	935	901	769	3.8
Other operations	507	564	517	-10.1
Total	8,303	8,134	8,955	2.1

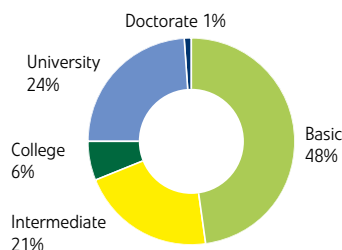
Number of employees by country, 31 December

	2007	2006	2005	Change % (06-07)
Finland	2,981	2,976	3,476	0.5
Sweden	3,465	3,321	3,463	4.3
Poland	925	990	1,187	-6.6
Estonia	336	280	300	20.0
Norway	277	261	268	6.1
Other countries	319	306	261	1.3
Total	8,303	8,134	8,955	2.1

Field of education, 31 December 2007, %



Level of education, 31 December 2007, %



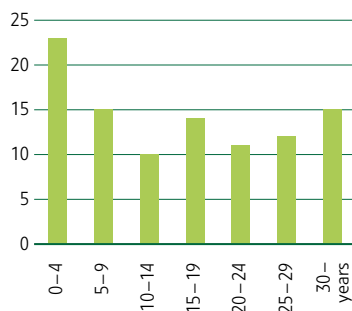
units based on individual- or team-specific annual development plans. Investments in people development during 2007 amounted to EUR 7.6 (7.5). Fortum employees spent an average of 4.0 (4.0) days in training.

Remuneration based on performance

Fortum's remuneration strategy aims at supporting the company's strategic targets by strengthening a strong performance culture and attracting and retaining the best people. The goal is to offer a competitive compensation package in each country of operation while simultaneously maintaining cost efficiency.

Practically all employees are covered by an annual bonus system. Individual- or team-based targets support the reaching of business targets and are set in the annual performance discussions between the employee and the supervisor or team and the supervisor.

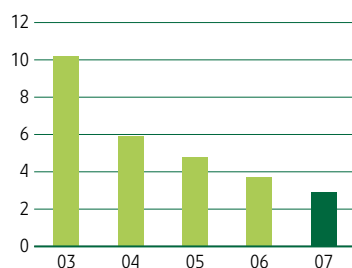
Duration of employment, 31 December 2007, %



Age distribution, 31 December 2007, %



Lost workday injury frequency, injuries/mill. hours worked



Safety key figures

	2007	2006
Injury frequency (number of injuries/million hours worked)	2.9	3.7
Number of safety observation tours	6,450	4,000
Number of improvement proposals and near-miss reports	2,670	1,950

The final annual bonus is based on the financial results of the Group and/or each business unit and/or sub-unit and on the individual or team performance. Consequently, the average bonus payments in the spring 2007 (from the 2006 financial results) varied between units and individuals. On average, the annual bonus paid in 2007 amounted to approximately 2–9% of the annual salary of a Fortum employee.

In addition to the annual bonus, the Group and business unit management participate in Fortum's share-based Long Term Incentive system. The first shares under the scheme will be distributed in spring 2008.

The Fortum Personnel Fund covered 3,491 employees in Finland in spring 2007. Based on profit-sharing criteria, Fortum paid EUR 4.6 million to the fund and the fund EUR 8.8 million to its members.

For more information on the Group's remuneration, please refer to pages 49–52.



HR strategy for the future

Fortum's human resources strategy is based on the Group strategic business targets and is updated annually accordingly. The key elements in the HR strategy are leadership development, creating a high performance culture, improving the company's employer image and ensuring the needed competences and resources for Fortum.

In the changing environment, also the HR strategy and targets have to be continuously reviewed. Issues on Fortum's Strategic Agenda, such as mitigating climate change and encouraging individual initiative, are also reflected in leading people. A concrete action in the area is the new, tight carbon dioxide emissions restrictions on company cars.

In 2007, Fortum's HR roles and responsibilities were clarified between managers and HR, as well as within HR. Simultaneously, 13 new HR professionals were recruited to enhance the HR business support.

Industry benchmark in occupational safety

Fortum is committed to providing its employees a safe working environment. The ambition is to be the industry benchmark in safety with the ultimate goal of zero accidents. To attain this goal, efforts to develop safety management continued in 2007. During the year, special emphasis was put on contractor safety. Over 6,400 safety walks carried out by the company's management and supervisors also raised the general awareness and commitment to occupational safety. New ambitious safety targets were set towards the end of the year.

In 2007, there were 40 occupational accidents leading to an absence of more than one working day. This means 2.9 injuries per million working hours, which was a clear improvement from the previous year but above Fortum's ambitious target of 2.0 for 2007.

Year 2007 saw also two fatal accidents in our premises. In March, an operator was killed when performing maintenance work at a biofuel plant in Germany, and in September, during a break-in into a substation in Stockholm, one person came into contact with high-voltage equipment with a fatal outcome.

These accidents, as all accidents at Fortum, have been thoroughly investigated to help to prevent similar accidents in the future. Improving risk assessment practices and adherence to given instructions are key prerequisites in meeting the ultimate goal of zero accidents.

In order to further improve and meet the new very ambitious target of less than 1 injury per million working hours by 2010, Fortum will further develop its safety culture. According to Fortum's guiding principle regarding safety, every accident can be avoided; and in order to foster safe behaviours this mindset needs to be embraced by everyone in the company.

Energy and well-being for societies

Strong performance and operational excellence are the cornerstones of Fortum's economic responsibility.

Strong financial performance is a prerequisite for taking care of our social and environmental responsibilities. Fortum believes that good social and environmental conduct also helps the company attain the best long-term financial results.

Industry benchmark in financial performance

In 2007, Fortum's goal of being the industry benchmark in financial performance was achieved in several key areas. Fortum's sales increased, operating results improved and the financial position remained strong. Also the group's key financial targets were exceeded.

Targeting operational excellence

Fortum serves 1.3 million electricity sales customers and distributes electricity to 1.6 million households and businesses in its market area. Furthermore, the company provides its customers with heating and cooling as well as operation and maintenance services. In Stockholm, Sweden, Fortum also provides town gas.

Fortum's vision is to become a benchmark power and heat company excelling in sustainability. An instrumental part of reaching the vision is performance excellence in all operations, which in turn requires utmost efficiency and reliability in the whole energy chain. Plant availability, network reliability and high-quality customer service are key aspects of operational excellence at Fortum.

In 2007, the company maintained a high level of plant availability, which resulted in an excellent production portfolio optimisation. In order to secure also future capacity needs, investments in climate-benign power and heat generation continued.

Fortum is committed to further improving its network reliability of over 99.9%. Consequently, the company continued its network investment programme targeting at halve the average yearly outage time.

Fortum's goal is to have the most satisfied and loyal customers. In 2007, Fortum focused on improving customer care for example by installing automatic meter management to both electricity and district heating customers. In Finland, Fortum gained new electricity customers while in Sweden the company lost customers. The number of district heating customers increased compared to 2006 both in Finland and Sweden.

Operational excellence also requires organisational renewal. During the year, a new head was appointed in four out of Fortum's seven business units and the Fortum Management Team received two new members. Additionally,

Fortum strengthened its organisation in sustainability issues by starting up a new Sustainability unit. The new unit is prompted by Fortum's desire to make sustainability a success factor for the company. In order to further increase the share of renewable energy sources in its generation portfolio, Fortum also established a Renewables unit, which is exploring new investment opportunities.

Monetary flows create well-being in society

Fortum's direct economic impact on welfare in society comes through the suppliers of raw materials, goods and services, among other things. This direct impact also covers the skilled personnel the company employs as well as investments in new plants and equipment. The indirect economic impact of Fortum's business relates to such factors as subcontractors' personnel and, through the taxes the company pays, the welfare of society.

Income from customers in 2007 amounted to EUR 4,832 (4,516) million. Electricity sales in Finland represented 32% (33%) of the national consumption, while in Sweden the corresponding figure was 19% (20%). The percentage was considerably lower in all other markets served.

Almost half of the income from customers was paid to suppliers of goods and services. In 2007, cash payments to suppliers totalled EUR 2,013 (2,290) million. Of this, Finnish, Swedish and Russian suppliers accounted for the main part.

The number of employees in 2007 averaged 8,304 (8,910). The vast majority, 89%, of Fortum employees work in Finland, Sweden and Poland, but the remaining 11% are spread across the world. The total value of wages, salaries, remunerations and indirect employee costs paid by Fortum to its employees was EUR 495 (508) million.

Fortum had more than 50,000 shareholders at the end of 2007. The Finnish State owned 50.9% (50.8%) while the proportion of nominee registrations and direct foreign ownership was 35.8% (35.4%). During 2007, a total of 787.4 (830.8) million Fortum Corporation shares totalling EUR 18,562 million were traded. The highest quotation on the 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). The company's market capitalisation, calculated using the closing quotation of the last trading day of the year, was EUR 27,319 million.

A proposal was made to the Annual General Meeting that Fortum should pay a total dividend of EUR 1,197 (1,122) million, or EUR 1.35 (1.26) per share to the shareholders for the financial year 2007.



January 2007 was the warmest ever in world according to the World Meteorological Organization. In the southern and central parts of Finland, termic winter started several weeks later than normal.

In 2007, Fortum paid EUR 383 (374) million in taxes. States and municipal governments also benefit from the income taxes paid by Fortum employees on their salaries. Furthermore, Fortum paid a total of EUR 84 (72) million in environmental taxes and charges relating to its fuel use and emissions.

Fortum's future growth investments totalled EUR 471 (972) million, and cash from divesting activities amounted to EUR 347 (125) million.

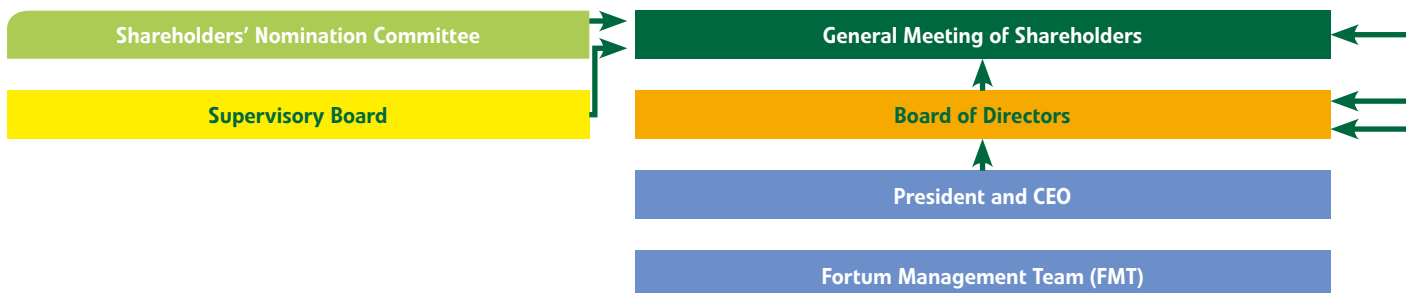
Donations to research and charitable causes

The Fortum Foundation distributed a total of EUR 700,000 (510,000) to support energy sector research and development work. Also, during the year Fortum continued its co-operation with a number of schools and universities. In Finland, Fortum made donations totalling approximately EUR 315,000 (280,000) to various charitable causes. These included projects aiding children and youngsters, protecting the environment and support for culture.

Through sponsoring, Fortum wants to support the goal of becoming the energy supplier of choice in the Nordic countries and to demonstrate social responsibility. The company has selected partners from the areas of society, culture and sports. The main societal support included the Finnish Children and Youth Foundation project in Russian Carelia, WWF's children's environmental programme Nature-watch and cooperation with the Ung Företagsamhet organisation in Sweden. Fortum is also taking part in illumination projects both in Stockholm, Sweden and Espoo, Finland. Main cultural support projects include a long-term partnership with Folkoperan in Stockholm and the Finnish Chamber Orchestra as well as instrument donations to the Finnish Sibelius Academy. Fortum's main sponsorship projects within sports were the Swedish Athletic Association, the Finnish Alpine Ski Team and Finnish Paralympic Committee.

Fortum's economic impact, EUR million

	2007	2006
Customers	4,832	4,516
Income from customers on the basis of products and services sold, and financial income		
Suppliers	-2,013	-2,290
Cash payments to suppliers of raw materials, goods and services		
Employee compensation	-495	-508
Wages, salaries, remunerations and other indirect employee costs		
Funder's compensation	-1,393	-1,180
Dividends, interest and financial expenses paid to investors		
Taxes	-383	-374
Income taxes paid by Fortum		
Usage of assets	-406	-412
Investments in fixed assets		
Surplus/Deficit cash	142	-248
Cash from divesting activities	347	125
Income from divestment of business activities or plants		
Future growth investments	-471	-972
Investments made to expand business operations		
Proceeds/Return from/to funders	252	464
Proceeds/payments of liabilities from/to funders		
Net change in cash	270	-631





Corporate Governance

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

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

Furthermore, Fortum complies with the Rules of OMX Nordic Exchange Helsinki.

Governing bodies

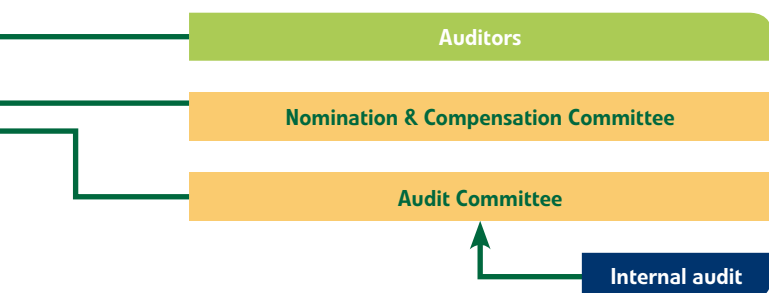
The decision-making bodies running the Group's administration and operations are the Annual General Meeting of Shareholders, the Supervisory Board, the Board of Directors with its two Committees, and the President and Chief Executive Officer (CEO) assisted by the Fortum Management Team. The Board of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

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

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

General Meeting of Shareholders

The right of shareholders to make decisions over company matters is exercised at an appropriately convened General



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

The shareholders who are registered as shareholders in the company's shareholder register, which is maintained by the Finnish Central Securities Depository Ltd, 10 days prior to the meeting are entitled to attend the General Meeting of Shareholders. Shareholders who hold their shares under the name of a nominee can be temporarily registered in the company's shareholder register to allow attendance at the General Meeting of Shareholders.

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

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

Shareholders' Nomination Committee

By decision of Fortum's Annual General Meeting in 2007, a Shareholders' Nomination Committee was appointed to assist the Annual General Meeting. The Committee's duty is to prepare proposals concerning Board members and their compensation for the following Annual General Meeting. The Committee consists of the representatives of the three largest shareholders and the Chairman of the Board of Directors as an expert member. Those three shareholders, whose share of the total votes of all shares in the company is the largest as of 1 November preceding the Annual General Meeting and whose ownership is registered in the book-entry system, are entitled to appoint the members representing the shareholders on the Committee. Should a shareholder not wish to use its

right to nominate, this right will be passed on to the next biggest shareholder.

In November 2007, the following persons were appointed to Fortum's Shareholders' Nomination Committee: Pekka Timonen, Director General, Prime Minister's Office, Ownership Steering Department; Harri Sailas, CEO, Ilmarinen Mutual Pension Insurance Company and Jorma Huuhtanen, Director General, Social Insurance Institution.

In its meeting on 15 January 2008, the Shareholders' Nomination Committee decided to propose to the AGM, which is to be held 1 April 2008, that the following persons are elected to the Board of Directors: Peter Fagnäs as chairman, Matti Lehti as deputy chairman, and as members Esko Aho, Ilona Ervasti-Vaintola, (new member), Birgitta Johansson-Hedberg, Marianne Lie and Christian Ramm-Schmidt.

Supervisory Board

The main tasks of the Supervisory Board are to oversee the activities of the company, to submit its statement on the financial statements and the audit report to the Annual General Meeting, and to discuss proposals on matters that involve a substantial downsizing or expansion of the business or a material modification to the organisation.

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

The Supervisory Board comprises a minimum of six and a maximum of 12 members; in February 2008 there were ten members. The Supervisory Board meetings are also attended by employee representatives who are not members of the Supervisory Board. More than half of its members must be present to constitute a quorum. In 2007, the Supervisory Board met six times. Average attendance at these meetings was 81.7%.

At the 2007 Annual General Meeting, the following persons were elected to the Supervisory Board for a one-year term of office:

- Mr **Timo Kalli**, born 1947, Member of Parliament, Chairman
- Ms **Rakel Hiltunen**, born 1940, Member of Parliament, Deputy Chairman
- Mr **Martti Alakoski**, born 1953, Member of City Council of Kurikka
- Mr **Lasse Hautala**, born 1963, Chairman of the City Council of Kauhajoki
- Mr **Mikko Immonen**, born 1950, Member of the Community Council of Mynämäki
- Mr **Kimmo Kiljunen**, born 1951, Member of Parliament
- Mr **Jari Koskinen**, born 1960, Member of Parliament
- Ms **Sirpa Paatero**, born 1964, Member of Parliament
- Mr **Oras Tynkkynen**, born 1977, Member of Parliament
- Mr **Ben Zyskowicz**, born 1954, Member of Parliament

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

Shares held by the members of the Supervisory Board on 31 December 2007

	2007	2006	Change
Rakel Hiltunen	200	200	0

Compensation for Supervisory Board service

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

On 28 March 2007, the Annual General Meeting confirmed the following remuneration for Supervisory Board service:

Compensation for Supervisory Board service, EUR/month

	2007	2006	2005
Chairman	1,000	1,000	1,000
Deputy Chairman	600	600	600
Members	500	500	500
Meeting fee	200	200	200

Total compensation for Supervisory Board paid by Fortum, EUR

	2007	2006	2005
Chairman	13,000	13,200	12,800
Deputy Chairman	8,000	8,400	8,000
Other members	57,700	63,500	67,800

Board of Directors

The Board of Directors is responsible for the administration of the Group and for ensuring that the business complies with the relevant rules and regulations, Fortum's Articles of Association, and the instructions given by the General Meeting of Shareholders and the Supervisory Board. The Board of Directors is responsible for the company's strategic development and for supervising and steering the business. It also decides on the Group's key operating principles, confirms the company's annual operating plan, annual financial statements and interim reports, decides on major investments, confirms the company's shared values and operating principles and oversees their implementation, appoints the President and CEO of the company, appoints deputies and the immediate subordinates to the President and CEO and decides on their remuneration, confirms the Fortum Management Team and the Group's organisational and operating structure at the senior management level, and defines the company's dividend policy.

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

At the 2007 Annual General Meeting, the following seven persons were elected to the Board of Directors:

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

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

In 2007, the Board of Directors met 11 times, of which two were teleconferences. Average Director attendance at all Board meetings was 89.6%. In addition to steering and supervising the company's operational and financial development, the main items during the year were Fortum's strategy, electricity market development in Europe and in Russia and investments in power generation. The Board also addressed issues relating to sustainable business development and further development of Fortum's Code of Conduct.

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

Shares held by members of the Board of Directors on 31 December 2007

	2007	2006	Change
Peter Fagernäs	30,591	30,591	0
Christian Ramm-Schmidt	1,000	1,000	0

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

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

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

The main tasks of the Board of Directors

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

Assessment of the Board of Directors' work

- Annual self-assessment

Procedures of Board Meetings

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

The Board Committees

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

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

The Audit Committee assists the Board of Directors in fulfilling its supervisory responsibilities. The Committee follows the financial position of Fortum and oversees the financial reporting process, the systems of accounting and financial controls and the management of financial and other risks. The Committee also prepares the election of external auditors and monitors the independence, performance and fees of the external auditors and gives recommendations thereof to the Board of Directors and the Annual General Meeting. The committee regularly meets with the external auditors without the management being present as well as with Internal Audit. The Committee reports on its work to the Board of Directors regularly after each meeting.

The Committee reviews annually its charter, the internal audit plan and reports as well as the auditor's plan, and reports and discusses the audit findings. Furthermore, the Committee carries out a self-assessment of its work each year.

In 2007, the Audit Committee was chaired by Birgitta Kantola and its members were Birgitta Johansson-Hedberg and Christian Ramm-Schmidt. The Committee met five times in 2007. Also regularly participating in the Committee's meetings were external auditors, Internal Audit, Chief Financial Officer, Corporate Controller and General Counsel as the Secretary to the Committee as well as other parties invited by the Committee.

The main items during the year included the review of financial reports, monitoring of certain important projects, compliance with legal requirements and development of internal controls and the Code of Conduct.

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 Committee reports on its work to the Board of Directors after each meeting.

In 2007, the Nomination and Compensation Committee was chaired by Peter Fagernäs and its members were Esko Aho, Marianne Lie and Matti Lehti. The Committee met three times during 2007. Other regular participants in the Committee meetings were Senior Vice President, Human Resources and General Counsel as the Secretary to the Committee.

The main items included top management performance evaluations and compensation issues, as well as short and long term incentive programmes at Fortum.

Assessment of the Board of Directors

At Fortum, the Board of Directors conducts an annual self-assessment in order to further develop the work of the Board. The assessment process analyses the efficiency of the work, the size and composition of the Board, the preparation of the agenda, and the level and openness of



discussions, as well as the members' ability to contribute to an independent judgement.

Compensation for Board service

The Annual General Meeting of 2007 confirmed the following compensation for Board service:

Compensation for Board service, EUR/year

	2007	2006	2005
Chairman	55,000	55,000	55,000
Deputy Chairman	42,000	42,000	42,000
Members	30,000	30,000	30,000

In addition, a EUR 500 meeting fee 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 directors.

Total compensation for Board of Directors paid by Fortum, EUR

	2007	2006	2005
Chairman	61,500	63,000	60,925
Deputy Chairman	50,000	50,500	48,725
Other members of the Board	186,500	189,500	179,875

President and CEO

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

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

For further information regarding the compensation of the President and CEO, please refer to Note 14 in the Financials.



Fortum Management Team

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

The Fortum Management Team, among other things, sets the strategic targets, prepares the Group's annual business plans, follows up on the results, plans and decides on investments, decides on mergers, acquisitions and divestments, reviews the key day-to-day operations and the implementation of operational decisions.

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



Shareholding, Fortum Management Team

Shares	31 Dec. 2007	31 Dec. 2006	Change
Frisk Mikael	14,900	14,900	0
Karttinen Timo	30,000	30,000	0
Kuula Tapio	50,050	50,050	0
Laaksonen Juha	20,000	20,000	0
Lilius Mikael	170,050	170,050	0
Lundberg Christian	30,000	30,000	0
Maria Paatero-Kaarnakari (from 1 September 2007)	2,030	n/a	n/a
Maria Romantschuk (from 1 September 2007)	0	n/a	n/a
Carola Teir-Lehtinen (until 31 August 2007)	n/a	23,000	n/a

Remuneration policy

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

Annual bonus system


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

The criteria used in determining the size of the bonus for senior management are decided annually by the Board of Directors on the recommendation of the Board's Nomination and Compensation Committee. The President and CEO as well as the Fortum Management Team are paid annual performance bonuses in addition to their salary and fringe benefits. The size of each senior executive's annual bonus is dependent on the Group's financial performance, as well as on their own success in reaching their individual goals. If the financial targets and personal goals are met, each senior executive receives a 25% bonus. The maximum bonus level, in the case when 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 that of the Group. The criteria for evaluating an executive's personal performance are mutu-

ally agreed between the executive and his/her superior in an annual performance discussion at the beginning of each year.

The annual performance bonuses paid to the Fortum Management Team, including the President and CEO, in 2007 amounted to EUR 836,568, which is 0.17% of the total salaries and remuneration paid in the Group.

For more information, please refer to Note 31 in the Financials. 

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

	2007	2006	2005
Salaries and fringe benefits			
President and CEO	833,304	795,844	769,164
Other Management Team members	1,562,073	1,415,023	1,460,323
Performance bonuses			
President and CEO	297,018	384,582	365,700
Other Management Team members	539,550	584,615	708,777
Total			
President and CEO	1,130,322	1,180,426	1,134,864
Other Management Team members	2,101,623	1,999,638	2,169,100

Long-term incentives (LTI)

Fortum's Long-Term Performance Share Arrangement 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 under the arrangement starts annually if approved by the Board of Directors and runs for a six-year period. At present, approximately 160 managers, all of whom have been elected by the Board of Directors, are participants in at least one of six ongoing annual LTI plans. The 2006–2011 LTI plan is for non-share option holders only.

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



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

The first annual share plan began in 2003 and was based on the 2002 financial results. After the three-year earning period, in spring 2005, share rights belonging to the first plan were granted to the participants. The shares, based on these share rights, were delivered to the participants in February 2008. In 2006, the earning period of the consecutive plan (2003–2008) ended and share rights belonging to this plan were granted to the participants. In 2007, the share rights from plan 2004–2009 were granted to the participants.

Net calculative share rights granted to the management

	Year 2008 ¹⁾	Year 2009 ²⁾	Year 2010 ²⁾
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

¹⁾ Actual number of shares delivered in February 2008.

²⁾ Calculative number of share rights based on 56% tax deduction.

The members of the current Fortum Management Team did not have any remaining stock options from the option schemes 2001A, 2001B, 2002A and 2002B on 31 December 2007.

Fortum does not have any stock option programmes, where the subscription periods have not yet started. The subscription periods for the last stock option scheme (2002B) began in 2006 and will end in April 2009.

For more information about the LTI, please refer to Note 31 in the Financials.



Pension

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

For the President and CEO and the members of the Fortum Management Team, the retirement age is between 60 and 63 and the pension paid can be max. 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.

Pension foundation

Fortum has one pension foundation, the Fortum Pension Fund for employees in Finland only, which was closed in 1991. The fund offers certain supplementary pension benefits to people within the sphere of its operations. The most

important of these are the overall guaranteed pension of 66% and the reduced retirement age of 60 for women and some men. At the end of 2007, the number of employees covered by the fund was 1,100.

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

Pensions in Sweden

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

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

Fortum Personnel Fund

The Fortum Personnel Fund (for employees in Finland only) has been in operation since 2000. The Board of Directors determines the criteria for the fund's annual profit-sharing bonus. Persons included in the Long-Term Performance Share Arrangement are not eligible to be members of this fund. Members of the personnel fund are the permanent and fixed-term employees of the Group. The membership of employees joining the company starts at the beginning of the next month after the employment relationship has been ongoing for six months. Fund membership terminates when the member has received his/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 tied amount and an amount available for withdrawal. Employees can decide whether to withdraw their share of the profit in cash or in Fortum shares. It is possible to transfer a maximum of 15% of capital from the tied amount to the amount available for withdrawal each year, once the employee has been a member for five years. The fund's latest financial year ended at 30 April 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 amount available for withdrawal is decided each year and it is paid to members who want to exercise their withdrawal rights.

Insider guidelines

Fortum observes the Guidelines for Insiders issued by OMX Nordic Exchange Helsinki. Fortum's own internal insider rules are regularly updated and made available to all permanent insiders, as well as to all employees of Fortum. The company arranges training on insider rules. Fortum maintains a public insider register of persons obliged to declare insider holdings, as required under the Securities Markets Act, and a non-public company-specific insider register of such parties who receive inside information.

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

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

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

The company regularly monitors the trading of permanent insiders based on the information held in the register of the Finnish Central Securities Depository. The company may, on a case-by-case basis, supervise the trading of shares and related securities of its permanent insiders more thoroughly, for example, if a permanent insider trades in large volumes of shares and related securities or the trading of shares and

related securities is continuous. In addition, the company supervises compliance with insider rules by asking the public insiders to check the accuracy of the information given by them each year.

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

Internal audit

Fortum's Corporate Internal Audit is responsible for assessing and assuring the adequacy and effectiveness of internal controls in the company. Further, it evaluates the effectiveness and efficiency of various business processes, the adequacy of risk management and e.g. compliance with laws, regulations and internal instructions. The Standards for the Professional Practice of Internal Audit form the basis for its work. Corporate Internal Audit is independent of business and other units in Fortum. Internal Audit communicates its findings and recommendations to the management of the company and its reporting line also goes to the Audit Committee of the Board of Directors. The administrative reporting line is to the CFO.

The purpose, position and scope of work of Corporate Internal Audit are formally defined in its charter. The charter and the annual audit plan are approved by the Audit Committee.

External audit

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

Fortum Corporation's Annual General Meeting on 28 March 2007 elected Authorised Public Accountant Deloitte & Touche Oy as auditor, with Authorised Public Accountant Mikael Paul having the principal responsibility.

The fees invoiced and expected to be invoiced by the independent auditors for professional services rendered for the audit of Fortum's annual financial statements and other services through 31 December 2007, were as follows:

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

	2007	2006	2005
Audit fees	1,017	950	1,065
Audit related assignments	116	–	–
Tax assignments	378	–	287
Other assignments	349	180	626
Total	1,860	1,130	1,978

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.

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.

Ensuring a predictable operating environment

The objective of risk management at 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.

Risks are managed at the source

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 defines the overall risk management process. The main principle is that risks are managed at the source, and each business and service unit submits a risk policy to the CEO for approval.

Corporate guidelines are issued for those risks managed at the Group level. Corporate Treasury is responsible for managing the Group's currency, interest rate, and liquidity and refinancing risks as well as for insurance management. Corporate Credit Control is responsible for assessing and consolidating the Group's exposure to counterparty risk, monitoring the creditworthiness of counterparties and for approving counterparty 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.

Corporate Risk Management is an independent function

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, reports to the 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 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.

Business and service units follow a uniform 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 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.

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 the business units aims to capture the potential upside by optimising hedging or by trading in the markets. Risk taking is limited by risk

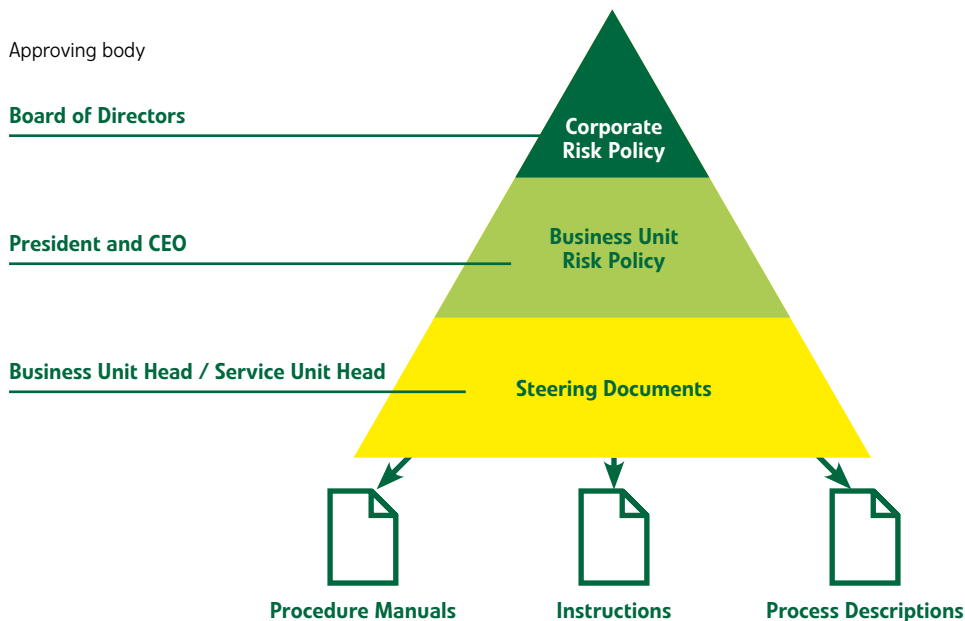
mandates. Risk mandates include minimum EBIT levels for the business units that are set by the CEO. Volumetric limits, Value-at-Risk limits, Stop Loss limits and counterpart exposure limits are also in place.

Operational risks

Operational risks are defined as the negative effects resulting from inadequate or failed internal processes, people and systems or equipment, or from external events. The main objective of operational risk management is to reduce the risk of unwanted operational events by clearly documenting and automating processes and by ensuring a strict segregation of duties between decision-making and controlling functions. Quality and environmental management systems are a tool for achieving this objective, and Fortum has several certifications, including ISO 9001 and ISO 14001. 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.

For more information on the specific risks Fortum is exposed to and how they are managed, please refer to the risk management section of the Operational and Financial Review in the Financials.



Board of Directors (31 Dec. 2007)

Peter Fagernäs

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

Main occupation:

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

Primary work experience:

Chairman of the Board, Pohjola Group Plc
Chairman of the Board, Conventum Plc
CEO, Conventum Plc

Member of the Board, Merita Bank
CEO, Prospectus Oy

Various positions at Kansallis-Osake-Pankki

Simultaneous positions of trust:

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

Independent member of Fortum's
Board of Directors since 2004

Esko Aho

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

Main occupation:

President of Sitra, the Finnish Innovation Fund

Primary work experience:

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

Simultaneous positions of trust:

Member of the Board of Russian Venture Company

Independent member of Fortum's
Board of Directors since 2006

Birgitta Johansson-Hedberg

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

Main occupation:

Director

Primary work experience:

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

Simultaneous positions of trust:

Chairman of the Board of University of Umeå,
Vinnova and Vägverket Konsultråd, Vice Chairman
of the Board of A-banan, Member of the Board of
Botnia-banan, Sveaskog and Finansinspektionen

Independent member of Fortum's
Board of Directors since 2004

Birgitta Kantola

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

Main occupation:

Director

Primary work experience:

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

Simultaneous positions of trust:

Member of the Board of Nordea Bank AB, Stora Enso
Oyj, Varma Mutual Pension Insurance Company,
Vasakronan AB, OMX AB and Åbo Akademi

Independent member of Fortum's
Board of Directors since 2001

Matti Lehti

Born 1947, PhD (Econ)
Member of the Nomination and Compensation Committee

Main occupation:

Chairman of the Board of TietoEnator Corporation

Primary work experience:

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

Simultaneous positions of trust:

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

Independent member of Fortum's
Board of Directors since 2005

Marianne Lie

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

Main occupation:

Director General, Norwegian Shipowners Association (NSA)

Primary work experience:

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

Simultaneous positions of trust:

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

Independent member of Fortum's
Board of Directors since 2005



Birgitta Johansson-Hedberg, Matti Lehti, Marianne Lie, Peter Fagernäs, Birgitta Kantola, Esko Aho, and Christian Ramm-Schmidt

Christian Ramm-Schmidt

born 1946, B. Sc. (Econ.)

Member of the Audit Committee

Main occupation:

Senior Partner of Merasco Capital Ltd.

Primary work experience:

President of Baltic Beverages Holding Ab (BBH)

President of Fazer Biscuits Ltd., Fazer Chocolates

Ltd., Fazer Confectionery Group Ltd.

Director, ISS ServiSystems Oy

Simultaneous positions of trust:

Chairman of the Board of Derbes Brewery (BBH), Kazakhstan,

Member of the Board of Oy Chips Ab, Bang & Bonsomer Oy,

Orkla CIS Holding Ltd, Tradeka Group Ltd, MDC Education

Group and Sarbast Plus Brewery (BBH), Uzbekistan

Independent member of Fortum's

Board of Directors since 2006

Group Management (31 Dec. 2007)

Mikael Lilius

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

Previous positions:

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

Simultaneous key positions of trust:

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

Mikael Frisk

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

Previous positions:

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

Timo Karttinen

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

Previous positions:

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

Simultaneous key positions of trust:

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

Tapio Kuula

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

Previous positions:

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

Simultaneous key positions of trust:

Kemijoki Oy, Chairman of the Board
Fingrid Oyj, Chairman of the Board
Teollisuuden Voima Oy, Vice Chairman of the Board
OAO TGC-1, Vice Chairman of the Board
Varma Mutual Pension Insurance Company, Member of the Supervisory Board
National Board of Economic Defense, Member
Confederation of Finnish Industries, Energy Committee, Member

Juha Laaksonen

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

Previous positions:

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

Simultaneous key positions of trust:

Sato Oyj, Chairman of the Board
Kemira Oyj, Member of the Board and Chairman of the Audit Committee
Teollisuuden Voima Oy, Member of the Board
Kemijoki Oy, Member of the Supervisory Board

Christian Lundberg

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

Previous positions:

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

Simultaneous key positions of trust:

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



Christian Lundberg, Mikael Frisk, Maria Paatero-Kaarnakari, Mikael Lilius, Juha Laaksonen, Maria Romantschuk, Timo Karttinen, and Tapio Kuula.

Maria Paatero-Kaarnakari

Senior Vice President, Corporate Strategy, since 2007

Born 1955. MSc (Eng)

Member of the Management Team since 2007

Employed by Fortum since 1985

Previous positions:

Fortum Oyj, Vice President, Corporate Development 2000

Neste Oyj, Manager, Strategic Planning 1998

Neste Polyester Inc, USA, Business

Development Manager 1997

Neste Group, various managerial positions 1985

Maria Romantschuk

Senior Vice President, Corporate Communications, since 2007

Born 1956

Member of the Management Team since 2007

Employed by Fortum since 2007

Previous positions:

Office of The President of the Republic of Finland, Head of Press Relations and Member of Cabinet, 2000

Ministry of Foreign Affairs, Press Counselor

Finnish Embassy, Stockholm, 1997

Ministry of Foreign Affairs, Press Secretary to the Minister for Foreign Affairs, 1995

Hufvudstadsbladet, Political reporter, 1989

Simultaneous key positions of trust:

UNICEF Finland, Member of the Board

Svenska Teatern, Member of the Board

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

Investor relations at Fortum:

Mika Paloranta, Vice President, Investor Relations, tel. +358 (0)10 452 4138, fax +358 (0) 10 452 4176, e-mail: mika.paloranta@fortum.com

Rauno Tiihonen, Manager, Investor Relations, tel. +358 (0)10 453 6150, fax +358 (0) 10 452 4176, e-mail: rauno.tiihonen@fortum.com

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



Design KREAB

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