

Financial Statement 1998 (9 March 1999)

FORTUM'S FINANCIAL STATEMENT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 1998

Fortum Group's 1998 net sales totalled FIM 50.5 billion (FIM 60.0 billion in 1997), operating profit FIM 3.5 billion (FIM 4.4 billion), and profit before extraordinary items FIM 2.2 billion (FIM 3.0 billion). Earnings per share were FIM 1.62 (FIM 2.70). Shareholders' equity per share was FIM 30.11 (FIM 29.78).

The fall in net sales is primarily attributable to a planned decrease of around FIM 6 billion in the trading of crude oil. The decline in net sales and operating profit was also due to lower prices of crude oil and electricity.

Prospects for 1999: If the market prices of oil and electricity continue to be as low as at the beginning of the year, Fortum's operational performance in 1999 is expected to be on the same level as during 1998.

The Board of Directors propose to the annual general meeting that Fortum pay a dividend of FIM 0.75 per share.

Key figures

	1998	1997
Net sales, FIM million	50 501	60 044
Operating profit, FIM million	3 541	4 407
Profit before extraordinary items, FIM million	2 243	2 956
Investment, FIM million	10 119	10 683
Interest-bearing net debt, FIM million	23 180	22 669
Return on capital employed, %	7.8	9.7
Return on shareholders' equity, %	5.7	10.2
Gearing, %	93	90
Equity-to-assets ratio, %	38	37
Earnings per share, FIM	1.62	2.70
Shareholders' equity per share, FIM	30.11	29.78
Average number of employees	19 003	17 772

The financial statement is based on the Board of Directors' report for the financial year ending 31 December 1998.

General

IVO-Neste Group Ltd was founded on 7 February 1998 with the intention of creating a new energy group that would combine the businesses of Imatran Voima Oy (IVO) and the listed company Neste Oyj. Shares in the new company were offered in exchange for shares in IVO and Neste held by the State and other shareholders with a view to listing the new energy group on the stock exchange as quickly as possible.

In April, the Finnish Parliament approved the combination of IVO's and Neste's businesses. On 30 April 1998, the company launched an exchange and redemption offer to Neste's minority

shareholders.

At the beginning of June, Neste shares held by the Finnish State were transferred to IVO-Neste Group. On the basis of the exchange and redemption offer, at that time IVO-Neste Group held more than 95% of Neste's minority shareholders' shares. On 2 June 1998, the European Commission approved the combination of IVO's and Neste's businesses on the condition that ownership arrangements in Neste's subsidiary Gasum Oy will be made. In mid-June, the company was renamed Fortum Corporation and, at the end of that month, all IVO shares held by the Finnish State and the minority shareholders were transferred to Fortum. As a result, IVO and Neste became Fortum subsidiaries. The remainder of Neste's shares was redeemed in August, from which time Fortum has been the sole owner of IVO and Neste. The Neste share was delisted from the Helsinki Stock Exchange at the beginning of September.

The exchange offer made to Neste's minority shareholders was concluded in November and December when the Finnish State launched an initial public offering of Fortum's shares to Finnish and international institutional investors, and to the public. An employee offering was arranged at the same time. The final offering price of Fortum's share was FIM 32. The Finnish State's share of Fortum decreased to 75.5%, and Fortum's share was quoted in the main list of HEX Helsinki Exchanges for the first time on 18 December 1998.

Business development

Fortum focuses its operations on energy. As soon as IVO and Neste became Fortum subsidiaries, development of business strategies was started, and a number of strategic business development projects, designed to improve the Group's profitability over the next few years, were initiated. A significant project is the reorganisation of the sales, marketing, and customer service activities together with the related support systems for Fortum's petroleum products and electricity into one unit. Preparations for this project were made in the review period.

Another significant development project relates to the deregulation of the European energy market. It is expected that combined heat and power generation, for example, will create the potential for new investment projects, in which the expertise of Fortum's various business divisions, which covers fuel procurement and plant design as well as operation and maintenance, can be used competitively to customers' benefit.

Fortum's business was aligned with our strategy when IVO's and Neste's eight divisions were restructured into five Fortum divisions. Fortum's core business is on energy through its Oil and Gas, and Power and Heat Divisions, which are supported by the Operation and Maintenance, and Engineering Divisions. Fortum's fifth division is Chemicals.

Planning under the new business structure began in autumn 1998, and the new structure became effective on 1 January 1999.

Because Fortum's interests lie in the energy business, it will aim to make decisions about the position of the other businesses in the Group-including Neste Chemicals, Gasum, and the Enermet Group, which manufactures energy meters-during 1999.

In August 1998, Fortum sold its 50% interest in Borealis A/S, the parent company of a petrochemicals group, as part of its strategy to focus the Chemicals Division on adhesive resins and industrial coatings.

In September, Stockholm Energi AB was merged with Gullspång Kraft AB, owned by Fortum, to become Birka Energi AB. Fortum and the City of Stockholm each own 50% of Birka Energi, which owns and operates power and heating plants, electricity distribution networks, and district heating and cooling networks in greater Stockholm and central Sweden. This merger will significantly strengthen Fortum's position in Sweden.

Main divisions' markets

Oil and Gas

The price of crude oil continued its steep decline almost throughout the year. Brent Blend, a light North Sea crude, traded at its lowest, at USD 9 a barrel, at the beginning of December. The average price of Brent Blend fell more than USD 6 a barrel from the previous year and remained below USD 13 a barrel. As a result of the economic crisis in Asia, world demand for oil grew by only 0.5% in 1998. Similarly, petroleum production grew by slightly more than 1%.

At the beginning of the year, particularly the fall in the price of gasoline in international markets was moderate compared with the decline in the price of crude oil. This made a favourable contribution to international refining margins and kept them at the previous year's level during the first half of the year. For the year as a whole, however, the refining margin in north-west Europe was less than in the previous year. Nevertheless, the margin at Fortum's refineries continued to be markedly higher than the international margin.

In 1998, sales of petroleum products in Finland totalled 9.2 million tonnes (8.8 million tonnes in 1997). Sales of motor gasoline decreased by 1.2% compared with the previous year. The main reason for the decrease was the hike in the gasoline tax that became effective at the turn of 1997/1998. In contrast, sales of diesel fuel grew by 3.8%, and, as a result of colder weather in the comparative period, sales of light fuel oil grew by 4.4%, and of heavy fuel oil by 2.4%.

Sales of natural gas in Finland totalled 38.9 TWh (3.9 billion cubic metres) in 1998, up 15% on 1997. This growth was attributed to the commissioning of new natural-gas-run power plants completed in autumn 1997. The use of natural gas in the generation of condensed power in 1998 was lower than expected.

Power and Heat

In 1998, a total of 374 TWh of electricity was used in the Nordic countries, a 2% increase on the previous year. In Finland, electricity use grew about 4% and in Sweden about 1%. Other than towards the end of the year, the growth in Finland came from the industrial sector. Electricity use in Finland totalled 76.5 TWh, of which industry accounted for 55%.

A total of 27.6 TWh of district heat was used in Finland, up by 5% on the previous year.

Although electricity consumption continues to increase, there is currently overcapacity in the Nordic market. In 1998, heavy rainfall resulted in an abundant supply of hydropower, and, in addition, the early part of the year was milder than usual. Consequently, there was a distinct fall in prices on the Nordic electricity exchange that was reflected in the electricity market.

Net sales

The Group's net sales for 1998, at FIM 50,501 million, were 16% lower than in the previous year. The principal reason for the fall in net sales was a decrease of around FIM 6 billion in the trading of crude oil, but lower prices of crude oil and electricity also had an impact. Net sales of gas increased, although less natural gas was used for electricity generation than expected. The major reason for the increase in the Chemicals Division's net sales was the acquisition of the Austrian company, Krems Chemie AG.

Sales of our petroleum products totalled 12.6 million tonnes, up by about 14% on the previous year. Electricity sales in the review period decreased to 44.5 TWh, 8% less than in 1997, while district heat and steam supplies increased by 11% to 11.4 TWh.

Distribution of net sales by market area did not show any significant changes. Finland and the rest of the Nordic countries accounted for 61%, and are the Group's most important market area.

Result

Fortum's results for 1998 were lower than for the previous year. The principal reasons for this were the price of crude oil, which continued to decrease in 1998, and the low price of electricity, which resulted from an abundant supply of hydropower.

The Group's operating profit for 1998, at FIM 3,541 million, decreased by 20%. The low prices of crude oil and electricity had an adverse effect on the operating profit, as did an additional charge of FIM 202 million (FIM 197 million in 1997) for liability for nuclear waste disposal. This was primarily as a result of lowering the interest rate on the re-borrowing of the Nuclear Waste Disposal Fund to match market rates. Other factors in the fall in operating profit were an inventory loss, which was a result of lower oil prices and affected primarily the statutory and obligatory oil stockpiling, and the lower value of the coal stock, which was a result of lower coal prices. These totalled FIM 276 million (FIM 222 million). Discontinued operations include the grid services, the associate company Borealis, the polystyrene business, and other discontinued operations.

In 1998, the most important associated companies were Asko, Nynäs Petroleum, and Suomen Kantaverkko (Fingrid as of 1 January 1999), and, from the end of September when it was established, Birka Energi. The results of all the associated companies, excluding Birka Energi, have been consolidated using the equity method. Fortum's share of these associated companies' results amounts to FIM 250 million (FIM 444 million). Birka Energi has been consolidated using the proportionate method, based on the 50% holding.

The Group's net financing expenses, 2.6% of net sales, decreased to FIM 1,298 million (FIM 1,451 million). Profit before extraordinary items was FIM 2,243 million (FIM 2,956 million).

Profit before tax was FIM 2,214 million (FIM 4,895 million). The decrease resulted from the fall in profitability, but also from extraordinary items in 1997 relating to changes to the Group's structure. The sale of the grid services and Borealis contributed about FIM 2.4 billion. In 1997, extraordinary items also included a FIM 567 million provision to cover future nuclear waste disposal fees for the Loviisa nuclear power plant.

Taxes for the financial year amounted to FIM 785 million (FIM 547 million). Deferred tax liabilities rose by FIM 12 million (decreased by FIM 741 million) and were FIM 4,038 million.

Profit for the year was FIM 1,267 million (FIM 4,040 million) and earnings per share were FIM 1.62 (FIM 2.70). Return on capital employed was 7.8% (9.7%) and return on equity 5.7% (10.2%).

Financing and financial position

The financial position of the Group remained stable throughout the year. At the end of the year, gearing (net liabilities/shareholders' equity) was 93.2%, which was a little higher than in 1997.

Interest-bearing net debt was FIM 23,180 million at the end of the year (FIM 22,669 million). The acquisitions carried out during the year, on the one hand, and the selling of Borealis and, later in the year, sales of shares in listed companies, on the other hand, had a significant influence on interest-bearing net debt. The deterioration of the US dollar against the Finnish markka, again decreased the Finnish-markka amount of liabilities denominated in foreign currency. Fortum's Finnish commercial paper programmes were translated into Euros and the total amount was increased by FIM 1.1 billion.

Although liabilities increased towards the end of the year, the Group's net financing expenses decreased by FIM 153 million from the previous year. This was a result of a fall in the market rate and interest rate margins, lower-than-average amount of loans for the year as a whole, and higher exchange rate gains. Net financing expenses were 2.6% of net sales (2.4%).

The Group's liquidity continued to be good. At the end of the year, liquid assets totalled FIM 3,352 million (FIM 3,943 million). In addition, the Group had a total of about FIM 5.5 billion of undrawn syndicated loans.

The Group's most important loan currencies, including finance-leasing arrangements, were the Swedish krona (accounting for about 52% of loans), the Finnish markka (about 22%), and the US dollar (about 19%). At the end of the year, the average interest rate of the loans, after hedging arrangements, was 5.7%.

Investments

Investments in 1998 totalled FIM 10,119 million (FIM 10,683 million), a major portion of which was accounted for by acquisitions by the Power and Heat Division. The sum includes FIM 4,668 million (FIM 472 million) of interest-bearing net liabilities of the acquired Group companies at the time of acquisition, most of which, FIM 4,280 million, was created by the establishment of Birka Energi Group in September 1998.

Investment in shares totalled FIM 6,323 million (FIM 6,810 million). The most important share acquisitions of 1998, minus net liabilities at the time of acquisition, were

Gullspång Kraft AB, Sweden FIM 545 million
Karlskoga Energi och Miljö AB, Sweden FIM 223 million
Regional Power Generators Ltd, UK FIM 136 million
Tuusulanjärvi Energy Ltd, Finland FIM 275 million
Koillis-Pohjan Sähkö Oy, Finland FIM 82 million

Of the direct investments, the development of the Åsgard oil and gas field in Norway is the most important. Petroleum production at Åsgard is scheduled to be started in April 1999, and gas production at the end of 2000. Before the end of 1998, Fortum had invested FIM 2.0 billion in the Åsgard project in order to initiate petroleum production, and Fortum estimates that it will invest around a further FIM 1.2 billion before gas production and transmission can begin.

Investment in the expansion and refitting of the Oil Division's retail outlets totalled FIM 262 million. Of this, around two thirds were accounted for by Finnish retail outlets and the remainder by service stations in St Petersburg, the Baltic states, and Poland.

A modernisation programme was begun at the Loviisa power plant in 1998. This aims to prolong the plant's service life, to modernise its units, and to upgrade the power. The work, scheduled for completion in 2000, is estimated to cost FIM 200 million.

Fortum's level of total investment is expected to continue to be high during the next few years, provided that the investment targets prove to be sufficiently profitable and that the Group's total investment is in proportion to the development of its cash flow.

Research and development

Research and development expenses, at FIM 546 million, represented 1.1% of net sales.

The Oil Division continued to develop motor fuels and motor oils with increasingly lower environmental impact. Our reformulated gasolines and low-sulphur diesel fuels with a low aromatic content already exceed the quality criteria for gasolines and diesel fuels which will

become effective in EU member states in 2000. Furthermore, most of our motor fuels already meet the EU quality criteria, which are scheduled to come into effect in 2005.

Development work in Power and Heat concentrated principally on district heat, industrial CHP (combined heat and power) plants and combined-cycle power plants. The use of multifuel technology, which is one of Fortum's key technologies, was further strengthened.

Year 2000

Undisrupted functioning of systems in all our key businesses is crucial to our success. That is why we are implementing a comprehensive Year 2000 Programme. The programme aims to ensure undisrupted functioning of information technology and technical infrastructure in all Fortum's business activities. It covers, among other things, the technical systems of oil refineries, power and heating plants, of power transmission and distribution systems, and of real estates, as well as the information systems of telecommunications systems, data networks, and design and administration systems. Information systems supplied to customers outside the Fortum Group are also covered.

The work to ensure year 2000 compatibility of our systems started in 1996; comprehensive projects covering all our businesses began in 1997. The majority of the work was completed by the end of 1998 as part of normal service and maintenance work. We aim to achieve full compatibility in all critical areas by August 1999 as part of the shutdowns.

We have sent questionnaires to our most important customers and suppliers concerning the year 2000 compatibility of their systems. Our ability to influence the compatibility of third-party systems is, however, limited.

More than 100 of our own experts have participated in carrying out our Year 2000 Programme. To date the project has cost approximately FIM 80 million. Total costs are not expected to exceed FIM 150 million.

Fortum's technical expertise in this area is strong, and the management estimates that the turn of the millennium will not pose any serious problems to the company.

Employees

In 1998, the average number of staff in the Group was 19,003, which is 1,231 more than in 1997. The increase was mainly attributed to the acquisitions in the Power and Heat, and Operations and Maintenance Divisions. In addition, the employees of Birka Energi, which was formed in September, comprise half, or 1991 people, of the average figure for 1998. The increase in the number of employees in Chemicals resulted from the acquisition of Krems Chemie AG at the end of 1997. The parent company, Fortum Corporation, had a staff of 23 at the end of the year.

Environment

At the end of the year, the Board of Directors approved Fortum's environmental, health, and safety policy, which gives high priority to climate change. The ground principle on which the policy founded is earning the confidence of customers and other stakeholders, and this will be achieved by adopting a responsible approach in everything we do. Environmental expertise provides new business opportunities for Fortum.

Our production facilities continued to develop their environmental systems to the ISO 14001 standard.

Changes in Group structure

In 1998, Fortum acquired the remainder of the shares in Gullspång Kraft AB of Sweden. In September 1998, approval was obtained for Fortum and the City of Stockholm to form Birka Energi. This merged the businesses of Gullspång Kraft AB, owned by Fortum, and Stockholm Energi, owned by the City of Stockholm. Birka Energi is Sweden's largest energy company by number of customers and the third-largest by production capacity.

At the end of September, we acquired a 49% interest in Karlskoga Energi och Miljö AB, based in southern Sweden. In December 1998, the City of Lidingö in Sweden decided to sell its entire holding in Lidingö Energi AB to Fortum's associated company, Birka Energi AB. The deal is subject to approval by the city council of Lidingö.

At the beginning of 1998, we acquired the remaining 70% of shares in Tuusulanjärven Energia Oy in Finland, and in October a 54% interest in Koillis-Pohjan Sähkö Oy, also in Finland, thereby making it a Fortum subsidiary. In January, we increased our holding in Koillis-Pohjan Sähkö Oy to 99%.

Following a competitive tender in Estonia in November, we acquired 95% of AS Läänemaa Eletrivõrk.

Regional Power Generators Ltd of the UK was transferred into Fortum's ownership at the end of the year. The company owns the Brigg gas power station in north-east England. A power plant company, Grangemouth CHP Ltd, in which we have a 75% interest, was founded in Scotland to build a new CHP plant to supply power and heat to a BP refinery.

In Thailand we increased our stake in Laem Chabang Power Ltd from 25% to 75%.

After the end of the review period, in February 1999, Fortum's subsidiary Länsivoima Oyj acquired a 28% interest in Espoon Sähkö Oyj.

At the beginning of August 1998, we closed the deal under which we sold our 50% interest in the polyolefins producer Borealis A/S. At the end of August and beginning of September, we sold our 6.7% share of the power plant company Powertek Berhard of Malaysia.

The European Commission requires that Fortum decrease its 75% holding in Gasum Oy to 25% before 3 June 1999.

In February 1999, the Chemicals Division was spun off into Neste Chemicals Oy. With effect from March 1999, Neste Oyj was renamed Fortum Oil and Gas Oy, Imatran Voima Oy became Fortum Power and Heat Oy, and IVO Tuotantopalvelut Oy became Fortum Service Oy. IVO Power Engineering Oy was renamed Fortum Engineering Oy at the beginning of 1999.

Group management

As part of the formation of IVO-Neste Group Ltd, on 26 January 1998, a Board of Directors was created to manage the company. The Board has seven members, each of whom serve for a period of four years. They are: Matti Vuoria (chairman), Krister Ahlström (vice chairman), Jaakko Ihamuotila, L.J. Jouhki, Heikki Marttinen, Heikki Pentti, and Gerhard Wendt.

The President and CEO of the company is Heikki Marttinen.

Following the European Commission's approval of the establishment of Fortum, an extraordinary general meeting on 25 June 1998 appointed a 17-member Supervisory Board for Fortum to supervise the management. The meetings of the Supervisory Board are also attended by four employee representatives. The members of the Supervisory Board are appointed for one year.

After the new divisional structure was aligned with Group strategy, on 2 November 1998, the Board of Directors appointed heads for the Group's five divisions. The appointments became effective at the beginning of 1999.

First general meeting and extraordinary general meetings

The first general meeting, on 26 January 1998, approved Fortum's Memorandum of Association, the registering of share capital, and the Articles of Association. The meeting also appointed a Board of Directors, a president and CEO, and the auditors for the company.

Among other items, an extraordinary general meeting on 9 April 1998 approved an agreement on the ownership of the company. The Finnish State and IVO-Neste Group signed an agreement to transfer the Neste shares owned by the State as non-cash property in exchange for IVO-Neste Group shares.

An extraordinary general meeting on 28 April 1998 agreed to change the company into a publicly-listed company and to enter the shares in the Finnish book-entry securities system. The meeting also agreed to increase the share capital as part of the exchange offer to be made to Neste's shareholders.

An extraordinary general meeting on 17 June 1998 agreed to change the name of the company from IVO-Neste Group Ltd to Fortum Corporation.

An extraordinary general meeting on 25 June 1998 agreed to note additions to the Articles of Association concerning the Supervisory Board and its duties as well as the clause on the redemption obligation of shares. The same meeting further decided on a rights issue to the Finnish State and the Social Insurance Institution of Finland, in which IVO's shares were assigned to Fortum as non-cash property in exchange for Fortum shares.

An extraordinary general meeting on 8 September 1998 agreed to authorise Fortum's Board of Directors to deviate from the shareholders' priority and to decide, within one year, on an increase in the share capital through an employee share offer. As part of an incentive programme, the Board of Directors was also authorised to decide on the issue of a bond loan with warrants to the personnel and on the launch of a stock option scheme to managers of the company and its subsidiaries.

An extraordinary general meeting on 17 November 1998 cancelled the authorisation to grant stock options, given at the meeting of 8 September 1998, and agreed to give to the Board of Directors a new, corresponding, authorisation to launch a stock option scheme.

Prospects for 1999

The price of crude oil is not expected to change to any great degree during the first half of 1999. During the first few months of the year, the international refining margin has been very low. The margins at our own refineries will, however, continue to be higher than the international reference margin. Intense price competition will continue to characterise the Finnish petroleum product market.

While demand for gas will continue to increase in Finland, the design of several new natural-gas-run power plants has been postponed as a result of the low price of electricity. Over the longer term, however, the competitiveness of gas will improve particularly in the CHP projects for towns and industrial plants. Preparations for the sale of shares in Gasum have progressed as planned.

The price of electricity has been very low, and we see no fundamental changes to this in the near future. There is little need to build new power plants in the Nordic markets in the coming years. The dynamic structural change in the distribution sector will, however, continue in the Nordic countries and will result in the consolidation of ownership of distribution companies.

Preparations for the disposals of non-core holdings and assets have progressed as planned. We will continue to develop our business management systems to make them more flexible and more effective.

If the market prices of oil and electricity continue to be as low as at the beginning of the year, Fortum's operational performance in 1999 is expected to be on the same level as during 1998.

Proposal for the distribution of earnings

The Group's non-restricted equity as of 31 December 1998 stood at FIM 7,919 million, of which the amount of distributable equity totalled FIM 7,919 million. The parent company's distributable equity as of 31 December 1998 totalled FIM 989,240,073.92.

The Board of Directors propose that Fortum Corporation pay a dividend of FIM 0.75 per share, totalling FIM 588,586,976.25, and should set aside a sum of FIM 500,000 for the purposes of public utility. The rest of distributable equity will remain in profit funds.

Helsinki, 8 March 1999

Fortum Corporation
Board of Directors

FOR FURTHER INFORMATION, PLEASE CONTACT:
(preferably between 14.00-16.00 CET)

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