

## Financial Statement 1999 (1 March 2000)

Fortum Group's net sales in 1999 were EUR 8,232 million (1998: EUR 8,494 million). Operating profit increased by 21% to EUR 721 million. Profit before extraordinary items was EUR 510 million (EUR 377 million). Earnings per share rose by 51% to EUR 0.41. Shareholders' equity per share was EUR 6.00 (EUR 5.06).

Our results improved significantly towards the end of 1999. At the beginning of the year, the price of crude oil was low, but increased in March. In June-July, it strengthened further, and production at the Åsgard oil field had just begun. Our performance was further boosted as a result of internal improvement measures and gains on the sales of non-core assets.

The Board of Directors propose that Fortum pays a dividend of EUR 0.18 a share in respect of 1999.

Prospects: We expect the market price of crude oil to decrease from its current high level, while we anticipate that the market price of electricity will continue at its low level. On this basis, our management estimates that our 2000 profit before extraordinary items will be somewhat lower than in 1999.

### Key figures

	1999	1998	Change %
Net sales, EUR million	8,232	8,494	- 3
Operating profit, EUR million	721	595	+21
Profit before extraordinary items, EUR million	510	377	+35
Investments, EUR million	1,059	1,702	-38
Interest-bearing net debt, EUR million	3,818	3,898	- 2
Return on capital employed, %	8.6	7.8	
Return on shareholders' equity, %	7.7	5.7	
Gearing, %	79	93	
Equity-to-assets ratio, %	40	38	
Earnings per share, EUR	0.41	0.27	+51
Shareholders' equity / share, EUR	6.00	5.06	+18
Average number of employees	17,461	19,003	-8

## SUMMARY OF THE BOARD OF DIRECTORS' REPORT ON

## **ACTIVITIES FOR 1999**

Fortum focuses on energy. In 1999, we divested a significant number of operations and assets which were not energy related and the reorganisation of the ownership of Gasum Oy, as required by the European Commission, was completed. As a result of the divestments, Fortum realised EUR 1.1 billion in cash, and recorded EUR 646 million in capital gains.

Our organisational efficiency was improved from 1 January 2000 when the former division-based structure was replaced with a flatter, and more decentralised, corporate governance model. As part of this restructure, the former corporate staffs and divisional staffs were combined, as a result of which jobs in these units reduced by approximately a quarter. In December, we relocated our head office to Keilaniemi, Espoo.

### **Market review of principal operations**

#### ***Oil and Gas Upstream***

The price of crude oil almost tripled during 1999. At the beginning of the year, the light Brent Blend hovered around USD 10 a barrel but, from March, it began to rise, and went as high as USD 27 a barrel before the end of the year. During the year overall, Brent traded at approximately USD 18 a barrel compared with approximately USD 13 a barrel in 1998.

In 1999, we produced an average of 32,700 oil-equivalent barrels of oil and gas a day, or 1.65 million tonnes a year. Our share of production from the Åsgard field, which came on stream in May, is 7%. Gas production at Åsgard is scheduled to begin at the end of 2000.

#### ***Oil Refining and Marketing***

The international refining margin was extremely slim at the beginning of the year, but returned to a more normal level towards the year end. The annual average was about a half of the 1998 figure and was less than USD 1 a barrel. The refining margin of our own refineries was, however, better than the international reference margin.

In 1999, bulk sales of our petroleum products in Finland were approximately 7.9 million tonnes (1998: 8.3 million tonnes). Sales of our petroleum products to other countries rose by 8% to 4.8 million tonnes.

Crude oil trading operations were adjusted to meet the needs of oil supply and exports. The net sales of the trading function amounted to approximately EUR 790 million, down 27% on 1998.

Our retail and direct sales of petroleum products in Finland rose to 3.8 million tonnes (1998: 3.5 million tonnes). While sales also developed favourably in the Baltic countries and Poland, there was a noticeable fall in Russia.

### ***Power and Heat Generation and Sales***

The system price of electricity markets in the Nordic countries was low, at an average of EUR 13.5 (EUR 13.8) per megawatt-hour. The Nordic countries used a total of 374 terawatt-hours of electricity in 1999, unchanged from the previous year.

Our electricity sales in the Nordic countries were 41.6 terawatt-hours (44.3 TWh), of which 29.6 TWh (29.1 TWh) was sales in Finland. In Sweden, electricity sales fell to 12.0 TWh (15.2 TWh) including 50% of Birka Energi AB's sales. Outside the Nordic countries, sales rose to 2.2 TWh (0.2 TWh). The average price of our electricity decreased by 11% from the previous year.

Heat sales rose to 15.7 TWh (13.4 TWh).

### ***Electricity Distribution***

Distribution prices of electricity were stable. Our subsidiaries and associated companies distributed 4.0 TWh of electricity (3.5 TWh) to Finnish customers and 8.6 TWh (6.9 TWh) to Swedish customers, including 50% of Birka Energi AB's electricity distribution. In Estonia, we distributed 0.1 TWh of electricity.

### **Net sales**

At EUR 8,232 million, the Group's net sales for 1999 fell by 3% from the previous year (EUR 8,494 million). The decline was mainly attributable to the divestments of non-core assets, the change of Gasum from a subsidiary to an associated company, cuts in the volume of oil trading, and a decrease in the price of electricity. The most significant units sold were Neste Chemicals and Enermet. In contrast, net sales were boosted by the increase in the price of crude oil and the appreciation of the US dollar.

Breakdown of net sales by market area showed no material change. Finland and the rest of the Nordic countries constitute our most important market area: together they accounted for 61% of our 1999 net sales.

### **Result**

There was a significant increase in net profit for the period. In particular, our performance benefited from the price of crude oil, which increased during the review period, the appreciation of the US dollar, increased gains on the sales of fixed assets, the formation of Birka Energi, and the savings made from improving the efficiency of our operations. The results were, however, decreased by the low market price of electricity and the reduced volume of sales.

Operating profit for 1999 increased by 21% to EUR 721 million. It was boosted by inventory gains, which was a result of higher oil prices and principally affected statutory crude oil stockpiling, and the appreciation of the coal stock, which was a result of higher coal prices. These totalled EUR 81 million (in 1998, inventory losses and write-down on coal stock amounted to EUR 46 million).

Operating profit includes gains on the sale of fixed assets and share holdings, at EUR 155 million (EUR 81 million). The most significant of these were the divestments of Asko shares, tankers, and gas turbines. It also includes a loss on derivatives made by Birka Energy, of which our share was EUR 18 million. The operating profit for the reference year 1998 included EUR 34 million for liability for nuclear waste disposal.

Breakdown of operating profit (EUR million):

	<b>1999</b>	<b>1998</b>
Oil and Gas Upstream	82	9
Oil Refining and Marketing	182	108
Power and Heat Generation and Sales	245	241
Electricity Distribution	122	123
Service	12	8
Engineering	12	16
Other operations	-24	10
<u>Eliminations</u>	-17	-12
<b>Total</b>	<b>614</b>	<b>503</b>
<u>Discontinued operations</u>	107	92
<b>Total</b>	<b>721</b>	<b>595</b>

Excluding Birka Energi, our associated companies have been consolidated by the equity method. Our share of the results of these companies totalled EUR 36 million (EUR 42 million). Birka Energi has been consolidated by using the proportionate method on the basis of 50% ownership.

Our net financing expenses were EUR 211 million (EUR 218 million). Profit before extraordinary items was EUR 510 million (EUR 377 million).

Profit before taxes was EUR 970 million (EUR 372 million). Extraordinary items principally comprised divestments carried out as part of the restructuring of the Group. The sale of Gasum shares and the business operations of Neste Chemicals and Enermet contributed approximately EUR 491 million. In connection with the ruling on MTBE by the authorities of California, we made an additional depreciation of EUR 26 million on our Edmonton, Canada, MTBE facility.

Taxes for the financial year totalled EUR 245 million (EUR 132 million).

Net profit for the period was EUR 703 million (EUR 213 million) and earnings per share EUR 0.41 (EUR 0.27). Return on capital employed was 8.6% (7.8%) and return on shareholders' equity 7.7% (5.7%).

### **Financing and financial position**

The Group's financial position improved during the year. At the year end, gearing was 79% (93%).

Interest-bearing net debt was EUR 3,818 million (EUR 3,898 million) at the end of the year. Share acquisitions carried out during the review period, on the one hand, and cash proceeds resulting from the divestment of major assets, on the other, had a significant influence on interest-bearing net debt. Our Finnish commercial paper programmes were combined into a single EUR 500 million programme, when the ECP programme dominated in US dollars was discontinued.

The Group's net financing expenses were at the previous year's level. Net financing expenses accounted for 2.6% (2.6%) of net sales.

The Group's liquidity continued to be good. At the end of the year, liquid assets totalled EUR 775 million (EUR 564 million). The increase was mainly a result of the divestment of Neste Chemicals, completed in November. In addition, we had a total of EUR 630 million of undrawn syndicated loans.

Our most important loan currencies, including finance-leasing arrangements, were the Swedish krona (approximately 63% of all loans), euro (approximately 18%), and the US dollar (approximately 17%). Of the share of the Swedish krona, about a half came from Birka Energi. At the end of the year, the average interest rate of the loans, after hedging arrangements, was 5.5%.

## Investments

During 1999 we invested EUR 1,059 million (EUR 1,702 million), a major portion of which was accounted for by acquisitions by the Power and Heat sector. The total includes EUR 8 million (EUR 785 million) of interest-bearing net debt of the acquired subsidiaries at the time of acquisition.

The share acquisitions of the year totalled EUR 328 million (EUR 1,064 million), and the most significant share acquisitions, excluding net debt at the time of acquisition, were:

Espoon Sähkö Oyj	EUR 87 million
Länsivoima Oyj	EUR 39 million
Koillis pohjan Sähkö Oy	EUR 21 million
Lahden Lämpövoima Oy	EUR 91 million
Lidingö Energi AB, Ruotsi	EUR 34 million

Our most important investments were in the Åsgard oil and gas field in Norway and the Grangemouth power plant in Great Britain. By the end of 1999, we had invested EUR 500 million in Åsgard and are anticipating investing a further EUR 50 million to begin gas production at the end of 2000, as planned.

By the end of 1999, we had invested EUR 107 million in the

construction of the Grangemouth combined heat and power (CHP) plant. Grangemouth is scheduled for completion in 2000. It will have electricity generation capacity of 130 MW and steam generation capacity of 250 MW.

### **Divestments**

In May, we sold our 50% holding in Gasum Oy as required by the European Commission. The shares were acquired by the Finnish State, Ruhrgas Energie Beteiligungs-AG, and a Finnish industrial consortium. As a result of the transaction, our shareholding in Gasum reduced to 25%. The sales price of EUR 290 million resulted in a capital gain of EUR 324 million.

In August, we sold the business operations of Enermet Oy to the private equity fund Industri Kapital. The sales price of EUR 98 million resulted in a capital gain of EUR 68 million. As part of the transaction, we acquired a 30% holding in the newly-established Enermet Group Oy.

In October, we sold four of our tankers and agreed to charter the vessels back to our shipping unit. For the total sales price of EUR 43 million, we booked a capital gain of EUR 27 million.

In February, the Chemicals business was incorporated in Neste Chemicals Oy. In November, we divested Neste Chemicals to Industri Kapital. The transaction price of EUR 505 million resulted in a capital gain of EUR 99 million.

In addition to the above mentioned divestments, we sold stocks and shares and, for example, peak load gas turbines.

### **Changes in Group structure**

At the beginning of 1999, Neste Oyj's name was changed to be Fortum Oil and Gas Oy, Imatran Voima Oy's name to Fortum Power and Heat Oy, IVO Generation Services Ltd to Fortum Service Oy, and IVO Power Engineering Ltd to Fortum Engineering Ltd.

Following the share acquisitions in January 1999, our holding in Koillis-Pohjan Sähkö Oy increased to 99%, and in February, Länsivoima Oyj, our subsidiary, acquired 28% of Espoon Sähkö Oyj's shares.

In August 1999, we bought somewhat more than 10% of Länsivoima's shares from Kemijoki Oy. Following the completion of a redemption offer at the end of the year, our share of Länsivoima rose to 78%.

During the year, Birka Energi acquired the shares of Lidingö Energi AB.

Towards the end of the year, Fortum and Birka Energi established a new company, Svensk Naturgas AB, to investigate the natural gas markets in the Stockholm area.

## **Research and development**

Investment in research and development, at EUR 72 million, represented 0.9% of net sales.

In Oil Refining and Marketing, we continued the development of motor fuels and motor oils with increasingly low environmental impact. In Power and Heat Generation and Sales, we focused on customer-orientated additional services that employ the latest information and telecommunications technologies.

## **Environment**

Our production facilities continued to develop ISO-14001-compliant environmental systems and BS 8800-compliant safety systems. Process safety at our production facilities developed well, and the number of injuries and deviations in safety decreased from 1998.

During the year, operations of our units, with the exception of a few minor infringements, complied with valid permits and environmental regulations. Fortum's management is not aware of any environmental liability-related cases that would have a material impact on its financial position.

## **Business development**

Fortum continues to consolidate its strategy and geographical focus. We aim to continue to focus our operations on the energy sector, particularly on those areas in which we are most competitive and which offer the best opportunities for creating value. This means that we are likely to develop our business operations in northern Europe.

The geographical focus of investments geared to support growth will be on the Nordic countries and on Germany. In the rest of the Baltic Rim, we aim to capitalise on growth opportunities. Our investments will be targeted towards electricity distribution and generation, and, in oil refining, on environmentally-benign motor fuels and speciality products.

We aim to create a flexible structure, which is in harmony with market conditions. As a part of this structural development, our objective is to combine the power and electricity distribution businesses of Länsivoima Oyj and Fortum.

Following changes in the market, we are focusing our business on energy end-users. At Fortum's Energy House, we are continuing the development of customer service concepts and related IT applications.

As part of the strategic development of our principal businesses, our engineering operations will be focused to meet the strategic needs of the Oil and Gas, and Power and Heat sectors. As to our other engineering operations, we will make decisions about the operating options during the coming year.

We will shift our focus in oil and gas exploration and production (E&P) to gas. Because of the market convergence of the power generation and gas businesses, we will develop operations in tandem with those of the gas business.

### **Option schemes**

At the beginning of the year, two employee incentive schemes were introduced. As part of the management option scheme, 130 people who were nominated by the Board of Directors, subscribed for stock options which entitle them to subscribe for Fortum shares between 1 October 2002 and 1 October 2005. The subscription price is a minimum of EUR 5.61, with the precondition that Fortum's earnings per share and share price performance are at least on a par with, or better than, the average of a peer group made up of European listed companies. As a result of the subscriptions made under this scheme, our share capital may increase by a maximum of FIM 300 million, or 15 million shares.

In April, we issued a bond loan with warrants, to be subscribed for by the employees. The maximum amount of the bond loan was FIM 25 million, but as 1,859 employees subscribed for it, to a value of FIM 41 million, the allocations had to be scaled down. The shares attached to the scheme can be subscribed for from 17 May 2002 to 17 May 2005, at a maximum price of EUR 5.03, and may result in our share capital rising by a maximum of FIM 148 million, or 7.4 million shares.

### **Employees**

In 1999, Fortum Group employed an average of 17,461 people (19,003 in 1998), and at the end of the year 15,048 people (18,201). The decrease was principally attributed to Gasum, Enermet, and Neste Chemicals, which together resulted in a decrease of about 3,500 people. At the end of 1999, Fortum Corporation, the Group's parent company, employed 37 people. At the beginning of 2000, a total of 348 employees of our subsidiaries became employees of Fortum Corporation.

### **Group management**

The Supervisory Board has 17 members. The Chairman of the Supervisory Board is Ilkka-Christian Björklund and the Deputy Chairman is Ben Zyskowicz. The meetings of the Supervisory Board are attended by four employee representatives.

The members of Fortum's Board of Directors are Matti Vuoria (Chairman), Krister Ahlström (Deputy Chairman), Jaakko Ihamuotila, L.J. Jouhki, Heikki Marttinen, Heikki Pentti, and Erkki Virtanen. Gerhard Wendt retired from the Board on reaching the age of 65 in November.

The President and CEO of the company is Heikki Marttinen.

As part of the new corporate governance model, at the beginning of 2000, the Board of Directors appointed heads for the Group's



four sectors: Veli-Matti Ropponen, Tapio Kuula, Pekka Päätiläinen, and Anders Palmgren.

### **Events after the review period**

In January 2000, the agreement to acquire the entire share capital of the German utility Elektrizitätswerk Wesertal GmbH for EUR 390 million, which had been signed in September 1999, was finalised. Wesertal sells electricity, heat and gas. Through its shares in power plants, it has access to about 550 MW of electricity generation capacity.

Also in January 2000, we signed a letter of intent with Stora Enso Oyj, the Finnish forest industry company, through which we will acquire Stora Enso's power assets outside mills, excluding those shares in the Finnish power company Pohjolan Voima Oy that Stora Enso owns. The letter of intent covers a total of 1,511 MW of electricity generation capacity with an annual electricity generation of 6.7 TWh. The transaction also covers regional electricity distribution in Sweden. The debt-free value of the contract is approximately EUR 1.85 billion. The closing of this transaction is subject to approval by e.g. the competition authorities, but the objective is to complete the transaction during spring 2000.

### **Prospects for 2000**

We expect the market price of crude oil to decrease from its current high level, while we anticipate the market price of electricity remaining at its low level. On this basis, our management estimates that our 2000 profit, before extraordinary items, will be somewhat lower than in 1999.

### **Proposal for the distribution of dividends**

The Group's non-restricted and distributable equity at 31 December 1999 was EUR 2,062 million. The parent company's distributable equity at 31 December 1999 was EUR 432 million.

At the annual general meeting, which will be held on 17 April 2000, the Board of Directors will propose that Fortum Corporation pays a dividend of EUR 0.18 per share, making a total of EUR 141 million for 1999.

Fortum Corporation

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