Annual Report 1998

Fortum

Fortum 1998

Shareholder information

The annual general meeting of Fortum Corporation will be held on Tuesday, 20 April 1999, at 2.00 pm, in the Congress Center Dipoli, at Otaniemi, Espoo.

Shareholders wishing to attend the AGM shall notify the Finnish Central Securities Depository Ltd by 16 April 1999 by letter addressed to Finnish Central Securities Depository Ltd, P.O. Box 1260, FIN-00101 Helsinki
or by telephone +358 9 612 3121 or fax +358 9 686 20230.

Payment of dividend

The Board of Directors will propose to the AGM that a dividend of FIM 0.75 per share be paid for the 1998 financial period. The record date for dividend payment is 23 April, and the suggested dividend payment date is 30 April 1999.

Interim Reports

Interim Report 1 January – 31 March 1999 will be published on 6 May 1999
Interim Report 1 January – 30 June 1999 will be published on 6 August 1999
Interim Report 1 January – 30 September 1999 will be published on 5 November 1999
The Annual Report and the Interim Reports are available in Finnish, Swedish, and English, and can be ordered from Fortum's Head Office, tel. +358 9 618 580, fax +358 9 618 58 200 or internet www.fortum.com

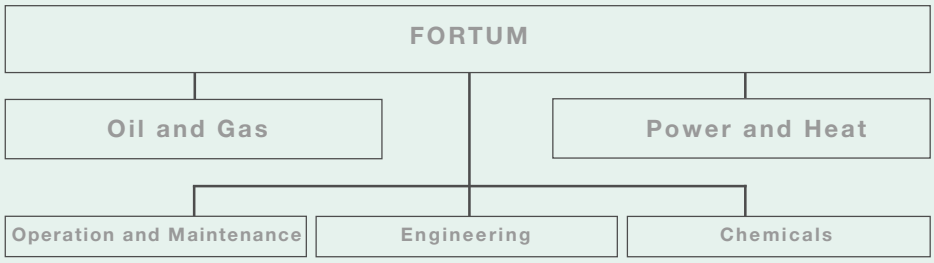
Fortum means energy

Fortum is one of the Nordic countries' leading energy companies. We have core operations in the oil, gas, power and heat industries.

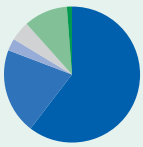
Fortum is an international energy group which is capitalising on the opportunities created by deregulation in the world's energy markets. We are growing in our home market, northern Europe, and in selected markets worldwide. Our business covers the entire energy chain, from production to refining, distribution and marketing, and to energy-related engineering, and operation and maintenance.

Our aim is continuously to increase the company's value. We improve our profitability by focusing on our core energy market and by delivering excellent customer service, by increasing our people's expertise, and by aiming for high quality while keeping environmental issues in mind.

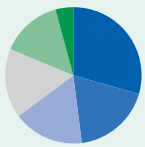
Business structure as of 1 January 1999 and the corresponding key financial indicators for 1998



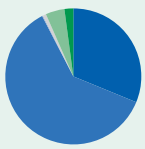
Net sales



Average number of employees



Identifiable assets



Oil and Gas *Power and Heat* *Operation and Maintenance*
Engineering *Chemicals* *Other business operations*

Fortum in 1998

- The shares in IVO and Neste held by the Finnish State were transferred to Fortum, and a redemption and exchange offer was made to Neste's minority shareholders. The majority of Neste shareholders accepted the offer and became Fortum shareholders, and Fortum's shares were quoted in the main list of the Helsinki Exchanges for the first time on 18 December 1998.

- The exceptionally low prices of crude oil in the international markets and of electricity in the Nordic market adversely affected the Group's results in comparison with the previous year. Return on capital employed decreased to 7.8%.

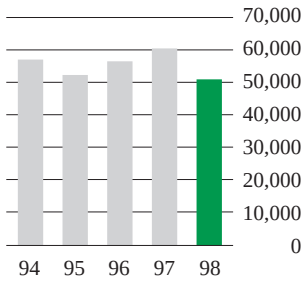
- Fortum's business divisions were restructured, with energy being identified as the core business. The Group's holdings in non-core businesses, including the Chemicals business and the Enermet Group, began to be re-evaluated. The European Commission approved the establishment of the new energy group on condition that its holding in the natural gas company Gasum would be decreased.

- Gullspång Kraft AB, owned by Fortum, was merged with Stockholm Energi AB, to become Birka Energi AB, of which Fortum and the City of Stockholm each own 50%. Fortum sold its 50% holding in the petrochemicals company Borealis A/S.

- A major proportion of the investments made during the year was in acquisitions by the Power and Heat Division. The development of the Åsgard oil and gas field in Norway proceeded as planned; oil production in this field is expected to begin in April 1999.

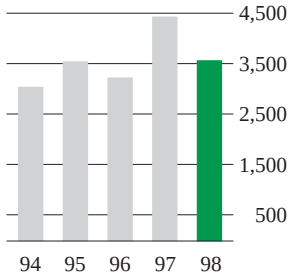
Net sales

FIM million



Operating profit

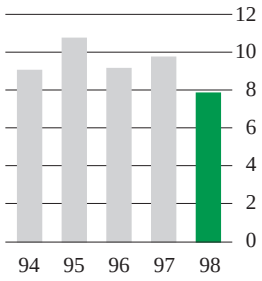
FIM million



Key figures	**1998** **FIM million**	**1997** **FIM million**	**1998** **EUR million**	**1997** **EUR million**
Net sales	50,501	60,044	8,494	10,099
Operating profit	3,541	4,407	595	741
Profit before extraordinary items	2,243	2,956	377	497
Investments	10,119	10,683	1,702	1,797
Interest-bearing net debt	23,180	22,669	3,898	3,813
Earnings per share, FIM/EUR	1.62	2.70	0.27	0.45
Shareholders' equity per share, FIM/EUR	30.11	29.78	5.06	5.01
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		
Average number of employees	19,003	17,772		

Return on capital employed

%



Fortum in the energy markets

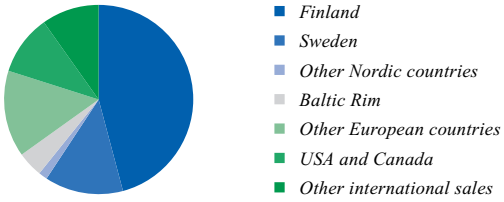
Fortum has expertise in all aspects of the energy chain and is experienced in the Nordic energy markets, which have been liberalised.

The energy markets in the Nordic countries are among the most deregulated in the world. Finland's and Sweden's oil, refined petroleum products, and electricity markets are fully deregulated; and in Finland, Sweden and Norway, consumers are able to choose their own suppliers; and a competitive market for electricity generation has existed for a number of years, other than for certain restrictions in Norway. In recent years, environmental energy taxes have been introduced in the Nordic countries.

We are the market leader in the production of high-quality and pro-environmental petroleum products in the Baltic Rim. Since our principal market is in the Baltic Rim, the location of our refineries on the Finnish coast creates a strategic advantage for us. We are also the market leader in the bulk, direct and retail sales of petroleum products in Finland, and have an important share of the market in the other Baltic Rim countries. We export petroleum products beyond the region. Gasum, a Fortum subsidiary, is the only natural gas import, distribution and bulk sales company in Finland. We intend to relinquish our 50% interest in Gasum before the beginning of June 1999.

We are the second-largest company in the Nordic market as far as electricity sales, power generation and number of customers are concerned. Our strengths include expertise in all aspects of the energy chain, structurally diversified power generation, and long-term experience in co-operating with industry and municipalities. We own half of the Swedish company Birka Energi, which has the largest number of customers in Sweden, and the third-largest generation capacity. We are not only established in the Nordic countries, but also have a presence in the markets of central Europe and South East Asia, where our experience and expertise create a competitive edge for us.

Net sales by geographical area in 1998



Chairman's review

Matti Vuoria

The Finnish energy market has undergone significant changes throughout the 1990s. Elsewhere in Europe, operating environments and market rules have also changed fundamentally. The continuing process of the opening up of competition is complemented by a number of new national and European rules and regulations.

Finland is part of the open Nordic energy market, and continental European markets are finally opening up to increasingly intense competition. The restructuring of the energy industry, the broadening of energy companies' ownership bases, and the establishment of Fortum are integral parts of the dynamic process taking place in different sectors of industry, which aims to safeguard the development potential and success of Finnish-based companies in increasingly international markets. Indeed, the fact that we are indisputably a part of Europe, was the incentive for founding Fortum.

Key goals in setting up the company were the public listing of our share and securing a wide and versatile domestic and international ownership base. We achieved our first milestone on this path at the end of the review period, when the Finnish State sold Fortum shares to domestic and international investors. At the same time, Neste's former shareholders were offered an opportunity to become Fortum shareholders. As a result of the sale and exchange of shares, the State's ownership in Fortum decreased to slightly more than 75%. Our share was subsequently approved for listing on the Helsinki Exchanges. At the end of 1998, we had more than 62,000 shareholders, and international investors held slightly less than 5% of our shares. We were particularly pleased that our own employees actively bought our shares and that so many of the former Neste shareholders became Fortum shareholders.

Although the founding phase of our company is now complete, following the restructuring of the corporation and the flotation of the share, the building of the company has only just begun. The challenging market situation emphasises the importance of further internal development work and of improvements in the efficiency of our business activities. We will share the benefits of the development work with our customers, partners, employees, and owners. We hope that, during the ongoing year, we will succeed in making ourselves and our operating principles well known in our north European home market. We also hope that our performance will create opportunities for the State to broaden our shareholder base further.

The dynamic restructuring of the north European energy industry will continue and provide us with new opportunities for growth. We in Fortum wish to take an active part in the energy projects of the Northern dimension of Europe. This requires, however, that the economic and general environments for new investments are viable and sufficiently stable.

I would like to extend my sincere gratitude to all our shareholders for the confidence you have vested in our company. We will endeavour to operate in such a way that our shareholder value will develop reflecting the confidence you have shown in us.

March 1999

Matti Vuoria

Chairman of the Board

President and CEO's review

Heikki Marttinen

We achieved our strategic and operational targets during the first year of operations. The reorganisation of the divisional structure, development of internal cooperation, and the listing of the share on the Helsinki Exchanges, accurately summarise the year.

In view of the circumstances, our first year of operations can be considered to be financially satisfactory. The record low price of oil in the world market and the exceptionally low spot prices of electricity were naturally reflected in our result, which, before extraordinary items, was FIM 2.2 billion. Return on capital employed, at 7.8%, was unsatisfactory, but our equity-to-assets ratio rose to 38%. Our gearing, at 93%, was also within the planned range. The total assets, at FIM 66.5 billion, fell by FIM 2.9 billion. Operating financing was better than expected and lent support to our strategically important investment programme of more than FIM 10 billion.

At the beginning of the current year, our operations were divided into five divisions, of which the largest are Oil and Gas, and Power and Heat. They are supported by the Operation and Maintenance Division and the Engineering Division, which increasingly focuses on energy. This portfolio of energy products and services makes us unique in Europe, and one of the companies which is best prepared to capitalise on the increasing deregulation of the European Union energy market. Our fifth division, Chemicals, was separated from the core business when the company was established.

At the beginning of 1999, the last year's holding-company phase ended and we all began to operate under the Fortum banner. In March this year, the names of all our subgroups that represent our core businesses were changed to Fortum names, demonstrating our aim to consolidate our corporate structure further and to raise the profile of Fortum in the market. These changes also mark the end of a period of Finnish economic history: Imatran Voima Oy (IVO) and Neste Oyj ceased to exist as companies. The brand names IVO and Neste will, however, continue to be used in product marketing.

The deregulation of the energy market and extensive structural changes in our principal competitors in the oil and gas industries provide us new opportunities, but also present new challenges. Deregulation creates opportunities for investment in areas in which we have the widest expertise and the best abilities to increase our market share and the number of our customers. On the other hand, our increasing focus on retail consumers requires that we take good care of our customer base and continuously develop our customer service systems. As the largest Nordic energy company by the number of customers, our goal is to be a pioneer in the creation and implementation of new service concepts.

The merger of Gullspång Kraft AB and Stockholm Energi AB into Birka Energi AB, completed in September, required a great deal of work. The operation has progressed as planned, and cooperation between the owners has worked well right from the beginning. Birka provides us with excellent opportunities to develop our business in Sweden and opens new doors in the Nordic energy market.

Finland's stance on energy policy and the Kyoto protocol require that we examine different future alternatives for energy generation and the ways in which they relate to environmental concerns. Although we have consistently accommodated environmental issues in our operations, we need to respond to the challenge of improving the efficiency of energy use and the demand for increasingly cleaner production methods and products.

1998 was characterised by the founding of Fortum and the combining of our operations. I would like to extend my sincere thanks to all the people and partners who contributed to this process.

March 1999

Heikki Marttinen

President and CEO

Oil and Gas

	Exploration & Production		Oil		Gas	
	1998	1997	1998	1997	1998	1997
Net sales, FIM million	866	1,244	28,183	37,882	3,868	3,655
Operating profit, FIM million	72	532	854	544	385	372
Identifiable assets, FIM million	4,912	4,302	9,337	10,487	1,795	1,808
Investments, FIM million	1,346	852	649	1,090	139	150
Average number of employees	220	81	4,105	4,337	419	430

In 1998, Exploration & Production, Oil, and Gas were separate divisions within Neste. In the financial statements the division-specific financial data concerns these businesses.

With effect from 1 January 1999, the majority of Neste's operations were reorganised as part of the Oil and Gas Division. The division includes the Oil Business Unit, and the E&P and Gas Business Unit, which encompasses oil exploration and production (E&P), and the majority of the gas business. Neste Lämpö Oy, which sells heat and steam, and Fortum Advanced Energy Systems (formerly NAPS), which develops and commercialises energy systems based on renewable forms of energy—both of which used to belong to the Gas Division—were transferred to the Power and Heat Division with effect from 1999. The present Oil and Gas Division accounts for 31% of the Group's identifiable assets. With effect from March 1999, the name of the parent company Neste Oyj was changed to Fortum Oil and Gas Oy.

Market review

Oil

Despite some peaks, the price of crude oil continued its strong decline 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 in 1998 fell more than USD 6 a barrel from the previous year and remained below USD 13 a barrel. It was only in the wake of cold weather at the turn of the year that the price climbed above USD 10 a barrel. As a result of the economic crisis in Asia, world demand for oil grew by only 0.5% in 1998. Similarly, oil production grew by only slightly more than 1%.

At the beginning of the year, the fall in the price of gasoline in international markets was moderate compared with the decline of the price of crude oil. This made a favourable contribution to international refining margins and kept them at the previous year's level until the middle of the summer. From August, however, the margins became weaker and, for the year as a whole, the refining margin in north-west Europe was less than in the previous year, averaging USD 1.7 per barrel.

The margin at Fortum's refineries, however, continued to be markedly higher than the international margin. The position of our refineries combined with their complexity, high conversion rate, direct access to harbour and storage facilities, and the easily-adjustable feedstock blending system, enable them to use different feedstocks to maximise the refining margin.

During the year, the European Union set out the criteria for gasolines and diesel fuels which will become effective in 2000 and 2005. These decisions lend credence to our long-term investment programme.

There have been no marked changes in the volume of petroleum product sales in Finland in recent years. In 1998, sales 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%.

Gas

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-fired power plants completed in autumn 1997. The use of natural gas in the generation of condensing power in 1998 was lower than expected, principally because a wet year had resulted in an ample supply of electricity. Consequently, the price of electricity was low. The share of natural gas of Finland's total energy requirement rose to 11%.

In 1998, for the very first time, natural gas replaced coal as the primary fuel used to generate district heat: 34% of the

The division encompasses oil and gas exploration and production, oil refining and marketing, and the natural gas and liquefied petroleum gas (LPG) businesses. We operate two oil refineries and are engaged in the supply, bulk sales, marketing, and retail sales of oil and petroleum products as well as logistics. In the gas sector, we are engaged in the transmission, distribution, and sales of natural gas and in the distribution and sales of LPG.

district heat used in Finland was generated by natural gas. For industry, natural gas is the principal imported fuel.

The price of LPG in international markets was extremely low and considerably diminished the opportunities for international LPG trading.

Oil

Our Oil Business Unit is responsible for oil refining, petroleum product sales and marketing, international trading, and logistics. Its extensive product range encompasses gasoline, diesel fuel, light and heavy fuel oil, aviation fuel, motor fuel components, base oils, lubricants, bitumen, solvents, and speciality fuels.

Products

We concentrate on manufacturing reformulated products and taking advantage of the location of our refineries in our home market, the Baltic Rim region. Even beyond the Baltic Rim, our focus is on environmentally compatible products, mainly on sophisticated motor fuel and lubricant components. In 1998, environmentally compatible products accounted for slightly less than half of our refineries' output.

We manufacture and market reformulated gasolines and low-sulphur, low-aromatic diesel fuels (City Diesel) that meet existing and, for the most part, anticipated environmental standards in Europe and the United States. These products 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.

We produce motor fuel components for use in our own reformulated gasolines as well as for sale to other oil companies. The fuel component MTBE (methyl tertiary butyl ether) and the more recently developed TAME (tertiary amyl methyl ether) are oxygenates that significantly improve gasoline combustion and reduce harmful emissions. These components are manufactured at our Porvoo refinery. MTBE is manufactured in Canada, Portugal, and Saudi Arabia. In 1998, we sold some 810,000 tonnes of MTBE globally, with the main markets being the United States and western Europe.

We also develop and market synthetic industrial and automotive lubricants which have reduced environmental impact. Demand for these lubricants continues to increase as the use of traditional mineral oils decreases both in Finland and the world market. We produce polyalphaolefin (PAO) base oil, which is the most important component of synthetic lubricants. We also manufacture another base oil, VHVI (very high viscosity index), which is similar to synthetic oils, for use in the blending of our own lubricants, and it is marketed as a raw material for modern lubricants, which are in increasing demand in international markets.

We also manufacture and supply bitumen, solvents, and speciality fuels. We own 50% of Nynäs Petroleum, a Swedish company which specialises in the manufacture of bitumen and naphthenic oils. Our solvents are sulphur-free and do not contain benzene, some qualities are even free of aromatics. Speciality fuels include aviation fuel, small engine gasoline, and completely sulphur-free light fuel oil.

We continued to reduce the volume of trading within the Oil Business Unit to focus the trading activity on oil supply operations and exports beyond Europe.

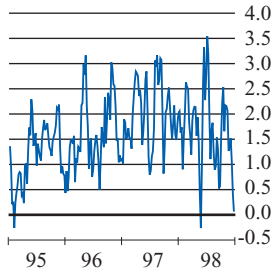
Sales and market shares

In Finland, we have a share of approximately 80% of the wholesale market for refined petroleum products. In 1998, wholesale deliveries amounted to some 8.3 million tonnes (8.4 million tonnes in 1997). Wholesale customers include all the major oil companies which operate in Finland.

In 1998, combining retail and direct sales, we sold approximately 3.5 million tonnes (3.4 million tonnes in 1997) of refined petroleum products in Finland. Gasoline had a market share of 32.4% (down 1.1 percentage points), diesel fuel

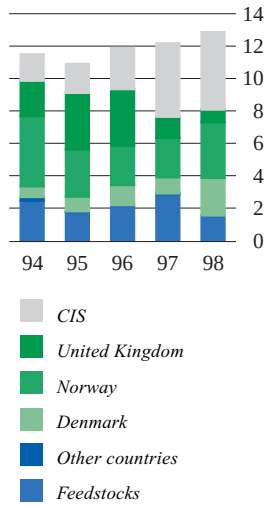
Refining margin in Rotterdam

Brent complex, USD/bbl,weekly average



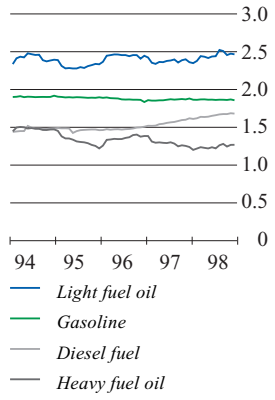
Crude oil and feedstock imports into Finland

mill. tonnes



Consumption of petroleum products in Finland

mill. tonnes



43.7% (down 0.4 percentage points) light fuel oil 40.4% (down 0.9 percentage points), and heavy fuel oil 46.8% (up 2.8 percentage points). The fall in the market shares was attributed to intense price competition and a growing number of new entrepreneurs.

Our petroleum product exports from Finland amounted to 4.4 million tonnes, up approximately 16% on 1997. Gasoline accounted for slightly more than one half of total exports. Exports of environmentally-compatible diesel fuel with low environmental impact grew by nearly 50%. Our most important export market is the Baltic Rim. Exports to Sweden totalled 2.0 million tonnes, while 1.1 million tonnes of refined petroleum products were exported to the St Petersburg region, the Baltic countries, and Poland. To a smaller degree, petroleum products were also exported to the UK and other north-west European countries as well as North America.

In polyalphaolefin, a base oil used in synthetic lubricants, we have a market share of approximately 30% in Europe. We are the market leader in Finland in road and industrial bitumen, and sold approximately 290,000 tonnes in 1998, which is almost the same as in 1997.

Retail network

At the end of 1998, our retail network in Finland included 1,043 service stations, unmanned stations, diesel fuel outlets, and other sales points (1,143 retail locations at the end of 1997). During the year, Kesoil outlets were rebranded as Neste stations. The number of retail locations with *Quick Shop* convenience stores, *Motorest* restaurants, and *Quick Wash* car wash lanes increased. We are currently rebranding our unmanned stations in Finland to a specific Neste sub-brand, *A*[24].

By the end of the year, we had 91 retail outlets in north-west Russia, the Baltic countries, Poland, and Sweden, of which around a dozen were brand-new outlets. The retail sales network continues to expand in the Baltic Rim. Our advantages in this region are the quality of our services and products and the close location of the Porvoo and Naantali refineries.

In the autumn we sold eight unmanned stations in Germany.

Refining

We are the market leader in the Baltic Rim in the production of high-quality refined petroleum products. We were one of the first refiners in Europe to upgrade our refineries in order to produce reformulated gasolines and City Diesel.

We operate two refineries of which the Porvoo refinery is one of the most complex and cost-efficient facilities in Europe. It has an annual capacity of approximately 11 million tonnes. The annual capacity of the Naantali refinery is approximately 3 million tonnes. Total production from both refineries in 1998 was 12.5 million tonnes (10.8 million tonnes in 1997).

In 1998, our refineries used approximately 11.3 million tonnes of crude oil and 1.9 million tonnes of other feedstocks and components. Of crude oil imports, light and low-sulphur crudes sourced from the Norwegian, UK and Danish waters of the North Sea accounted for 57%, while 42% was obtained from the former Soviet Union. Of this, a substantial amount—some 1.7 million tonnes—was delivered by rail directly to the refineries.

The total feed achieved at the Porvoo refinery, 10.8 million tonnes (9.0 million tonnes), is the record since the upgrade. In distillation, too, the refinery reached a new annual record, 1,050 tonnes per hour. A decision was taken during the year to invest FIM 170 million in the Porvoo refinery to increase the production of City Diesel. The additional capacity of 1 million tonnes is scheduled to be available in December 1999.

The total feed achieved at the Naantali refinery was 2.8 million tonnes (2.7 million tonnes). A two-year development project for the refinery was completed at

the turn of the year. The project set as target a profit improvement programme, which is progressing as planned.

At the end of the year, the Porvoo and Naantali refineries were awarded ISO 9001 and ISO 14001 environmental certificates. In September, the harbours of the facilities were also awarded environmental certificates, making them the world's first harbours with environmental certification.

Oil focuses on the development, manufacture, and marketing of pro-environmental petroleum products.

Logistics

We rely primarily on our own fleet to handle maritime transport of our raw materials and products. In maritime transportation we specialise in shipping crude oil and petroleum products in the Baltic Sea, North Sea, and Arctic waters.

At the end of the year, our fleet included 24 tankers consisting of seven crude carriers, nine petroleum product carriers, seven chemical carriers, and one gas carrier. Our fleet also includes three barges and four tugs. Eighteen of the vessels are wholly owned by us, two are partly owned, and eleven are chartered from other parties under long-term contracts. The total carrying capacity of the fleet is approximately 1.0 million dwt. The vessels are equipped either with a double hull or a double bottom. In spring 1999, we will receive a new 13,000 dwt product carrier, which has been time-chartered under a long-term contract from a Swedish shipping company.

We operate our vessels in international freight markets to achieve maximum optimisation of our fleet. We have been responsible for delivering all petroleum required by Greenland for more than 22 years, and for six years our vessels have been delivering petroleum products in the North-East Passage.

We plan to upgrade our product carrier fleet principally through charter arrangements.

We own, or have leased, 13 oil terminals in Finland and the Baltic Rim. We currently have our own storage facilities in five locations in Finland, while we cooperate with other oil companies for terminal services in other areas of the country. We own and operate a terminal at Tallinn and, since April 1997, at Riga. A terminal is being built in St Petersburg and is scheduled for opening in autumn 1999.

All the terminals owned by us have ISO 9002 quality accreditation and ISO 14001 environmental accreditation. The Riga terminal was accredited in December 1998.

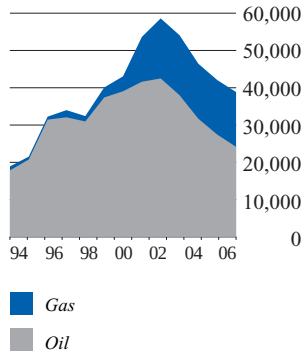
An international consortium has been exploring the feasibility of constructing a crude-oil pipeline which will run from north-west Russia to the Porvoo refinery.

Breakdown of refinery output

1,000 t	*1994*	*1995*	*1996*	*1997*	*1998*
Liquefied petroleum gases	*370*	*350*	*410*	*346*	*380*
Motor fuel	*4,114*	*4,124*	*4,209*	*3,707*	*4,059*
Diesel fuel and light fuel oil	*4,628*	*4,639*	*4,568*	*4,315*	*5,125*
Heavy fuel oil and bitumen	*1,373*	*1,116*	*1,445*	*1,394*	*1,579*
Other products	*914*	*844*	*1,185*	*1,075*	*1,390*
Total output	*11,399*	*11,073*	*11,817*	*10,837*	*12,533*

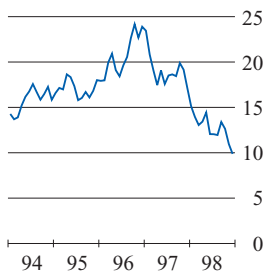
Production forecast vintages

boe/day



Brent spot price

USD/bbl, monthly average



Research and development

Our aim is to develop motor fuels and motor oils with increasingly lower environmental impact. We were one of the first refiners to launch lead-free gasoline, reformulated low-emission gasoline, and City Diesel.

We use our patented NExETHERS technology at the Porvoo refinery to produce TAME low-emission gasoline component, and have recently licensed the NExETHERS process to another oil company. Our proprietary high-conversion NExCC cracking technology has been used in our Pilot 2 unit since summer 1998. Preliminary design work in production scale is currently under way to commercialise the technology.

We also concentrate on the development and production of environmentally compatible VHVI and PAO base oils. As base oils VHVI and PAO reduce fuel consumption and exhaust gas emissions, while in industrial applications they help reduce energy consumption.

E&P and Gas

We have interests in two producing oil and gas fields, the Brage and Heidrun fields, on the Norwegian continental shelf. We also have stakes in several oil-producing deposits dominated by the Safah field in the Suneinah concession in Oman. In addition, we have interests in the Åsgard oil, gas and condensate fields currently under development in Norway as well as in oil and gas fields and discoveries that are in the appraisal phase in Norway, Oman, and Russia. At the end of the year, we sold our interest in an oil and gas discovery in Algeria to the British company Monument. The deal is still subject to approval by the Algerian Government. Together with our joint operating partner Occidental of Oman we signed an agreement with Amoco at the end of the year on gas exploration in the Suneinah concession and in four other areas in Oman. The agreement also covers potential natural gas transportation to Sharjah in the United Arab Emirates. All of the oil and gas produced by us is sold in the international markets.

Our objective is to be an active and constructive joint venture partner in oil and gas or integrated energy projects. Our business focus is on projects with proved discoveries or fields of long-life reserves.

Reserves and production

Our commercial oil and gas reserves increased by nearly 3%, to a total of 265 million oil-equivalent barrels (approximately 35 million tonnes) at the end of 1998. This represents an annual reserve replacement ratio of approximately 150%. Some 40% of the reserves were in production. Oil and condensates accounted for 165 million barrels or some 60% of total remaining reserves. The corresponding natural gas reserves were 16.5 billion cubic metres. Nearly one half of the oil reserves and more than 90% of the gas reserves were not yet in production.

The year-end value of our commercial oil and gas reserves totalled FIM 5.2 billion. This is equivalent to the cumulative discounted future cash flow from the commercial reserves during their remaining years of production, assuming a constant crude oil price of USD 15 a barrel. The value does not include the technical or prospective reserves of the fields or exploration areas. In the balance sheet, the value of the corresponding assets was FIM 4.9 billion.

In 1998, our production remained close to the previous year's level, averaging 32,400 oil-equivalent barrels a day, which translates into approximately 1.65 million tonnes a year. Produced natural gas accounted for around 4%, of which 33,800 tonnes were gas obtained from Heidrun and converted into methanol. Daily production in 1999 is expected to rise to more than 40,000 barrels once the Åsgard field has come on stream. Our production is projected to peak in 2002, reaching close to 60,000 oil-equivalent barrels a day. This corresponds to an annual production of

three million tonnes of oil. Furthermore, our gas production is also expected to grow strongly in the next decade.

E&P projects by region

Norway

Our equity production from the Brage field in 1998 totalled 12,510 oil-equivalent barrels a day (0.6 million tonnes a year). Production at Brage will continue, in declining amounts, until 2011. The recovered associated gas from the Brage field not used for energy generation at the field is transported via a pipeline to onshore facilities.

Our production volume from the Heidrun field in 1998 totalled 10,830 oil-equivalent barrels a day (0.5 million tonnes a year). Maximum volumes were not reached because the well-flow capacities were somewhat restricted by the high gas–oil ratio. Production restrictions should be alleviated next year when a new pipeline connecting Heidrun via Åsgard to the North Sea gas grid will be completed. This pipeline will also enable exploitation of Heidrun's gas cap. As gas transportation capacity increases, the plan is to raise Heidrun's oil production to the previously reached level of approximately 250,000 barrels a day. Production is expected to remain on this plateau level for the next three to four years, then naturally declining until 2020. Heidrun's associated gas is transported by the Haltenpipe gas pipeline to onshore facilities on the Norwegian coast, where it is converted into methanol. We have long-term supply contracts for methanol from Heidrun.

Production of oil from the Åsgard field is scheduled to begin in April 1999. There are three fields in Åsgard, Smørbukk, Smørbukk Sør, and Midgard, which produce oil, condensates, and gas. Nearly one half of the fields' commercial reserves is expected to be gas, the production of which is scheduled to commence at the end of 2000. Our share of the combined annual crude oil and gas output from Åsgard is estimated to reach an annual average of 30,000 oil-equivalent barrels a day (1.5 million tonnes a year), by 2002. Gas production is scheduled to continue to grow until 2008 and to remain on that plateau level until 2016. In contrast, oil production will begin its natural decline after 2002, but oil and gas production from the field is estimated to continue at least until 2024.

The wet gas from the Åsgard field is transported via a dedicated pipeline to the Kårstö gas treatment plant, on the Norwegian coast, for the recovery of condensate and natural gas liquids. From here dry gas (natural gas) is led to the North Sea gas grid. Our natural gas is sold under long-term contracts. We also have minor equity interests in the Kårstö terminal and the Åsgard natural gas transmission pipelines. The 840-km-long Norfra pipeline from Norway to France was commissioned on schedule on 1 July 1998. Norfra is also part of the Åsgard natural gas transfer system.

By the end of 1998, we had invested FIM 2.0 million in the Åsgard venture. Additional investments of approximately FIM 1.2 billion are scheduled over the next several years, making our total investment in the venture approximately FIM 3.2 billion.

Field stakes and commercial reserves

			Commercial reserves as of 31 Dec. 1998
Field	*Stake(%)*	*Operator*	*Fortum's share (mill.boe)*
Norway			***239***
• *Brage* *	*12.3*	*Norsk Hydro*	*20*
• *Heidrun*	*5.0*	*Statoil*	*63*
• *Åsgard*	*7.0*	*Statoil*	*156*
Oman			***26***
• *Safah*	*35.0*	*Occidental*	*22*
• *Others*	*35.0*	*Occidental*	*4*
Total			***265***

* *includes the Sognefjord discovery, of which Fortum's equity share is 13.2 %*

Oman

The Suneinah concession encompasses several oil fields, the largest of which is Safah. In 1998, our net production volume averaged 9,060 barrels of oil a day (0.5 million tonnes a year). At the end of the year, daily production from the area exceeded 50,000 barrels for the first time. As a result of continuing commercial discoveries in the area, production has doubled since we acquired our interest in 1991.

Russia

We are partners in exploration and production licences or in study groups in the onshore Yuzhno-Shapkinskoye field and offshore areas in the Pechora and Barents Seas.

The Yuzhno-Shapkinskoye onshore field is managed by SeverTEK, a joint venture currently owned on a 50-50 basis by Fortum and KomiTEK. Our initial share was 20% but we acquired the 30% interest of Elf Aquitaine following its withdrawal from the venture. We are presently seeking an additional partner. Seismic studies and production tests have been conducted in the field. Actual production is not expected to begin until at least 2001.

Together with OAO Gazprom, Norsk Hydro, Conoco, and Total we are continuing economic feasibility studies on the Shtokmanovskoye gas field in the Barents Sea. Production in this field is not expected to begin until at least 2010.

Natural gas

The E&P and Gas unit includes Fortum's interest in Gasum, which operates the natural gas transmission pipeline network in Finland, imports natural gas to Finland from Russia, and is the sole natural gas bulk sales company in the country. We currently hold a 75% interest in Gasum, while the remaining 25% is held by OAO Gazprom. When Fortum was established, we gave an undertaking to the European Commission to dispose of our 50% share of Gasum's share capital by 3 June 1999.

We are involved in the development of gas networks in the Baltic Rim. The Nordic Gas Grid project is exploring the possibility of interconnecting Finland's, Sweden's, and Denmark's gas networks. A feasibility study commissioned by seven Nordic companies on this project, which is on the EU's Trans European Networks (TEN) list, was completed in October. Neste Oyj was responsible for coordinating the study. The study reveals that there is good potential for the construction of a Nordic gas grid, but that market conditions need to improve before any investments become economically viable.

In November 1998, Fortum acquired an 11% holding in AS Eesti Gaas, Estonia's sole natural gas importer and distributor. We had previously acquired a 10% interest in Vattenfall Naturgas AB, which is the sole importer of natural gas into Sweden.

North Transgas Oy, a joint venture with OAO Gazprom, has been carrying out an extensive basic study on the technical, legal, and environmental aspects of building an export pipeline to transport natural gas from Russia to the European market via Finland. The study will be completed in spring 1999.

Approximately one half of natural gas deliveries went to industrial customers and the other half to power and heat companies. Approximately 70% of the natural gas delivered was used in combined heat and power generation.

Gasum's net sales in 1998 totalled FIM 2.5 billion, up 13% on 1997. Gasum has approximately 70 direct customers, principally large and medium-sized industrial enterprises, power producers, and energy companies. Deliveries to industrial and heat and power generation customers are generally made pursuant to long-term contracts.

Gasum invested in increasing the capacity of its natural gas transmission network and in the development of the distribution system. In 1998, a new pipeline from Sipoo to Vantaa was opened in southern Finland together with a new natural-gas fuelling station for buses in Helsinki.

The next construction project is a 34-km-long parallel pipeline to be built from Valkeala to Kotka in south-east Finland. Design work for the project will be completed in spring 1999, and construction should begin in July or August.

In December, Gasum was accredited to the ISO 14001 environmental standard.

The EU internal gas market directive requires EU member states to allow third-party access to gas markets and calls for the separation of accounts for transmission and distribution. Finland is currently adapting its natural gas market regulations, but a decision on the full adaptation of the regulations according to the EU directive has not yet been made. The directive contains a derogation, however, for EU member states which are not directly connected to the system of any other EU member state and which have only one primary external supplier of natural gas. Finland may thus apply for the derogation.

Trading in natural gas began on the UK market.

Liquefied petroleum gas

The liquefied petroleum gas (LPG) business includes natural gas sales in Finland, supply of light feedstocks and liquefied gases from the world market for use as feedstocks at our refineries, international LPG trading, and LPG sales to bulk customers in Sweden and Poland.

We distribute LPG in Finland through our subsidiary Tehokaasu Oy, Finland's leading LPG distributor. Approximately 87% of Tehokaasu's sales in 1998 was in the form of bulk LPG, with the remainder consisting of retail sales of bottled LPG. Bulk LPG is principally used by the steel, paper, metal, and food industries.

Bulk LPG deliveries to industrial customers in Finland increased by 20% compared with the previous year. Sales of bottled LPG grew by approximately 3%.

The LPG International Unit conducts international LPG trading and supplies LPG for use as feedstock at our facilities. Neste Gas AB imports LPG to Sweden and supplies it to its bulk customers from its rock-cavern storage facility in Sundsvall. We also have a unit in Poland, which imports LPG on a small scale and sells it in the expanding local market.

In China LPG International and China Oil & Gas are currently in talks concerning the construction of an LPG import terminal and a rock-cavern storage facility at Qingdao. We have a 50% interest in the venture, on which an investment decision should be made in 1999.

Financial result

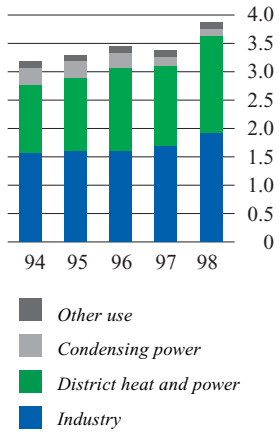
Oil performed markedly better than in the previous year, when there was a five-week shutdown at the Porvoo refinery.

The fall in the price of crude oil that continued during 1998 resulted in an inventory loss of FIM 192 million that was mainly due to the statutory and obligatory petroleum stockpiling. Finnish legislation requires that crude oil, feedstock, and petroleum product importers hold minimum stocks that correspond to an average of two months' imported volume.

In E&P, the strong fall in the price of crude oil had a major adverse impact on performance. Gas's result improved somewhat from the previous year.

Natural gas sales in Finland

m^3 billion



Power and Heat

	1998	*1997*
Net sales, FIM million	10,216	10,896
- electricity sales, FIM million	8,779	9,715
- heat sales, FIM million	1,233	901
Operating profit, FIM million	2,210	2,066
Identifiable assets, FIM million	32,488	28,005
Investments, FIM million	7,586	7,307
Average number of employees	2,806	2,967

Since 1 January 1999, the Power and Heat Division comprises the Power, Heat and Distribution Business Units, and the International Business Unit, for countries outside the Nordic area. In addition, it includes Neste Lämpö Oy, which carries out heat and steam sales, Fortum Advanced Energy Systems (former NAPS), which develops and commercialises systems based on renewable energy sources, and the Technology Centre, which specialises in research and development work. At the beginning of March, the name of the division's parent company was changed from Imatran Voima Oy to Fortum Power and Heat Oy.

In 1998, Power and Heat comprised IVO Group's operations only, and the key financial indicators for this business in the financial statements refer to these operations. The figures of Neste Lämpö and the former NAPS are included in the figures of the Gas Division.

In recent years, the Power and Heat Division has significantly expanded its operations by means of share acquisitions. In energy sales, generation volume and number of customers, Fortum is the second-largest energy company in the Nordic countries, and has a 50% holding in Birka Energi AB, which, in Sweden, has the largest number of customers and the third-largest generation capacity. We are also involved elsewhere in Europe and in certain countries in South East Asia.

Market review

A total of 374 TWh of electricity was used in the Nordic countries in 1998, up by 2% on the previous year. Finland represented about 4% of this growth, Sweden about 1%. In Finland, 76.5 TWh was used; other than towards the end of the year, the growth focused on industry, which accounted for 55% of the total.

About 200 TWh of electricity was sold by the Nordic electricity companies to their 14 million domestic and small-company customers. There are around 680 electricity companies in the region and the 15 largest control a third of the market.

The Nordic generators sell about 100 TWh of district heat each year to their four million domestic and small-company customers. There are around 630 heating companies in the Nordic countries and the 15 largest control almost 40% of the market.

A total of 27.6 TWh of district heat was used in Finland, 5% more than in the previous year. Half of Finland's buildings are served by district heat, but in major cities district heat is connected to as many as 90%.

The electricity markets in Finland, Sweden and Norway are the most deregulated in the world. As far as generation is concerned, they have been completely liberalised for several years. Norway is the only country where holdings in energy generation companies have been limited. Customers in Finland, Sweden and Norway are all free to choose their own electricity suppliers, whereas in Denmark, only the largest electricity buyers are able to obtain tenders for the supply of their electricity.

In Sweden, all electricity customers who change their supplier must have a new hourly meter. This stipulation has, however, created an economic barrier and will probably be cancelled at the beginning of November 1999. About 30,000 small users of electricity changed their supplier for the first time during the year. In Norway, load profiles of small users have been used since 1995. During the past year, about 90,000 Norwegian small users of electricity changed their supplier for the first time, as against 30,000 for the previous year. The amendment to Finland's Electricity Market Act, which came into being in the autumn, extended competition to cover, in practice, all customers. Roughly 25,000 small users of electricity had changed their supplier before the end of the year. The competitive factors are price and various types of product structures, and operational and service models.

Liberalisation has resulted in significantly larger investments being made in the market. Acquisitions and joint ventures have been used to increase competitiveness, resulting in larger and fewer companies and alliances. Municipalities are de-

The division generates, sells and distributes power and heat throughout the Nordic countries. The power and heat is generated at power and heating plants which Fortum owns, or in which it has interests, or is bought from other companies on the spot market.

bating their roles in ownership and are formulating their energy strategies on a new basis.

The internal market directive for electricity, accepted by the European Union in 1996, was the first step towards an open and competitive European electricity market. The directive opened the market in February 1999, by which time the member states had to have deregulated at least a quarter of their electricity markets.

In the Nordic countries, electricity is sold through bilateral contracts and electricity exchanges. The agreement periods of bilateral contracts have reduced from the traditional five to ten years and are now signed for periods which vary from a few months to a few years.

About 56 TWh of electricity, 29% more than in the previous year, was sold through the Nordic electricity exchange Nord Pool. Financial contracts are used to hedge electricity portfolios for up to three years, and the volume of this trade was about 90 TWh. In addition, a corresponding trade on the OTC market is maintained by brokers. In June, The Finnish Electricity Exchange, EL-EX, began to provide Nord Pool's electricity exchange services in Finland.

Competition in the electricity market became fierce, mainly as a result of more active canvassing, on one hand, and of hydropower generation, which was higher than in the previous year, on the other. The Norwegian, Swedish and Danish power generators released more electricity to the market than usual, resulting in significant pressure to reduce the prices of bilateral contracts and the spot market prices in the Nordic countries.

The low market price of electricity, combined with overcapacity in the market, postponed the planned power plant projects based on combined heat and power generation. No major decision to invest in a power plant was made in the Nordic countries. In Finland and Sweden, almost 3,000 MW of condensing power capacity was put in temporary reserve, and in Denmark it was decided to take some of the oldest power plant units out of operation over the next few years. Within five years, the construction of the planned transmission lines would increase the power transmission capacity between the Nordic countries and continental Europe from about 2,500 MW to about 5,000 MW. The completion of the lines will increase the potential for electricity exchange, even out price fluctuation, and bring the prices in the Nordic countries and continental Europe closer together.

The decrease in greenhouse gas emissions targeted in the Kyoto protocol will, in the long run, favour the use of CHP plants, biomass, natural gas and hydro and nuclear power and reduce the competitiveness of power generated with other fossil fuels. The Nordic countries use hydro and nuclear power, coal, natural gas, biofuels, peat and oil, and, to a certain extent, solar and wind power.

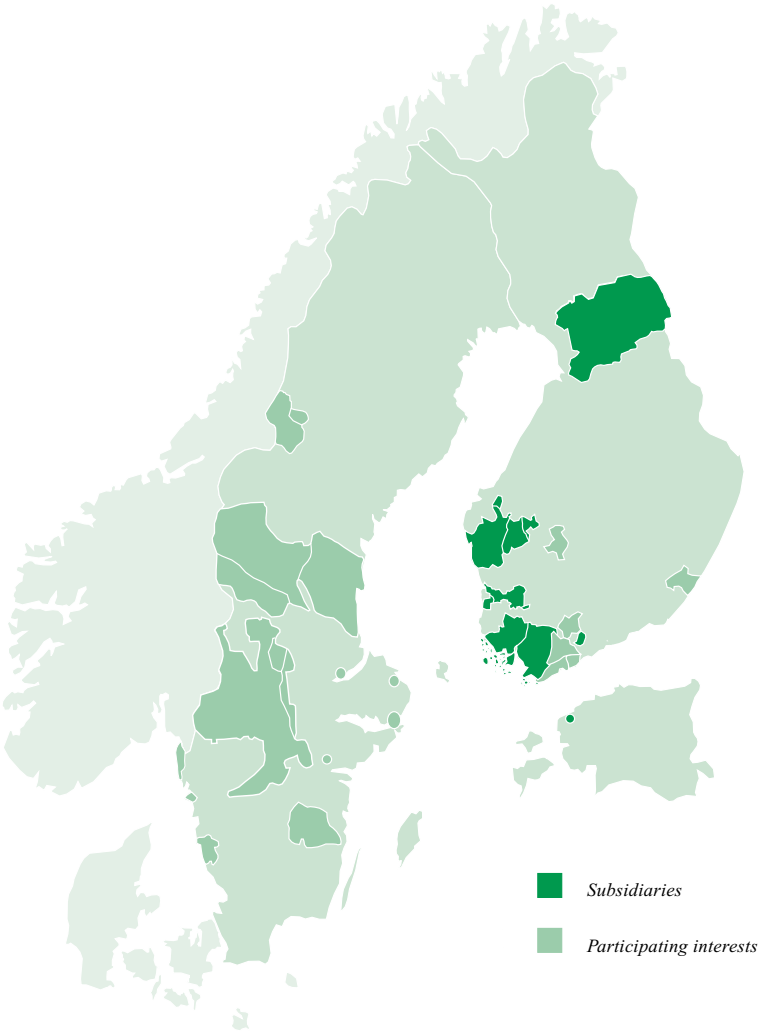
Power

We have a total of 8,700 MW of power generation capacity in our wholly- or partly-owned power plants, about 8,400 MW of which is in the Nordic countries. In the past year, these plants generated 35.1 TWh of electricity for Fortum—9% of all the electricity used in the Nordic countries. Hydro and nuclear power, coal, natural gas, peat, biofuels and oil are used to generate energy.

In the Nordic market, the division's electricity sales decreased from 48.1 TWh to 44.5 TWh, 57% of which was to large-scale customers, 30% to small customers, and 13% to the electricity exchange or temporary sales. The division has a 12% share of the Nordic market. At the end of the year, our subsidiaries, including Birka Energi, served around 1.2 million electricity customers. The power was sourced from wholly- and partly-owned power plants, other Nordic power generators, Russia, and electricity exchanges.

As a result of the warm, wet weather, water resources were above average for most of the year in the Nordic countries. A great deal of hydro-electric power was

Fortum's network operations
1.1 million customers



available, and kept the market price of electricity low. Contracted sales decreased, but were compensated for by increasing sales to the exchange and by temporary bilateral trade at the end of the year.

Contracts signed with large-scale customers are mostly short term, and their pricing follows the market price of electricity, whereas our old contracts were priced above the market price. In order to ensure our own and our customers' competitiveness, in autumn 1998 we negotiated moderations to these contracts, under which the current climate in the electricity market and the severe price competition were considered. The negotiations resulted in the price of part of these supplies being adjusted in line with fluctuations in the market price of electricity. This solution closely concurs with recommendations given in January 1999 by investigators appointed by the Ministry of Trade and Industry.

At the beginning of March 1999, a new long-term contract on additional supplies from Russia came into force. Under this contract, Russia provides the division with 0.3 TWh of electricity, generated by hydropower, each year for ten years. In June it was decided to put half, 500 MW, of the Inkoo power plant's output into long-term reserve. The plant has previously been used as a reserve power plant, particularly in years of ample water resources.

We responded to the demand for wind power by combining with the other shareholders of Kemijoki Oy to establish Tuulitunturi Oy, of which Fortum owns 55%. Supplies have been secured by signing contracts with other Nordic companies to reserve around 10 GWh of wind power for 1999.

The IVO Partners chain's operations continued actively, after the development carried out in the first part of the year. At the end of the year, the chain comprised Fortum and 11 electricity companies. IVO Partners aims to improve the cost effective-

ness of electricity sales through joint marketing, and by offering its customers a full range of customised energy services and products to meet each one's specific needs. Services are principally offered to households and small companies in the Home Electricity and Company Electricity marketing concepts. At the end of the year, a new product, Norppa (Saimaa Ringed Seal) Electricity, was launched. The product has been granted the "Saimaa ringed seal recommends eco-energy" label by the Finnish Association for Nature Conservation. In March 1999, IVO Partners was renamed as Fortum Energy Partners.

At the end of the year, we sold our peak-power gas turbine plants in Huutokoski, Loviisa, Naantali and Vanaja to Fingrid Varavoima Oy. The deal became valid at the beginning of 1999. Power and Heat can buy its regulation and balance electricity supplies from the balance electricity market, for which Finnish Power Grid Plc is legally responsible.

In September, Stockholm Energi AB and our Swedish subsidiary, Gullspång Kraft AB, were merged to form Birka Energi AB. Fortum and the City of Stockholm each own 50% of Birka Energi.

In Sweden, the Kinnekulle arrangement, in which IVO Energi AB became a shareholder of Kinnekulle Energi AB and in which Karlskoga Energi & Miljö AB and three other electricity companies in central Sweden sold their electricity sales business to Kinnekulle Energi, was completed. At the beginning of 1999, we increased our holding in the company to 23%.

Heat

In the Nordic countries, we have 5,200 MW of heat generation capacity in wholly- and partly-owned power and heating plants; 900 MW of this capacity is owned by Neste Lämpö Oy. A total of 13.1 TWh of heat was generated in these power and heating plants. This was 13% more than in the previous year. The commissioning of the Kirkniemi power plant in southern Finland and Nokian Lämpövoima Oy's power plant in central Finland, and the disposal to Enso Oyj of the power plant operated in connection with Enso's Kotka mills in south-east Finland, exerted the major influence on the heat generation figures.

We sold 48% of the heat we produced in the form of process steam to industry, and 52% to district heating networks. Our local subsidiaries, including Birka Energi, have around a 4% share of the district heat transmission market in the Nordic countries. The number of heat customers in Finland is about 600, and in Sweden about 9,000.

Neste Lämpö, together with Turku Energia - Åbo Energi Ab, established Evanes Oy, which generates and sells district heat in south-western Finland, and steam in Turku. We own 40% of this new company. Its share in Kärsämäen Kaukolämpö Oy was sold to Revon Sähkö Oy.

The Kokkola Energy Board in north-west Finland gave notice of the termination of a long-term district heat contract between Fortum and the town of Kokkola. District heat supplies were discontinued at the end of the year.

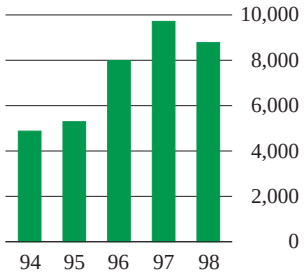
Distribution

Our local subsidiaries distribute electricity for small customers in their distribution network areas in the Nordic countries. We account for about 5% of the small customer electricity distribution market. Including Birka Energi, we have almost 1.1 million electricity distribution customers, 280,000 of which are in Finland and 840,000 in Sweden.

Electricity is supplied to consumers through an integrated transmission and

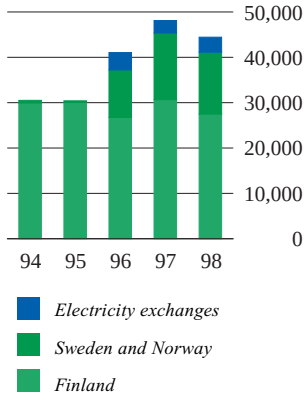
Net sales of electricity

FIM million



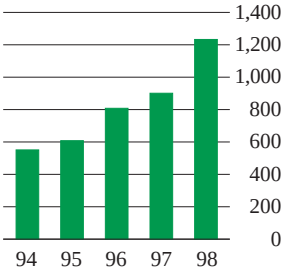
Electricity sales

GWh



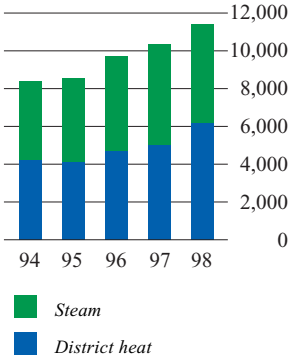
Net sales of heat

FIM million



District heat and steam sales

GWh



distribution system. Most of the division's regional and distribution networks are owned by Länsivoima Oyj, Koillis-Pohjan Sähkö Oy and Tuusulanjärvi Energy Ltd in Finland, and Birka Energi in Sweden.

In Finland, we distributed 6.9 TWh of electricity, 0.6 TWh up on the previous year. In Sweden, the corresponding distribution was 13.9 TWh, 0.9 TWh less than in 1997.

Net sales of the Länsivoima Group's network operations were FIM 550 million and, at the end of the year, its customers numbered somewhat more than 228,000. Net sales of Tuusulanjärvi Energy's network operations, taken over by Fortum in March, totalled FIM 62 million, with approximately 29,000 customers. In Koillis-Pohjan Sähkö the corresponding figures were FIM 63 million and about 28,000 customers. In November, Koillis-Pohjan Sähkö became a Fortum subsidiary when our holding in the company increased from 24% to 54%. Following a further share acquisition in January 1999, we hold 99% of the company.

In February 1999, Länsivoima Oyj acquired, for somewhat more than FIM 516 million, a 28% share of Espoon Sähkö Oyj.

In Sweden, we acquired 49% of Karlskoga Energi & Miljö from the municipality of Karlskoga. At the end of the year, Birka Energi owned 35% of Ryssa Elverk AB's shares and, in January 1999, acquired the entire share capital of Lidingö Energi AB.

Technology Centre's energy measurement business, together with six Nordic electricity companies, established Eurotrem AB, which specialises in energy measurement and the processing of measuring values in the Nordic market.

Operations outside the Nordic countries

Outside the Nordic countries, we have power and heating plant holdings in the UK, Ireland, Hungary and Thailand, and holdings in electricity companies in Estonia and Russia. We have also gained a foothold in the German market. Our intention is to offer the entire service chain, from generation to sales and distribution, in the deregulated central and northern European market.

Our strongest growth was in the UK, where the second, 510-MW, unit of the Humber gas-fired power plant was commissioned in November. The new generation capacity was sold on a long-term contract to the French gas company Elf. The plant, which has a total output of 1,260 MW, is owned by Humber Power Limited, in which Fortum has a 22.5% holding. We supplied our own share, and that of two other Humber shareholders, of the generated electricity to electricity companies operating in the UK market.

Towards the end of the year, the entire ownership of Regional Power Generators Limited was taken over by Fortum. The company owns the Brigg 240-MW gas-fired power plant in north-east England. The plant buys the gas it needs and sells the electricity it generates through the spot markets. In Scotland, we signed a contract with BP to supply electricity and heat to the company's refinery at Grangemouth. For this purpose we will build a new gas-fired CHP plant in the area to generate 130 MW of electricity and 250 MW of heat. Our share of the project is 75%.

In Ireland a Fortum company, Edendery Power Limited, was the first international power company established in the coun-

The specific strengths of Power and Heat include operating models which have been customised to meet the particular needs of our customers and local joint-venture partners; concepts tailored for small-scale customers; extensive investment in research and development; international experience; and the ability to use our entire energy expertise comprehensively.

try's energy market to win a tender for a power plant project. The company will build a 118-MW peat-fired power plant, due for completion in 2001, and sell the generated electricity to the Irish network company.

In Hungary, we increased our holding in Budapesti Erömü Rt. to 43.8%. Budapesti Erömü owns five gas-fired CHP plants and one heating plant, and is developing a total of more than 220 MW of new electricity generation capacity.

Power and heat supplies were agreed with the chemicals company Wacker-Chemie GmbH in Germany, and a gas-fired power plant, which will generate 120 MW of electricity and 310 MW of heat, scheduled for completion in 2001, will be built in Burghausen, Bavaria, for this purpose. In October, the annual electricity supplies of about 50 GWh were agreed with Elektrizitätswerk Hammermühle. This was the first supply contract signed between a German electricity company and a Nordic seller of electricity. As a manifestation of our expansion in the German market, in February 1999, we established a joint venture with the Danish company Elsam to sell electricity to large customers in Germany.

In Estonia, we tendered successfully for the privatisation of AS Läänemaa Elektrivörk, following which 95% of the company was taken over by Fortum. Läänemaa Elektrivörk serves about 16,000 customers.

In Russia, we increased our holding in Lenenergo, an energy company operating in St Petersburg and environs, to 4.9%.

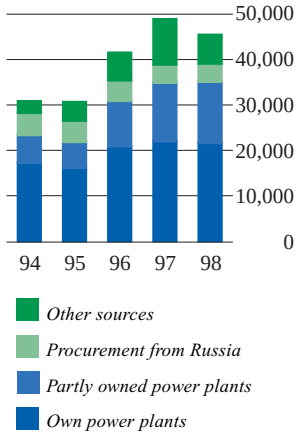
We have holdings in three power companies in Thailand. We increased our holding in Union Power Development Company Limited from 15% to 28%. The company is designing the Hin Krut 1,400-MW coal-fired power plant which, in common with other power plant projects in the country, has been opposed locally. Financing for the project has been agreed and environmental permits have been granted but, together with the government of Thailand, it has been decided, to postpone the signing of the contracts to 1999, to make it possible to carry out the public hearing in accordance with a new law. We own 75% of Laem Chabang Power Company Limited, which is developing a 100-MW gas-fired CHP plant, and also owns 7.4% of the Thai listed company, The Cogeneration Public Company Limited (COCO), which operates a 370-MW, and is constructing a 400-MW, gas-fired CHP plant. In Malaysia, a 6.7% share in the local listed company Powertek Berhad was sold.

Fortum Advanced Energy Systems (former NAPS)

Fortum Advanced Energy Systems develops and commercialises worldwide systems based on renewable energy. It specialises in solar energy, solar heat and wind power, and in related energy storage and control technologies. The unit also participates in research and development work, focusing on transportation and storage systems for natural gas, new biofuel technologies, and the use of renewable energy forms in CHP production.

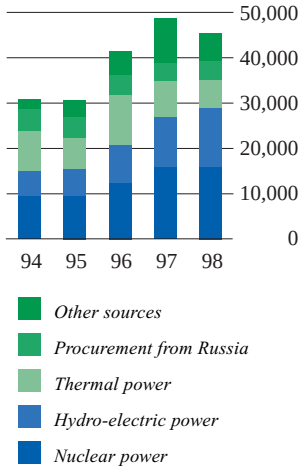
Electricity procurement by source

GWh



Electricity procurement by energy type

GWh



In The Netherlands, we formed an alliance with Free Energy Europe B.V., and, as a result, disposed of the Lens thin film panel factory in France.

Finland's first hydrogen technology system was installed for testing, and a laboratory phase for the production of high-efficiency solar cells was completed. Promising results were achieved in the bio-oil project, and work on the commercialisation of the technology began.

The world market for solar electricity totalled about 160 MW; of which Fortum had about a 2% share.

Research and development

The division invested FIM 249 million, 1.8% of net sales, in research and development of electricity and heat.

The development of generation methods focused on district heat, industrial CHP plants and gas-fired combined-cycle plants. The management of the simultaneous use of several fuels, which is one of our key technologies, was further strengthened.

Electricity sales and distribution investigated potential new services which relate to electricity use. Ways of making the logistics of the operations, maintenance and building more efficient were also investigated.

The safety-related research which supports the operation of the Loviisa nuclear power plant continued: model tests and calculation programs were developed. The division also participated in international development projects for new nuclear power plant concepts.

Financial result

The result of the Power and Heat Division improved on the previous year, in spite of low prices of electricity in the Nordic countries. A factor that lowered the result was a write-down of FIM 84 million on the coal inventories, owing to a decrease in coal prices. This was more than offset, however, by a decrease in other procurement costs and a refund of electricity export tax.

An additional expense, FIM 202 million, to cover the liability for nuclear waste disposal, had an adverse effect on the result. This was primarily as a result of lowering the interest rate on the re-borrowing of the Nuclear Waste Disposal Fund.

Birka Energi AB

In September 1998, Stockholm Energi AB was merged with Gullspång Kraft AB, Fortum's subsidiary in Sweden, to form Birka Energi AB. Fortum and the City of Stockholm each own 50% of Birka Energi, which sells electricity and heat and owns and operates power and heating plants and electricity distribution networks, and district heating and cooling networks in greater Stockholm and central Sweden.

At the end of the year, Birka Energi's balance sheet stood at FIM 46 billion and interest-bearing net debt at FIM 22 billion, half of which is included in Fortum's balance sheet.

At the end of the year, Birka Energi had the largest number of customers in Sweden, about 840,000 for electricity and 9,000 for heat, and the third-largest generation capacity, about 4,570 MW of electricity and 4,300 MW of heat. The company's business divisions, electricity trade, power generation, electrical networks, district heat and services, began operating under the new structure at the beginning of 1999.

In Sweden, Birka Energi acquired 35% of Ryssa Elverk AB. It also agreed with Drammen Energinett AS, a company based in southern Norway, on the establishment of a new district heating company, Drammen Fjernvarme AS. In January 1999, the entire share capital of Lidingö Energi AB transferred into the ownership of Birka Energi.

Birka Energi AB's key figures (pro forma)

	1998
Net sales, FIM million	*8,705*
Operating profit, FIM million	*1,677*
Identifiable assets, FIM million	*38,536*
Investments, FIM million	*1,614*
Average number of employees	*3,982*

The figures have been compiled as if the Birka Group had been operating since 1 January 1998.

Power generation capacity in the Nordic countries as of 31 December 1998

	Capacity MW[1]
Finland	**6,122**
OWN POWER PLANTS	4,598
Hydro-electric power	770
Nuclear power	976
Combined heat and power generation [2]	889
Coal	160
Natural gas	268
Peat	309
Others	152
Conventional condensing power [2]	1,648
Coal	1,494
Peat	154
Other	315
SHARES IN PARTLY OWNED POWER PLANTS	1,524
Hydro-electric power	569
Nuclear power[3]	447
Combined heat and power generation and conventional condensing power [2]	508
Coal	98
Natural gas	355
Peat	55

	Capacity MW[1]
Sweden [4]	**2,284**
OWN POWER PLANTS	1,436
Hydro-electric power	1,069
Combined heat and power generation [2]	213
Coal	62
Peat	7
Other	144
Conventional condensing power	77
Other	77
SHARES IN PARTLY OWNED POWER PLANTS	848
Hydro-electric power	95
Nuclear power[5]	645
Combined heat and power generation [2]	64
Coal	64
Conventional condensing power [2]	37
Others	37
Other	7

Heat generation capacity in the Nordic countries as of 31 December 1998

	District heat MW[1]	Process steam MW[1]
FINLAND	**1 ,372**	**772**
Own power and heating plants	**1,372**	**772**
Combined heat and power generation[2]	1 040	709
Coal	315	165
Natural gas	242	-
Peat	287	166
Others	196	378
Other	332	63
SWEDEN [4]	**2,151**	**-**
Own power and heating plants	2,107	-
Combined heat and power generation[2]	133	-
Coal	115	-
Peat	18	-
Other	1,974	-
SHARES IN PARTLY OWNED POWER PLANTS	**44**	**-**

Power and heat generation capacity outside the Nordic countries as of 31 December 1998

	Power MW[6]	District heat MW[6]	Process steam MW[6]
POWER AND HEATING PLANTS	5,374/824	1,572/689	985/266
United Kingdom	1,500/524	-/-	-/-
Hungary	262/115	1,572/689	530/232
Russia	3,242/158	-/-	-/-
Thailand	370/27	-/-	455/34
PROJECTS UNDER CONSTRUCTION	248/216	-/-	250/188
United Kingdom	130/98	-/-	250/188
Ireland	118/118	-/-	-/-
PROJECTS BEING PLANNED	1,620/687	-/-	343/335
Germany	120/120	-/-	310/310
Thailand	1,500/467	-/-	33/25

[1] The capacity controlled by Fortum
[2] The capacity has been classified according to the fuel used in generation.
[3] Fortum's holding in Teollisuuden Voima Oy entitles it to a 26.6% share of the capacity of the Olkiluoto nuclear power plant.
[4] Includes 50% of Birka Energi AB's capacity.
[5] Includes Fortum's holding in Mellansvensk Kraftgrupp (MKG), which owns part of the Forsmark nuclear power plant, and in OKG, which owns part of the Oskarshamn nuclear power plant.
[6] The total capacity of power and heating plants/according to Fortum's share of the capacity.

Operation and Maintenance

	1998	*1997*
Net sales, FIM million	1,487	1,371
Operating profit, FIM million	46	92
Identifiable assets, FIM million	119	90
Investments, FIM million	33	37
Average number of employees	3,191	2,465

Operation and Maintenance operates its customers' power plants and maintains industrial production processes on comprehensive service contracts, enabling customers to focus on their core businesses.

Our customers include owners and operators of power plants and substations, and industry. We have operations in Finland, Sweden, the UK, Germany, Hungary, Indonesia, Malaysia and Thailand. At the beginning of March 1999, IVO Generation Services Ltd was renamed as Fortum Service Oy.

In Finland, the Operation and Maintenance Division contracts cover 56 power and heating plants located throughout the country, representing a total of 3,800 MW of power generating capacity and 2,760 MW of heat production capacity. The division has maintenance contracts for more than 50 industrial projects.

In Sweden, operation and maintenance are carried out by Birka Service AB, a subsidiary of Birka Energi, in which Fortum has a 50% interest. The company is responsible for the operation and maintenance of Birka Energi's power plants, electricity distribution and district heating networks, and also offers operating and maintenance services to other industrial customers. Birka Service's contracts cover 25 power and heating plants, representing a total of 1,675 MW of power generating capacity and 3,300 MW of heat production capacity in Sweden.

Fortum O&M (UK) Ltd, which is responsible for the company's UK operations, has contracts with four power plants, representing a total of about 2,000 MW of power generating capacity.

In Malaysia, the division operates and maintains Powertek SDN BHD's Teluk Gong gas turbine power plant, the total power generating capacity of which is 440 MW.

Market review

In Finland, towards the end of the year, the basic industry's production volume decreased, as did the demand for maintenance services, although the demand for contracted maintenance continued to be good. In the Nordic countries, this business developed well.

Operations in Finland

The availability of the power plants for which the division is responsible continued to be excellent.

Power plants' outages were implemented to plan. Special maintenance obtained a very satisfactory amount of power plant outages and substation contracts. During the summer, turbines at Varenso, in Varkaus, Finland, and at Göteborg Energi, in Sweden, were modernised. In addition, inspections and other maintenance work were carried out to improve the operation of turbines, generators and other power plant machineries.

The holdings in maintenance companies were rearranged in order to improve efficiency.

Operations outside Finland

At the end of 1998, a long-term O&M contract was signed for the operation and maintenance of a CHP plant to be built in Scotland. This plant will generate steam and electricity for BP's refinery at Grangemouth. Negotiations with the Power and Heat Division on a 15-year O&M contract for a 110-MW peat-fired power plant, to be built in Ireland, were started at the same time.

The division offers turnkey operation services for owners of power plants, and maintenance services for the process industry and power plants. Maintenance services cover everything from a single operation to the maintenance of an entire plant. Our special expertise also covers the maintenance of turbine, boiler, switchgear and transformer plants. In Finland, the business also offers local heating services to industry and populated areas. The local heating services use indigenous solid fuels.

In Indonesia, long-term contracts were signed for the operation and maintenance of two coal-fired power plants which are under construction. Because of the country's economic and political situation, the projects are at a standstill and the owner is looking for new investors. In Thailand, a 15-year O&M contract was signed on the operation and maintenance of a 1,400-MW coal-fired power plant. While the project has not yet been started, it is planned for the first unit to be in operation in autumn 2002, and the second unit at the beginning of 2003.

In Hungary, Montivo Kft. installed two Frame 9 gas turbine units and prefabricated and installed three condenser units for the Paks nuclear power plant. Powermaint, a maintenance information system, was supplied to Budapesti Erömü Rt.

Product development

IVO Service Technology, a maintenance products development unit, was opened in Oulu, northern Finland, to develop high-tech maintenance products for industry and energy generation. In the UK, remote support operations for power plants were developed further by extending them to cover the South Humber Bank power plant, as well as Brigg and Peterborough. The project for optimising operation modes developed a comprehensive method for improving the operational economy of power plants.

The Operation and Maintenance business has been involved, since 1996, in a national programme, 'Operational reliability as a competitive edge', which has been developing methods relating to the prediction and analysis of faults in gas turbines. Our share of this project was completed before the end of 1998.

Quality, environment and safety

The maintenance business in Finland and Hungary was awarded an ISO 9002 quality certificate. Quality development work is continuing through the improvement of environmental systems.

The power plant units in Finland focused on the management of environmental issues in order to improve employees' environmental awareness and operations in compliance with ISO 14001. Operations' levels of achievement were verified through internal auditing and certification. A safety development project was started and will continue in 1999.

The quality and environmental certification work, carried out in 1996-97 in our units outside Finland, was continued as the Humber power plant in the UK was awarded the EU's ECO-Management and Audit Scheme registration (EMAS).

Financial result

The new maintenance contracts signed in Finland resulted in an improvement in the net sales of the Operation and Maintenance Division.

As a result of the warm end of the year and an ample water supply, among other things, generation volumes of condensing power and heat were lower than expected. These factors, combined with clearly higher development costs in the business and the start-up costs of new maintenance projects, resulted in a weaker result for 1998 than for the previous year.

Operation-time energy availability of power plants

%	1998	1997	1996
Natural-gas-fired power plants	99.4	99.1	99.4
Peat- and wood-fired power plants	99.3	99.1	99.0
Coal-fired power plants	93.7	97.4	97.5
Average	96.2	98.1	98.1

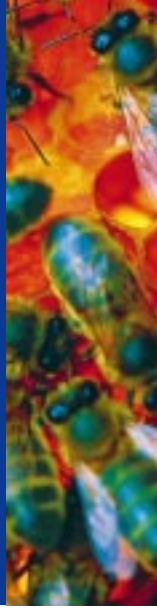
The five-year average was 96.1% in 1994-98 and 96.3% in 1993-97.

Hydro-electric power plants*	99.8	99.7	99.0

** Power plants for which the division is responsible in Finland.*

Engineering

	1998	1997
Net sales, FIM million	2,120	2,179
Operating profit, FIM million	50	80
Identifiable assets, FIM million	355	441
Investments, FIM million	58	35
Average number of employees	2,591	2,199



As of the beginning of 1999, the Engineering Division was reorganised, and IVO Power Engineering was split into two companies. The name was changed to Fortum Engineering, and Neste Engineering was incorporated into that business. At the beginning of the year, the company's operations were restructured into three business units: Power Plants, Neste Engineering and Power Transmission. Fortum Engineering Ltd is the parent of these operations and companies. Neste Engineering operates in oil refining, and in processes and technologies relating to the petrochemical and natural gas industries. IVO Transmission Engineering Ltd operates in power transmission and distribution, telecommunications and railway electrification.

In 1998, the Engineering Division comprised IVO's operations only. The division-specific key financial indicators given in the financial statements refer to these operations. Neste Engineering's figures for 1998 are included in "Other business".

Market review

The markets of the nearby areas remained fairly quiet. Construction in central Europe and Asia has been more active.

In Poland, several modernisation and environmental projects, as well as power plant projects, were in hand. In the Czech Republic, a market for small-scale district heating plants and for the modernisation of power plants began to appear. Rumania has obtained a great deal of international financing for power plant modernisation projects and, in Hungary, decisions made on building additional capacity activated the design of new power plants. In China, foreign investment in power plants increased. China had a vast market for environmental technologies. There was potential for power plant projects in Thailand, despite the economic depression in the area.

The Oil and Gas Division's plant projects, together with those of Borealis, guaranteed a good basic workload for Neste Engineering.

In the Nordic countries, investment in power transmission continued to be low, but maintenance and modernisation projects for transmission networks increased in Finland and in the nearby areas. In Russia, the Baltic countries and eastern areas of central Europe, the modernisation and electrification of railways offered new business opportunities. In addition, the proliferation of mobile phone networks created a fast-growing market for the supply of antenna masts and mobile base stations.

Power Plants

The Power Plants Unit comprises the following subunits: thermal power plants, environment and modernisation, automation, nuclear power, hydropower, and consulting. The international power plant business developed particularly strongly in 1998.

New orders, worth FIM 2.9 billion, were received. The most significant orders were for a condensing power plant in Ireland; a CHP plant in Scotland; a desulphurisation plant in Poland; a gas-fired combined-cycle plant in Thailand; district heat projects and a desulphurisation plant based on the LIFAC technology in China; and an order for power plant automation in Rumania.

In the Czech Republic, a desulphurisation plant for flue gas cleaning and the Olomouc power plant were commissioned. The first desulphurisation plant based on the LIFAC technology began operating in China, and a start was made on modernisation projects which are to be delivered to Rumania. In Poland, a CHP plant which generates district heat advanced to the building phase, and Fortum Engineering's share of the work for the first unit of the North-West power plant near St Petersburg was completed.

The main emphasis in hydropower building is on modernisation. In the Baltic Rim and in Russia, the division has pre-investigation orders. The modernisation project at the Dönje power plant is the Group's first significant supply to Sweden.

The nuclear power subunit provides technical support for the Loviisa power plant. It also designs and carries out contracting work for the plant's modernisation projects. In China, the subunit participat-

The division specialises in turnkey contracts for energy generation and transmission systems, and for railway electrification and the supply of communications applications to the energy industry. In addition to plant and system deliveries, the division offers project management, design and consulting services for power generation and transmission, and for the oil, gas and petrochemicals industries. Our principal customers are in the power and electricity, oil and petrochemicals, railway and telecommunications industries.

ed as a designer consultant in a Russian nuclear power project and has also participated in Western support projects in eastern Europe.

Power Transmission

The power line project for Finnish Power Grid and the extension of the Hikiä substation in southern Finland were two of the most significant projects completed by the Power Transmission Unit in 1998 in Finland. The business's most significant projects were the building of a telecommunications network for the Indian power company, a power line project in Nepal, a cable project in Abu Dhabi, and a telecommunications system delivered for the Belize power company.

Electric Rails Ltd continued the electrification of the rail line between Kokemäki and Pori, in western Finland, and work, scheduled for completion in the spring of 2000, continued on the rail line between Toijala and Turku, also in western Finland.

The expansion of mobile telephone networks has created a rapidly-growing market for Transmast Ltd's antenna masts. AS Linjebygg has concentrated its operations on three business areas: offshore, telecommunications, and power transmission contracts in Norway and developing countries.

Neste Engineering

1998 was an excellent year for Neste Engineering. The order book remained strong throughout the year, and considerable outside resources were used. Among the projects within the Group, the project to increase the production of City Diesel at the Porvoo refinery and the modernisation of the Porvoo power plant were the most significant. Other Group projects included the terminal in St Petersburg and the rebranding of the Kesoil service station network to Neste's colours. The unit also supplied project management resources for Exploration & Production's projects in Norway and Russia. The basic design for a polyethylene unit for a joint project between Borealis and the Abu Dhabi National Oil Company, and the implementation phase of a polypropylene unit which Borealis is building in Austria, were both started during the year and provided a significant basic workload. The first technology licence for the etherification technology, NExTAME, which was developed by Fortum, was sold at the beginning of the year.

Research and development

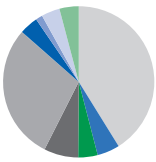
Engineering invested a total of FIM 24 million in research and development. The majority of the projects were carried out in co-operation with the Oil and Gas, and the Power and Heat Divisions. The most significant of these were the programme for the implementation of combined heat and power (CHP) plant concepts and the development programmes for the modernisation of existing power plants. The commercialisation of and research into biofuels and so-called problematic fuels were continued, and several projects aimed at decreasing emission levels were carried out.

R&D projects for power transmission included the completion of the condition management system for a network, and various projects relating to the development of the distribution network business.

Financial result

The volume of new orders in 1998 was FIM 2.9 billion. During the past few years, this business has changed its operating procedures significantly and expanded to new markets. Investments in developing operations, and in local operations in targeted countries generally have, however, an adverse effect on short-term result, and this can still be seen in the result for 1998.

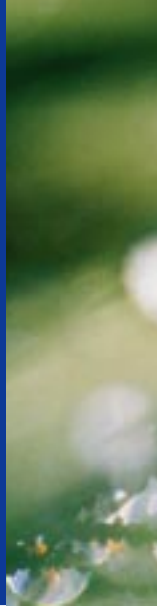
Order book as of 31 December 1998



- *Fortum Power and Heat Oy*
- *Finland*
- *Nordic countries*
- *Russia*
- *Eastern Europe*
- *Western Europe*
- *Middle East*
- *Africa*
- *South East Asia and China*
- *Other countries*

Chemicals

	1998	1997
Net sales, FIM million	5,397	4,771
Operating profit, FIM million	111	153
Identifiable assets, FIM million	2,411	2,513
Investments, FIM million	196	747
Average number of employees	2,745	2,154



Our chemicals business has around 40 production facilities in 17 countries in Europe, North America, and Asia. Its global network of sales offices covers the most important market areas. The chemicals business was incorporated in February 1999 and is now known as Neste Chemicals Oy.

Neste Chemicals is committed to developing products that are environmentally preferred throughout their life cycles. This includes continuous assessment of the environmental impact of our plants and products.

Market situation

Demand for resins products was good in all the main market areas in Europe and North America, although it slowed a little towards the end of the year.

Market conditions for oxo products were, however, unsatisfactory. This was principally attributable to the difficult economic situation in Asia and to increased production capacity.

Demand for unsaturated polyester resins and gelcoats improved during the year in all leading European markets, and central and eastern European markets continued to grow. In North America, however, the market was intensely competitive.

The market for tall-oil-based paper chemicals, produced by Krems of Austria, was strong at the beginning of the year but, as a result of declining profitability of the paper industry, was weaker in the second half.

Resins

Formaldehyde-based resins are used in adhesives for the wood panel industry; in plywood, particleboard, and other board products; in laminated beams and joinery; as binders in insulation wools; in paper impregnation for laminates; in paints; and in other applications. Since it acquired Krems Chemie AG, Neste Chemicals is the world's largest producer of formaldehyde-based resins.

Since the acquisition of a majority holding in the Austrian-based Krems Chemie AG, and of the synthetic resins business of the German-based Condea at the end of 1997, Neste Chemicals' position has strengthened considerably in the European adhesive resins market. To consolidate our position further in the central and eastern European adhesive resins business, we opened a new resins plant and a new formaldehyde plant in Hungary in October. The resins plant, which has an annual capacity of 30,000 tonnes, is owned by Krems Chemie AG. The formaldehyde plant, which has an annual capacity of 13,000 tonnes, is owned by a joint venture, in which Krems Chemie AG has a 30 per cent interest.

Production units and capacities 1998, t

EUROPE	
Belgium	
Coatings intermediates	50,000
Formaldehyde 37%	40,000
The Netherlands	
Adhesive resins	200,000
Formaldehyde 37%	370,000
Austria[1]	
Adhesive resins	405,000
Formaldehyde 37 %	265,000
Paper chemicals	89,000
Industrial coatings	15,000
Industrial chemicals	52,000
Polyesters	10,000
Latvia[6]	
Adhesive resins	30,000
Poland	
Adhesive resins	14,000
Paper chemicals [1]	20,000
Gelcoats	1,500
France	
Polyesters	30,000
Gelcoats	5,000
Sweden	
Oxo-aldehydes	300,000
2-Ethylhexanol	125,000
Butanols	100,000
Plasticisers	80,000
Phthalic anhydride	35,000
Coatings intermediates	8,000
Oxo-acids	30,000
Germany[4]	
Adhesive resins	27,000
Paraffin emulsions	13,000
Alkyd resins	10,000
Polymer dispersions	20,000
Finland	
Plasticisers	30,000
Polyesters	20,000
Gelcoat, topcoat	2,000
Adhesive resins	190,000
Formaldehyde 37%	80,000
SB Latexes [2]	20,000
PVC [3]	90,000
Hardeners	7,000
Turkey [1]	
Paper chemicals [1]	5,000
Hungary [1]	
Adhesive resins	30,000
Formaldehyde	13,000
Russia [1]	
Paper chemicals	2,500
EPS penoplast	2,200
NORTH AMERICA	
Canada	
Adhesive resins	300,000
Formaldehyde 37%	220,000
Mexico	
Adhesive resins	40,000
Formaldehyde 37%	1,000
USA	
Adhesive resins	900,000
Formaldehyde 37%	450,000
Gelcoats	18,000
ASIA	
India [5]	
Adhesive resins	6,000
China	
Gelcoats	3,000
Malaysia[2]	
Adhesive resins	60,000
Formaldehyde 37%	30,000
Over-laying films	40 mill. m²

[1] Krems Chemie incl. group companies
[2] Affiliated company
[3] Tolling agreement for Rovin
[4] Tolling agreement with Condea
[5] Tolling agreement with Cibatul
[6] Latvijas Finieris' agreement

The division aims to become the world's leading manufacturer of industrial coatings and adhesives. Our chemicals portfolio includes adhesive resins, oxo intermediates, unsaturated polyesters and gelcoats, paper chemicals, and styrene butadiene latexes. In addition, we have a New Developments Unit and trading operations.

An insulation resins plant, with an annual capacity of 14,000 tonnes, was acquired in Trzemeszno, Poland, and its production technologies and standards were converted to conform with those of Neste. A cooperation agreement on resins production and marketing in Latvia, Lithuania, and Estonia was signed with the Latvian company Finiers. In Holland, a decision was made to concentrate resins production in Delfzijl.

To strengthen our position in powdered resins, particularly in Asia, a manufacturing contract was signed with Cibatul in Gujarat, India.

Oxo products

Oxo products are primarily used in the paint, coatings, and plastic industries as solvents and as raw materials in the production of plasticisers and other products. We are among the top five oxo producers in western Europe.

To improve the profitability of the oxo business, we invested in means of redirecting production towards more value-added oxo products at Stenungsund, Sweden. In addition, general business improvement and cost reduction programmes were initiated.

During the year, demand for coatings intermediates continued to grow, and new products were introduced for the coatings market.

Polyester resins and gelcoats

Unsaturated polyester resins are used for coatings applications in gelcoats. Reinforced with glass fibre, they are used to manufacture boats, vehicle components, and construction materials. In process industries they are employed in acid-resistant pipes, storage tanks, and other related equipment.

We began to produce unsaturated polyester resins at Krems, and gelcoat production was increased at the Gdansk plant in Poland.

Other activities

We continued to withdraw from non-core activities by divesting Krems' aluminium sulphate business at the end of 1998. Krems also formed a 50-50 joint venture with ABB Group Austria to handle the maintenance and servicing of Krems' chemicals plants on its site in Austria.

The quotation of the shares of Krems Chemie AG on the Vienna Stock Exchange was withdrawn at the end of February.

Research and development

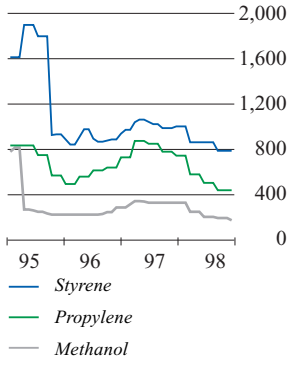
During 1998, a number of new ester-based products were launched. The gelcoat family was supplemented with a low-emission product and a gelcoat with antibacterial protection. In order to improve organic growth, research and development activities were relocated closer to the business units.

Financial result

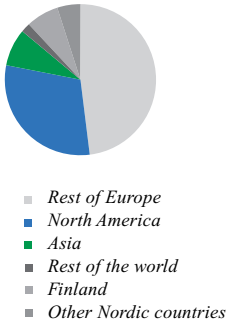
Primarily as a result of the difficult market for the oxo business, the division's financial performance was not as good as in the previous year.

Raw material contract prices in north-west Europe

DEM/t



Net sales by country



Other business operations

Energy Measurement

Enermet Group

Enermet specialises in energy measurement and load control. The company develops, manufactures and markets electric energy and district heat meters, and energy measurement and control systems for a wide range of customers, including energy companies, industry and, as the electric energy markets are deregulated, individual property and housing companies.

Enermet's competitiveness is principally based on various types of data transmission connections for collecting and processing energy measurement data, and for the development and manufacture of the technologies which support these operations. Electricity and telecommunications networks, and other data transmission connections are used in communication technologies.

Enermet Group has operations in Finland, Sweden, Norway, Denmark, The Netherlands, Germany, Switzerland, the Czech Republic, New Zealand and Australia. Its products and services are sold in more than 30 countries.

Net sales, result and investment

Enermet's net sales totalled FIM 501 million, 21% higher than in 1997; 80% of the total was accounted for by exports and overseas operations. The Nordic markets, particularly Sweden, showed the greatest increase. In addition, the increased demand for electronic electricity meters in central Europe also increased net sales.

Operating profit was FIM 53 million, 66% more than in 1997, and profit before extraordinary items and taxes was FIM 50 million.

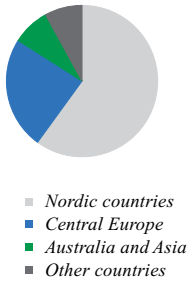
A total of FIM 21 million was invested.

During the year, FIM 39 million, about 8% of net sales, was invested in research and product development. The majority of this was invested in developing new-generation modular electricity meters and the Avalon energy metering and control system.

Early in the year, Enermet s.r.o. began operating in the Czech Republic.

At the end of the year, the company employed 700 people.

Enermet's net sales by market area



Year 2000 Programme

We have launched a Year 2000 Programme to ensure that the Group's information systems will function without disruptions at the turn of the millennium. The programme covers all target areas, including the technical systems of oil refineries, of power and heating plants, of power transmission and distribution, and of real estates, as well as telecommunications systems, data networks, and the information systems of planning and administration. Software supplied to external customers is also covered.

At certain locations, the work to ensure information systems' year 2000 compatibility began in 1996, but large-scale projects began in 1997. All systems and hardware that could, in principle, have calendar functions were identified in the inventory phase. At power plants this procedure was repeated 3–4 times to ensure that nothing important was overlooked.

Year 2000 compatibility at different locations has been established through tests and questionnaires sent to hardware and system suppliers. By testing and analysing circuit diagrams the experts at our Technology Centre have examined cases where the supplier or manufacturer no longer exists or has been unable to provide reliable answers. The tests have proved that individual equipment has few year 2000 incompatibility problems even though there are many internal clocks in the systems. Where modifications are needed it is mainly to upper-level automated systems and conventional information systems.

All the information systems at the Loviisa power plant have been examined. The hardware has been audited and its year 2000 compatibility has been established. The plan is to achieve year 2000 compatibility for all systems during the annual maintenance work in 1999. The tests show that the year 2000 will not pose any problems to the plant.

Large-scale tests will continue to be conducted to ensure that all plants are year 2000 compliant. At the Haapavesi peat-fired power plant, all the clocks were put forward to see how they would handle the century change. No problems were detected. The same procedure was repeated for other time-crucial points, and no problems appeared. This type of four-week test will also be carried out at certain other plants.

Parallel to fixing our own systems we are investigating the facilities of our stakeholders and making contingency plans to overcome potential problems in our own systems or third-party systems despite all the work and tests conducted in advance.

The majority of the systems were fixed or replaced by the end of 1998. Some of the work at the plants will be carried out in summer 1999 as part of planned maintenance shutdowns. We aim to achieve full compatibility in all critical areas by August 1999. During the remainder of the year, the results will be ascertained and contingency plans will be finalised.

More than 100 of our own experts are participating in our Year 2000 Programme. Outside consultants are also being used. So far the project has cost approximately FIM 80 million. Future costs will be realised mainly in connection with plant maintenance and other system upgrades. Total costs are not expected to exceed FIM 150 million.

Our year 2000 experts are participating in outside companies' projects and are cooperating in the wider energy field, nationally and internationally. By taking part in the year 2000 programme of the US-based Electric Power Research Institute (EPRI), we will gain invaluable system expertise and will learn from the experiences of other top companies in the field. Our direct contacts with energy companies further supplement the comparative data that we obtain from EPRI.

Environment, health and safety

As an energy company, Fortum's key environmental concerns are with the climate, the responsible use of natural resources, eco-efficiency, and safety. The efficient use of both raw materials and energy has for long been a focus for development: for example, the use of by-products, such as gypsum and ash, has been increased, and we have systematically reduced acidifying sulphur and nitrogen emissions by employing the best available technology. In addition, we have invested in the safety of our employees and plants, with the result that lost workday injuries and incidents have decreased. Furthermore, our nuclear power plants have an excellent safety record.

Scope of overview of environmental, health, and safety issues:

This section presents essential information on Fortum's environmental impact within the scope of the annual report. The data covers our operational and logistics units, and the emphasis is on operational efficiency and economic impact. Detailed information can be found in IVO's and Neste's corporate environmental progress reports for 1998. This section does not deal with the EHS data of associated companies. Our most important associated company, Birka Energi, publishes its own environmental progress report.

Approved EHS policy

In December, our environmental, health, and safety (EHS) policy was approved by the Board of Directors. The policy is challenging: we must deliver better EHS performance than our competitors, and our products and services must give added value to users. It states that being a forerunner in EHS issues creates new business opportunities. It also emphasises the societal dimension of sustainable development.

Ensuring that operations are in line with the policy

According to the policy, EHS aspects of investment projects are evaluated in advance. In practice, an assessment of how a project's EHS risks are minimised is prepared on all investment projects before they are submitted to the Board of Directors. In the event of acquisitions, an EHS evaluation is part of due diligence.

To consolidate our eco-competitiveness, we continued to build our environmental systems to ISO 14001 standard. The Oil and Gas, and Chemicals Divisions exceeded their targets for 1998, when more than 90% of production, both harbours, oil terminals, and inland and maritime transport operations were certified. Gasum was also awarded an ISO 14001 certificate. The Power and Heat Division reached the pre-audit phase. The Operation and Maintenance Division has three environmental certificates in Great Britain and one in Finland. All other power plants' compliance with the standard was audited internally, and nine units were awarded an internal environmental certificate.

Our operations are all based on high-quality EHS work. In line with the policy, we have begun to restructure our entire EHS organisation by placing more emphasis on line responsibility and by streamlining corporate staff functions. We have set up a Group-level EHS development working group to promote the implementation of the new policy and to initiate reviews in business units on further actions called for by the policy. In the future, the working group will develop shared ways of working, ensure systematic follow-up and reporting of performance and comparison against competitors, evaluate the progress of operations, and make proposals, for example, for shared targets and ways of managing the early part of product life cycles.

Environmental expertise is a competitive advantage. Our success is based on the confidence of our customers and other stakeholders. It is earned by offering first-class, environmentally compatible, and safe products and services and by acting in a responsible manner in everything we do.

Fortum and the climate issue

The climate issue is central to our business and involves both threats and opportunities. The starting point is fairly favourable: 70–80% of our electricity generation is free of carbon dioxcide emissions and of the remaining amount, approximately half is combined heat and power (CHP) generation, which has a high energy efficiency. The electricity we purchase also typically generates lower-than-average emissions compared with average Finnish network electricity. Furthermore, our sophisticated motor fuels are preferred in terms of the climate because they contribute to reducing carbon dioxide emissions from vehicles. In addition, our portfolio includes biofuels as well as solar and wind energy, whose share, albeit small for the time being, is on the increase.

Demand for climate-benign products and services will increase in the future. We are seeking to capture our share of these growing markets. For this reason, too, energy efficiency is one of our key success factors, and it is promoted in everything that we do. Low-emission energy sources, such as natural gas, are preferred, and the share of renewable fuels is increased.

Fortum's material balance 1998[1)]

Raw materials and fuels

Natural gas, m^3	*3,900,000,000*
Crude oil (Neste), t	*11,000,000*
Other feedstocks (Neste), t	*4,600,000*
Peat (IVO), t	*1,700,000*
Coal (IVO), t	*1,000,000*
Biofuels (IVO), t	*660,000*
Fuel oil, t	*280,000*
Other fuels (IVO), t	*34,000*
Uranium (IVO), t	*29*

Energy

Electricity, TWh	*13*
Purcheased steam, TWh	*3*

Emissions into the air

CO_2, t	*8,900,000*
NO_x, t	*24,000*
SO_2, t	*20,000*
VOC (Neste), t	*6,200*
Particles (IVO), t	*630*

Uncontained spills

Leakages, m^2	*43*

Emissions into water

Heat emissions (IVO), TWh	*18*
Waste water (Neste), m^3	*23,000,000*

Products

Natural gas, m^3	*3,100,000,000*
Petroleum products (Neste), t	*13,000,000*
Other products (Neste), t	*3,300,000*
Electricity, TWh	*28*
Heat (IVO), TWh	*10*

By-products

Ash (IVO), t	*220,000*
Gypsum (IVO), t	*30,000*

Waste

Conventional waste, t	*25,000*
Hazardous waste, t	*13,000*
Recyclable waste, t	*5,200*
Low- and medium-level waste (IVO), m^3	*140*
Spent radioactive fuel (IVO), t	*29*

Fortum's material balance gives a rough illustration of our key raw material and energy flows and emissions. Internal electricity and natural gas items have been eliminated. For further information, please refer to corporate environmental progress reports 1998.

1) Does not include the share of Birka Energi AB.

Efficiency of operations

Acidifying emissions down

Acidifying emissions have systematically been reduced at both IVO and Neste. Between 1990 and 1997, IVO carried out an extensive air protection programme at its plants. Neste's programme to cut sulphur emissions was implemented principally between 1987 and 1993, and a programme to reduce nitrogen emissions is still under way. In addition, the effective reduction of sulphur in Neste's petroleum products has made a favourable contribution to national sulphur loads.

The load factor of coal plants has a major impact on IVO's emissions. In 1996, it was exceptionally high as a result of the low supply of hydropower in the Nordic market . That year IVO also sold electricity to Sweden and Norway. In addition, there was a slight increase in Neste's emissions for that year because since then, emissions from all vessels have been included in Neste's emissions.

There are international agreements on, and national targets for, the reduction of sulphur emissions. As the charts show, Fortum's total SO_2 emissions have reduced by a good 80% from the international base year. Thus, we have exceeded both international and national reduction targets for sulphur emissions.

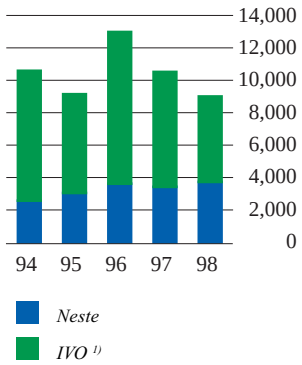
CO_2 emissions are a challenge

Fortum´s most important greenhouse gas by far is carbon dioxide (CO_2). In power generation, condensing power is the biggest contributor to CO_2 emissions. Because 1996 was a dry year, a greater proportion of electricity was generated with coal and emissions increased. In contrast, because of heavy rainfall in 1998, coal was little used.

The majority of the CO_2 gases from Oil and Gas, and from Chemicals are released by the refineries. The increase in CO_2 emissions in recent years resulted from increased production and a larger share of cleaner motor fuels. Although these fuels require more energy to produce, they generate less carbon dioxide in use than do conventional fuels.

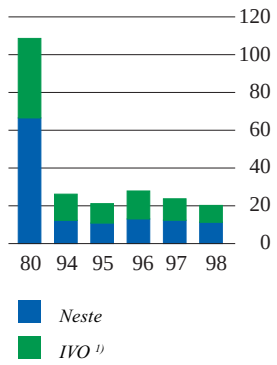
Emissions into the air, CO_2

Kilotonnes/year



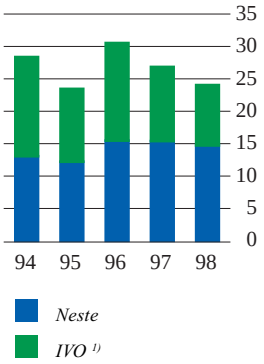
Emissions into the air, SO_2

Kilotonnes/year



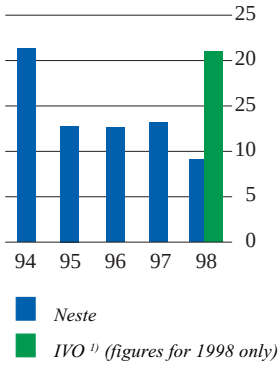
Emissions into the air, NO_x

Kilotonnes/year



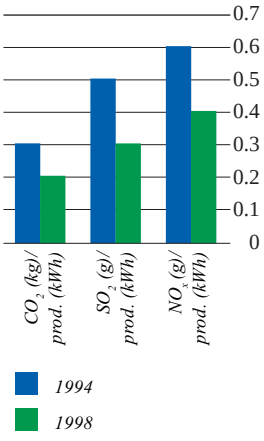
Lost workday injuries

Injuries/million hours worked



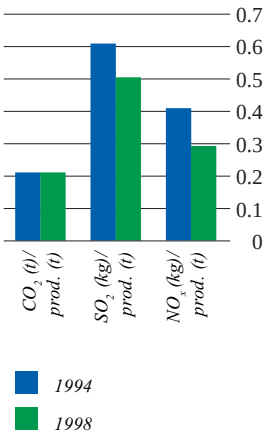
Specific emissions, IVO

Emissions/production



Specific emissions, Neste

Emissions/production



1) *Does not include the shares of Birka Energi AB nor other associated companies.*

Higher eco-efficiency

Our most significant environmental impact arises from emissions into the air. As a result, we believe it is important to monitor indicators that show how effectively key emissions have been reduced.

IVO's air protection programme has clearly been effective. Power and Heat has reduced emissions considerably in relation to the volume of production. The availability of emission-free hydropower means, however, that the indicators may vary from year to year.

The results of the air protection programme at Neste also show a clear improvement. An intensive energy efficiency campaign has resulted in carbon dioxide emissions per product tonne remaining unchanged. International comparisons show that our refineries are among the best in Europe when measured by energy efficiency, and that energy efficiency improved by 7% during 1990–1996. Without these measures, our emissions would be higher.

Improvements in occupational safety

Our aim is to provide safe working conditions for our employees. One way of monitoring our success in this regard is by the frequency of accidents. In 1993, we set ourselves a goal of halving lost workday injuries. As a result of determined action and a theme year devoted to safety, we have succeeded in reducing accidents in the Oil and Gas, and Chemicals Divisions by more than 60%. IVO has also made an effort to reduce lost workday injuries. In 1998, the Operation and Maintenance Division launched a two-year safety campaign to reduce accidents at work. There were no fatal injuries to our employees in 1998, although two contractors working on our sites died.

Oil and Gas, and Chemicals

Production in the Oil and Gas, and Chemicals Divisions totalled 16 million tonnes, up approximately 20% on the previous year. The growth was primarily attributable to acquisitions and the high capacity utilisation of our refineries.

We have set our oil, gas, and chemicals operations voluntary targets for the year 2000 based on key matters in our EHS policy. Good progress has been made in reaching these targets. For example, volatile organic compound (VOC) emissions have been halved from 1988, and good progress was made between 1990 and 1997 in reducing waste. Details are included in Neste's corporate environmental progress report.

When evaluating the share of Oil and Gas, and Chemicals, of our emissions it must be noted that the 1998 figures include new production facilities, of which the most important are Krems Chemie units. This is clearly reflected in the amount of waste to final disposal.

A total of 11 liquid or gas spills were registered on our sites in different parts of the world, but no serious environmental impact was caused.

Power and Heat

Production at our own power plants fell somewhat compared with the previous year. We produced 16.4 TWh of electricity and 9.5 TWh of heat. Emissions into the atmosphere fell as a result of a decrease in the use of coal and peat. The use of biofuels grew by approximately 10%, and of natural gas by approximately 5%.

Power plants' availability was good. The unavailability of heating plants, resulting from faults, was only 0.6%, which was one third of the five-year average. The availability of the Loviisa nuclear power plant continued to be among the best in the world, and safety levels continued to be high. During the year, one incident at the lowest level in INES (International Nuclear Events Scale) occurred at Loviisa. The classification of another incident is pending, but neither had any impact on the environment.

The efficiency of CHP plants was on average 79% and of condensing power plants 40%.

We made effective use of by-products: 56% of ash and 99% of gypsum were used for further purposes. In addition, a proportion of the by-products deposited in previous years was recycled.

One oil leak occurred on our sites, but it had no material environmental impact.

Environmental report award

Neste's corporate environmental progress report, which covers the Oil and Gas, and Chemicals Divisions, was voted Finland's best environmental report for the third year running. According to SustainAbility, a British environmental consulting agency, Neste has retained its leading position in the world in voluntary environmental reporting.

Environmental data by division

Total	*CO_2 t/a*	*SO_2 t/a*	*NO_x t/a*	*VOC t/a*	*Waste for final disposal, t/a*	*Lost workday injuries per 10^6 working hrs*	*Fires*	*Liquid and gas spills*	*ISO 14001 certificates*
Oil and Gas	*3,100,000*	*9,200*	*13,600*	*5,100*	*15,000*	*10*	*10*	*8*	*9*
Power and Heat	*5,630,000*	*10,900*	*10,400*	*-*	*11,500*	*21*	*3*	*1*	*0*
Operation and Maintenance	*	*	*	*-*	*	*34*	*	*	*4*
Engineering	*-*	*-*	*-*	*-*	*-*	*6*	*0*	*1*	*0*
Chemicals	*70,000*	*30*	*80*	*1,100*	*12,000*	*8*	*5*	*3*	*14*
Fortum Group[1)]	***8,900 000***	***20,130***	***24,080***	***6,200***	***38,100***	***15***	***18***	***13***	***27***

** Data for Operation and Maintenance is included in Power and Heat*
- data unavailable
1) Does not include the shares of Birka Energi AB nor other associated companies.

Economic impact

Operations in compliance with regulations

In 1998, the operations of our units have, in the main, complied with the valid permits, and there were no serious infringements. Minor incidents of permitted levels being exceeded were reported at some locations, but no proven impact on the environment or human health, or fines or other penalties, ensued.

None of the new permits granted has a material impact on the plants' operations. Following the completion of major air protection programmes, our costs to maintain regulatory compliance have been stable.

Development of regulations

Environmental legislation continues to develop dynamically in our area of operations. For example, directives on the reduction of acidifying emissions are being prepared, and the so-called IPPC (integrated pollution prevention and control) directive will imply changes to national legislation and permit procedures. There are, however, no known regulations in the current or forthcoming legislation that would have a material economic impact on Fortum's results or future financial position.

Since no decisions have yet been made on implementing the Kyoto protocol, its economic impact at a corporate level cannot be evaluated. We are taking an active part in the climate process to ensure our operational preparedness in changing situations.

The European Union has approved more stringent standards for emission reduction. Concawe, the oil companies' European organisation for environmental and health protection, has evaluated that refineries will have to invest between USD 20 and 30 billion in upgrading their refineries to manufacture gasoline and diesel fuel that will meet the new quality criteria. Our reformulated motor fuels, however, already meet the requirements set by the European Union.

Environmental liabilities and provisions

We operate in business areas that may involve a risk of environmental damage or liabilities. We have evaluated the environmental liabilities related to our past actions and made the necessary provisions, in line with our accounting principles, for any future remedial cost relating to environmental damage. The management is not aware of any cases that would have a material impact on our financial position.

Nuclear liability

In accordance with nuclear energy law, we make provisions for future costs which will arise from nuclear waste management. By the end of 1998, the cost of handling and disposing of accumulated nuclear waste and decommissioning the Loviisa power plant was estimated to be FIM 2,732 million. Of this, to date, we have contributed FIM 1,963 million to the Nuclear Waste Disposal Fund. The remainder has been entered as debt in the balance sheet. The liability should be fully covered during the next 2–3 years. Determined by law, our liability in the event of a nuclear accident amounts to some FIM 1.55 billion, which is covered by a statutory insurance.

Environmental liabilities

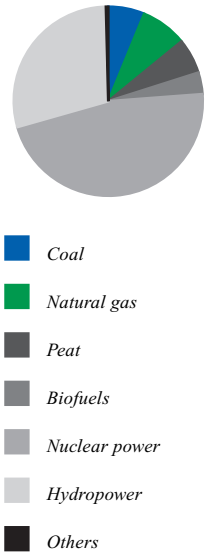
Liabilities refer to any future cost of repairing environmental damage. The necessary provisions are made in accordance with our accounting principles if the following conditions are met:

1. *the management of the company has an obligation for remediation based on a legal decision or agreement; or*
2. *the management of the company has, on the basis of its own decision, committed itself to corrective action; and*
3. *the amount of costs can be estimated with reasonable accuracy.*

In the event that the cost of a remediation project cannot be estimated with reasonable accuracy, other available information on the project shall be provided. In addition to the above, a report on major future environmental investment, based on the laws and regulations of the authorities, must be submitted.

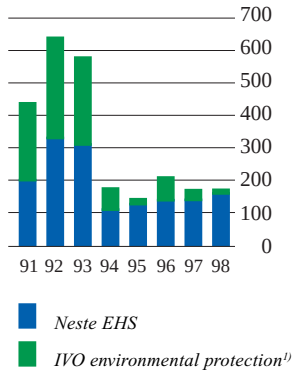
Electricity sold in Finland according to fuel type in 1998

GWh



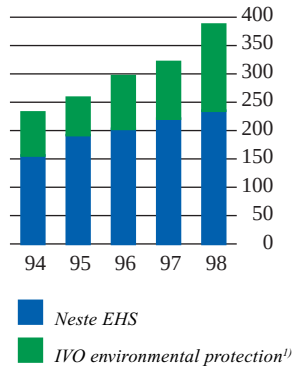
EHS investment

FIM million/year



EHS operating costs

FIM million/year



1) Does not include the shares of Birka Energi AB nor other associated companies.

EHS investment and operating costs

In 1998, our EHS investment totalled FIM 170 million. If an investment clearly aims to improve our EHS performance, it is considered an EHS investment. In other cases, only the proportion relating to EHS matters is included in investment cost. IVO's figures denote only environmental investment, whereas Neste's figures also include projects that improve safety. During the 1990s, our divisions have carried out almost FIM 2 billion of extensive investment programmes, now largely completed, to improve air protection. No major investment is expected to be necessary in the foreseeable future.

In 1998, our EHS operating costs totalled approximately FIM 390 million. Neste's EHS operating costs appear to be increasing because, in recent years, they have increasingly included costs relating to the safety of workplaces and plants. Examples of such costs are fire abatement, occupational safety activities, and occupational health care. Various types of compensation, indemnifications, and fines are also included in Neste's EHS operating costs. In contrast, IVO's figures are environmental protection costs. The increase results primarily from the growth of environmental R&D projects.

EHS operating costs are not expected to change significantly, although a rising trend may continue due to a more comprehensive cost monitoring system.

Environmental taxes

In 1998, the Oil and Gas Division paid environmental taxes in Finland amounting to FIM 987 million. This includes an additional fuel tax and an oil pollution compensation fee. The Power and Heat Division pays environmental taxes for the fuels used in heat generation. In 1998, these taxes amounted to FIM 54 million.

Environmentally preferred products are an important part of Fortum's strategy.

Environmentally preferred products and services

Environmentally preferred products and services are an important part of our strategy. The focus in the Oil and Gas Division is on the development, manufacture, and marketing of pro-environmental petroleum products, for which demand is on the increase. In 1998, more than half of our refined petroleum products met the EU's fuel requirements for the year 2000. This share is expanding because we are currently carrying out a FIM 170 million investment project to double the production of City Diesel at the Porvoo refinery.

Among the new products launched last year were biodegradable lubricants that reduce fuel consumption, and low-styrene-emission polyester gelcoats by Neste Chemicals.

Environmentally preferred energy products, wind electricity and environmentally-labelled Norppa electricity, were launched only at the end of the year, so their net sales were very low.

Biofuels accounted for 5% of total electricity generation. We seek to increase the use of biofuels in power generation in the next few years. CHP accounted for 22% of electricity generation, and new CHP plants are being built in the UK and Germany.

The Engineering Division focuses on combined heat and power generation, use of biofuels, plant upgrades, and environmental technology. We signed agreements totalling FIM 320 million in these areas. CHP markets, in particular, are expected to develop favourably in the future.

Regulatory compliance

• Reporting plants (number)	*104*
• Operations in compliance with rules and permits in 1998 (number of plants)	*90*
• Infringements of permits (number of plants)	*14*
• Number of plants that paid fines	*0*
• Number of legal cases in which Fortum or its subsidiary was the defendant	*8*
• Number of environmental provisions	*5*
• Environmental provisions (FIM million)	*9*
• Nuclear waste management fee (FIM million)	*2,732*

Verification statement

We have examined the bases and overall presentation of the data contained in the environment, health, and safety pages (32–37) of Fortum Corporation's annual report. Company management is responsible for, and has approved, the contents of the pages.

We have assessed the procedures employed in acquiring the data presented in these pages. We have also assessed whether the data collected from the divisions is presented correctly and appropriately. We were not requested to review the data obtained from the production units.

The corporate environmental progress report 1998 of the former Neste Oyj is verified separately by SustainAbility Ltd, and the corresponding report of the former IVO Group is verified by SVH Pricewaterhouse Coopers Oy.

In our opinion, the information contained in these pages has been compiled correctly on the basis of the data collected from the divisions and gives a fair and balanced view of the Group's EHS activities.

Helsinki, 11 March 1999
SVH Pricewaterhouse Coopers Oy
Authorised public accountants

Pekka Kaasalainen
Authorised Public Accountant

Henrik Sjöblom
Senior Manager

Human resources

Number of employees by country as of 31 December 1998

Finland	11,165	Norway	320
Sweden	2,336	Canada	254
USA	761	UK	224
Austria	583	Other European countries	930
Hungary	501	Other countries outside	
Russia	447	Europe	334
Poland	346	Total	18,201

The company culture and human resources

In view of Fortum's vision and the required changes, the following guidelines for our human resources strategy have been formulated:

- create a common course of action
- develop employees' expertise
- identify key employees and further job rotation
- secure employees' motivation and participation
- integrate human resources issues so that they become a significant part of the management system
- develop a uniform pay system to support the achievement of our objectives
- improve employee satisfaction by taking care of employees' physical and mental needs.

Procedure and operating policies

Fortum's development is based on two strong, and in some aspects differing, company cultures. Our initial work focused on identifying these similarities and differences, on capitalising on their strengths, and on advancing the application of new procedures.

Work on issues such as the harmonisation of overlapping operations, employee benefits, the personnel information system, and operating policies, is being carried out by defined groups. Hundreds of employees, on various organisational levels, are participating in these important projects, which have helped to create the beginnings of a common culture. The development measures taken by the companies have provided a strong base for the formation of a Fortum culture. We have prepared a common procedure in order to implement Group-level international cooperation.

Working conditions

In 1998, IVO's various divisions carried out extensive work to improve employees' quality work. The quality of the company's operations was investigated internally and by means of external benchmarking exercises and various common development projects.

In 1998, Neste was the first, and so far the only, Finnish company to have participated, together with 40 other organisations, in the European quality award competition. The international assessment group set Neste to be at 500 on a scale of 0-1,000. This result is a good European average and is on a level with the winning companies in the Finnish quality award competition.

At Neste, the theme for 1998 was safety. Safety awareness was improved by holding sessions throughout the company. The company's stated objective is to become a world leader in safety in its field. The statistics for 1998 show a significant improvement, as the number of accidents decreased in most of our operations.

At the beginning of 1998, Neste initiated the Pro Health Programme to improve employees' working capacity and health. This programme aims at improving working conditions and encouraging people to take responsibility for their own and their colleagues' health and well-being. An annual review of our workforce, which includes information on health, accidents and job satisfaction, is one of the means of following up this programme. Motivo 2000, a project which was initiated in 1996 to maintain and improve employees' working capacity continued at IVO. By the end

of the year, more than 5,000 IVO employees had taken part in the sessions and events arranged by this project.

Expertise

During the year, we continued to develop the managerial and commercial expertise at IVO. Unit-specific and generic areas of expertise were specified to support individual development discussions. The Operation and Maintenance Division set an objective of each employee having an individual development plan. In the majority of cases, this had been achieved before the end of 1998. At Neste, training which aims at the achievement of further qualification in the chemical industry was carried out in cooperation with vocational schools under the banner of apprenticeship training.

At IVO Technology Centre's Technology Academy, 15 employees made the decision to study for further qualifications. Nine of these are aiming for doctorates or licentiates. Five new Doctors of Technology presented their theses during the year.

Extensive Leadership Development training, involving 720 participants, was also completed in a drive to introduce a new management culture. Team training at all organisational levels began to disseminate the message of the Leadership Development programme throughout the organisation. About 1,500 employees participated in team training sessions in 1998. In addition, about 150 members of Neste Group's management took part in managerial training during 1998.

Job rotation and overseas assignments are an essential element in human resource management and the development of personnel. In 1998, 70 Neste employees were assigned to 18 countries, while around 120 IVO employees were on assignment outside Finland.

Motivation and participation

During the year, improved objective setting, results assessment and feedback were used to increase practical management and internal communication towards better commitment. A performance management process combines the setting and assessment of objectives with discussions on development.

Specific development programmes, based on job satisfaction criteria, were widely introduced. A measurement of job satisfaction is made every other year, and the findings are discussed at all organisational levels. The results and analyses are used to carry out various development projects to improve the working environment.

Value discussions, which had been initiated at Neste in 1997, were completed during 1998 so that our working communities specified their common rules.

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

In April, the Finnish Parliament approved the merger of IVO's and Neste's businesses, the Finnish State exchanged a proportion of its Neste shares for IVO-Neste Group's shares and, on 30 April 1998, the company published an exchange and redemption offer to Neste's minority shareholders.

At the beginning of June, the 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 EU 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. Neste share was delisted from the Helsinki Exchanges 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, based on the book-building method, 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 the 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 our petroleum products and electricity into one division. Preparations for this project were begun 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.

Our business was aligned with our strategy when IVO's and Neste's eight divisions were restructured into five Fortum divisions. Our core business is on energy through our Oil and Gas, and Power and Heat Divisions, which are supported by the Operation and Maintenance, and Engineering Divisions. Our 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 our interests lie in the energy business, we 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, we sold our 50% interest in Borealis A/S, the parent company of a petrochemicals group, as part of our 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 our 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, oil production grew by slightly more than 1%.

At the beginning of the year, 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 our 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-fired power plants completed in autumn 1997. The use of natural gas in the generation of condensing 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 by 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 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.

The Nordic countries form a single electricity market, in which the restrictions on the transmission network are being removed. With the exception of Norway, which is the only country in which shareholdings in energy generation companies are still limited, the electricity generation market has been deregulated for several

Net sales by division

FIM mill.	1998	1997	Change, %
Exploration & Production	866	1,244	-30
Oil [1]	28,183	37,882	-26
Gas	3,868	3,655	6
Power and Heat	10,216	10,896	-6
Operation and Maintenance	1,487	1,371	8
Engineering	2,120	2,179	-3
Energy Measurement	537	413	30
Chemicals	5,397	4,771	13
Other business operations	1,025	887	16
Inter-divisional sales	-3,198	-3,908	-18
Total	50,501	59,390	-15
Discontinued operations	-	654	-100
Group	50,501	60,044	-16
[1] Including trading	6,409	12,591	

Net sales by region

	1998		1997	
	FIM mill.	Change, %	FIM mill.	Change, %
Finland	23,156	46	25,347	42
Sweden	6,781	13	6,393	11
Other Nordic countries	756	2	910	2
Baltic Rim [1]	2,190	4	2,993	5
Rest of Europe	7,472	15	7,304	12
USA and Canada	5,188	10	6,013	10
Other international trade	4,958	10	11,084	18
Group	50,501	100	60,044	100

[1] Baltic countries, north-west Russia, and Poland

Operating profit by division

FIM mill.	1998	1997	Change, %
Exploration & Production	72	532	-86
Oil	854	544	57
Gas	385	372	3
Power and Heat	2,210	2,066	7
Operation and Maintenance	46	92	-50
Engineering	50	80	-38
Energy Measurement	58	32	81
Chemicals	111	153	-27
Other business operations	-173	-39	-344
Eliminations	-72	-20	-260
Total	3,541	3,812	-15
Discontinued operations	-	595	-100
Group	3,541	4,407	-20

years. Customers in Finland, Sweden and Norway are all free to choose their electricity suppliers, and in Denmark the largest buyers of electricity are able to obtain tenders for the supply of their electricity. The domestic market in Denmark is also being deregulated.

Electricity consumption continues to increase, but in 1998 heavy rainfall resulted in an abundant supply of hydropower and, in addition, the early part of the year was milder than usual. As a result, there was overcapacity in the market, and a consequent fall in prices on the Nordic electricity exchange was reflected in the electricity market.

Net sales

The Group's net sales for 1998, at FIM 50,501 million, were 16% lower than for the previous year. A decrease of around FIM 6 billion in the oil trading was the principal reason for the fall in net sales, 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 rea-

sons 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 price of crude oil and electricity had an adverse effect on the operating profit, as did the additional charge of FIM 202 million (FIM 208 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 on the one hand, and primarily the statutory and obligatory oil stockpiling on the other hand, and the write-down on 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 associated 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 a 50% holding. The development of the associated companies' results is explained in detail in the notes to the financial statements, under 5.

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 a 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 in 1997) and were FIM 4,038 million.

Profit for the year was FIM 1,267 million (FIM 4,040 million) and profit per share was 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

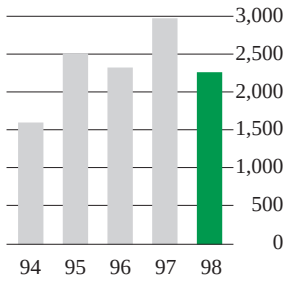
The financial position of the Group remained stable throughout the year. At the end of the year, gearing (net debt/shareholders' equity) was 93.2%, which was a little higher than in 1997.

Interest-bearing net debt was FIM 23,180 million (FIM 22,669 million) at the end of the year. 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 million.

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 re-

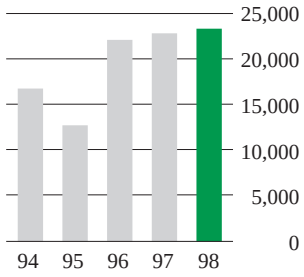
Profit before extraordinary items

FIM mill.



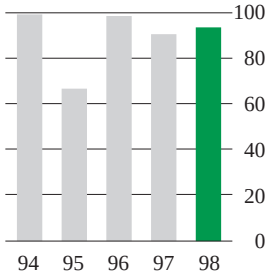
Interest-bearing net debt

FIM mill.



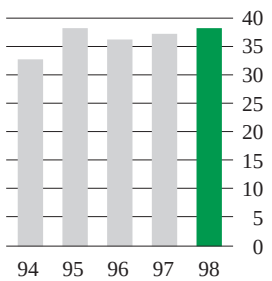
Gearing

%



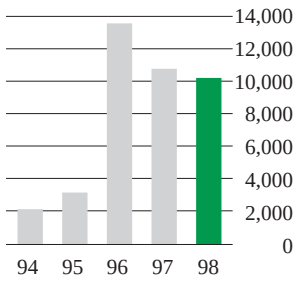
Equity-to-assets ratio

%



Investments

FIM mill.



sult 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 %).

Group 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-lease agreements, 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%.

Most important share acquisitions of 1998 [1)]

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*

[1)] without interest-bearing net debt at the time of acquisition

Investments

FIM mill.	*1998*	*1997*
Exploration & Production	*1,346*	*852*
Oil	*649*	*1,090*
Gas	*139*	*150*
Power and Heat	*7,586*	*7,307*
Operation and Maintenance	*33*	*37*
Engineering	*58*	*35*
Energy Measurement	*49*	*44*
Chemicals	*196*	*747*
Other business operations	*156*	*321*
Eliminations	*-93*	*-52*
Total	*10,119*	*10,531*
Discontinued operations	*-*	*152*
Group	*10,119*	*10,683*

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 debt 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.

Investments in shares totalled FIM 6,323 million (FIM 6,810 million). The most important share acquisitions of 1998, without interest-bearing net debt at the time of acquisition, are presented in the table below.

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

Investments 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 countries, 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.

Our 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 pro-

fitable and that the Group's total investments is in proportion to the development of our 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 plants and combined-cycle power plants. The use of multifuel technology, which is one of our 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 our business activities. It covers, among other things, the technical systems of oil refineries, of power and heating plants, of power transmission and distribution, and of real estates, as well as telecommunications systems, data networks, and the information systems of design and administration. Software 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.

Our 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

The average number of employees 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 1,991 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 is 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 us.

Our production facilities continued to develop their environmental systems to the ISO 14001 standard. The IVO Group and the Neste Group will each publish their corporate environmental progress reports for 1998.

Changes in Group structure

In 1998, we acquired the remainder of the shares in Gullspång Kraft AB of Sweden.

Group average number of employees

	1998	*1997*
Exploration & Production	*220*	*81*
Oil	*4,105*	*4,337*
Gas	*419*	*430*
Power and Heat	*2,806*	*2,967*
Operation and Maintenance	*3,191*	*2,465*
Engineering	*2,591*	*2,199*
Energy Measurement	*722*	*603*
Chemicals	*2,745*	*2,154*
Other business operations	*2,204*	*2,158*
Total	*19,003*	*17,394*
Discontinued operations	*-*	*378*
Group	*19,003*	*17,772*

In September 1998, approval was obtained for Fortum and the City of Stockholm to form Birka Energi. This combined 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 Tuusulanjärvi Energy Ltd of Finland, and in October a 54% interest in Koillis-Pohjan Sähkö Oy, also in Finland, thereby making it a Fortum subsidiary. In January 1999, 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 Eletrivörk.

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 northeast 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 we decrease our 75% holding in Gasum Oy to 25% before 3 June 1999.

In February 1999, the Chemicals Division was incorporated into Neste Chemicals Oy. In March 1999, Neste Oyj was renamed Fortum Oil and Gas Oy, Imatran Voima Oy became Fortum Power and Heat Oy, and IVO Generation Services Ltd became Fortum Service Oy. IVO Power Engineering Ltd was renamed Fortum Engineering Ltd 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 agreed 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 of 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 steadily in Finland, the design of several new natural-gas-fired 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 market 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 managerial systems to improve flexibility and efficiency.

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

Consolidated income statement

	Note	1998 FIM million	1997 FIM million	1998 EUR million	1997 EUR million
Net sales	2,3,4	50,501	60,044	8,494	10,099
Share of profits (losses) of associated companies	5	250	444	42	75
Other operating income	6	605	628	102	105
Depreciation, amortisation and write-downs	2,7	-2,950	-2,779	-496	-467
Other operating expenses	8	-44,865	-53,930	-7,547	-9,071
Operating profit	2	3,541	4,407	595	741
Financial income and expenses	10	-1,298	-1,451	-218	-244
Profit before extraordinary items		2,243	2,956	377	497
Extraordinary items	11	-29	1,939	-5	326
Profit before taxes		2,214	4,895	372	823
Income taxes	12,24	-785	-547	-132	-92
Minority interests		-162	-308	-27	-52
Net profit for the period		1,267	4,040	213	679

Consolidated balance sheet

	Note	1998 FIM million	1997 FIM million	1998 EUR million	1997 EUR million
ASSETS					
Fixed assets and other long-term investments	13,14,15				
Intangible assets		1,827	1,749	307	294
Tangible assets		41,649	36,697	7,005	6,172
Other long-term investments		9,114	13,992	1,533	2,353
		52,590	52,438	8,845	8,819
Current assets					
Inventories	16	3,427	4,383	576	737
Long-term receivables	17	381	47	64	8
Short-term receivables	18	6,706	8,578	1,128	1,443
Investments	20	1,386	1,535	233	258
Cash and cash equivalents		1,966	2,408	331	405
		13,866	16,951	2,332	2,851
		66,456	69,389	11,177	11,670

	Note	1998 FIM million	1997 FIM million	1998 EUR million	1997 EUR million
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	22				
Share capital		15,696	15,656	2,640	2,633
Additional paid-in capital		18	-	3	-
Retained earnings		6,652	3,672	1,119	618
Net profit for the period		1,267	4,040	213	679
		23,633	23,368	3,975	3,930
Minority interests		1,249	1,747	210	294
Provisions for liabilities and charges	23	379	219	64	37
Deferred tax liabilities	24	4,038	4,252	679	715
Liabilities	25,26				
Long-term liabilities					
Interest-bearing		20,704	23,264	3,482	3,913
Interest-free		2,851	2,115	479	355
		23,555	25,379	3,961	4,268
Short-term liabilities					
Interest-bearing		5,828	3,348	980	563
Interest-free		7,774	11,076	1,308	1,863
		13,602	14,424	2,288	2,426
		66,456	69,389	11,177	11,670

Consolidated cash flow statement

	1998 FIM million	1997 FIM million	1998 EUR million	1997 EUR million
Operating activities				
Operating profit	3,541	4,407	595	741
Depreciation, amortisation and write-downs	2,950	2,779	496	467
Change in provisions	182	77	31	13
Undistributed earnings in associated companies	200	-219	34	-37
Divesting activities, net	-350	-376	-59	-63
Other items	28	3	5	1
Operating profit before changes in working capital	6,551	6,671	1,102	1,122
Changes in working capital				
Decrease (+)/increase (-) in trade and other short-term receivables	1,633	240	275	40
Decrease (+)/increase (-) in inventories	815	-32	137	-5
Decrease (-)/increase (+) in interest-free liabilities	-1,648	-26	-277	-4
	800	182	135	31
Funds generated from operations	7,351	6,853	1,237	1,153
Interest paid, net	-1,483	-1,428	-250	-240
Realised foreign exchange gains and losses	364	74	61	12
Income taxes paid	-1,280	-1,173	-215	-197
Net cash from operating activities	4,952	4,326	833	728
Investing activities				
Acquisition of shares in subsidiaries net of cash acquired	-699	-3,910	-117	-658
Investments in shares in participating interests	-414	-2,088	-70	-351
Investments in other shares	-100	-137	-17	-23
Asset transfer taxes paid	-474	-	-80	-
Other capital expenditures	-3,795	-3,874	-638	-652
Proceeds from sales of shares in subsidiaries net of cash disposed	22	10	4	2
Proceeds from sales of shares in participating interests	3,718	308	625	52
Proceeds from sales of other shares	341	223	57	37
Proceeds from sales of other fixed assets	491	6,096	83	1,025
Cash flow from investing activities	-910	-3,372	-153	-568
Cash flow before financing activities	4,042	954	680	160
Financing activities				
Capital investment by minority shareholders, increase (+), decrease (-)	-46	269	-8	45
Payment of long-term liabilities	-4,592	-5,189	-772	-873
Proceeds from long-term liabilities	1,874	6,855	315	1,153
Payment of (-)/proceeds from (+) short-term borrowings	-1,624	-933	-273	-157
Proceeds from (+)/payment of (-) interest-bearing receivables	290	-242	49	-41
Dividends paid	-587	-407	-99	-68
Proceeds from issuance of share capital	68	-	11	-
Other financing activities	-4	9	-1	1
Cash flow from financing activities	-4,621	362	-778	60
Net increase (+)/decrease (-) in cash and marketable securities	-579	1,316	-98	220
Reconciliation (cash and marketable securities)				
As reported for at the beginning of the period	3,943	2,523	663	424
Foreign exchange adjustment	-12	104	-1	19
	3,931	2,627	662	443
As reported for at the end of the period	3,352	3,943	564	663
Net increase (+)/ decrease (-) in cash and marketable securities	-579	1,316	-98	220

Notes to the financial statements

1. Accounting policies and principles

The financial statements of Fortum are prepared in accordance with Finnish GAAP.

All of the consolidated financial statements of Fortum Corporation are presented as if IVO and Neste had been combined into Fortum as of 1 January 1994.

In the consolidated financial statements, IVO's and Neste's accounting principles have been harmonised in all material respects and changes have been accounted for in respect of the years 1994-1997.

Consolidation

The consolidated financial statements include the parent company Fortum Corporation and all those companies in which Fortum Corporation holds, directly or indirectly, more than 50 percent of the voting rights except for certain housing companies which are not necessary to give a true and fair view of the results and financial position of the Group.

Fortum Corporation's consolidated financial statements have been prepared using the pooling-of-interests method. The acquisition cost of IVO and Neste has been eliminated against the share capital of IVO and Neste, and the difference arising from the elimination of mutual shareholdings has been entered as a decrease in the shareholders' equity.

The financial statements of IVO and Neste have been consolidated according to the acquisition-cost method. The difference between the acquisition cost of subsidiaries and shareholders' equity at the time of acquisition, arising from the elimination of mutual shareholdings, has been allocated to fixed assets at the time of acquisition to the extent that their fair value at the time exceeded the book value. Items allocated to the fixed assets are depreciated according to the depreciation plan of the underlying asset. The rest of the difference is entered as goodwill on consolidation, which is amortised over its estimated lifetime to a maximum of 20 years. In calculating goodwill on consolidation, voluntary reserves and accumulated depreciation above the plan, less deferred tax liabilities, have been included in the equity. For Neste subsidiaries acquired before the year 1997 other than in the United States, the difference between the acquisition cost of subsidiaries and shareholders' equity (excluding the equity share of untaxed reserves) was treated mainly as goodwill on consolidation and amortised accordingly. The effect of the difference between these two accounting practices in calculating goodwill has been immaterial to net profit.

Subsidiaries acquired during the year are consolidated from the date of acquisition. Likewise, the subsidiaries divested during the accounting period are included in the consolidated accounts until the date of divestment.

Intergroup transactions, receivables, liabilities, unrealised profits and internal profit sharing have been eliminated. Minority interests have been reported separately in the income statement and the balance sheet.

Associated companies material to Fortum, in which the Group holds between 20% and 50% of the voting rights, have been consolidated using the equity method. Accordingly, the company's share of the net profit of an associated company and its share of other changes in the equity, less depreciation on goodwill on consolidation, is entered as income in the income statement and added to the value of the shares in the consolidated balance sheet. The dividends received are deducted from the balance sheet value of the shares However, Birka Energi Group, which has a very significant impact on Fortum's financial position, has been consolidated using the proportionate method. With the proportionate consolidation method, a company's figures are consolidated on a line-by-line basis according the parent's ownership. Fortum's share of profits of associated companies that are not related to the Fortum's operations are included in the financial items.

Net sales

Net sales include sales revenues from actual operations and exchange rate differences on trade receivables, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer, and statutory stockpiling fees.

Trading sales include the value of wet cargo deliveries and the net result of derivative contracts.

Other operating income

Other operating income includes gains on the sales of fixed assets, as well as all other operating income not related to the sales of products or services, such as rents.

Foreign currency items

Receivables and liabilities denominated in foreign currencies have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the income statement. Conversion differences relating to financing have been entered net under financial income or expenses. In respect of IVO, unrealised exchange gains on long-term loans, foreign currency deposits and loans receivables have been included in accruals in the balance sheet until 1997.

Translation differences arising from the shareholders' equity of foreign subsidiaries and associated companies have been netted by hedging results and entered under consolidated shareholders' equity.

The income statements of companies outside Finland have been translated into Finnish markka using an annual average exchange rate based on month-end exchange rates, while the balance sheets have been translated employing the exchange rate quoted on the balance sheet date. The resulting translation differences have been entered under non-restricted equity. The fixed assets of subsidiaries operating in high-inflation countries such as Russia and the Baltic countries are revalued to the exchange rate on the effective date of the acquisition.

Derivative instruments

Fortum enters into derivative financial instruments such as forward contracts, options, and currency swaps to hedge its exposure to fluctuations in foreign exchange rates. The interest element relating to derivatives is accrued as interest income or expense over the period to maturity. Derivatives used to hedge loans or receivables in the balance sheet and any other derivative contracts included in the net position are valued employing the exchange rate quoted on the balance sheet date, and the foreign exchange gains or losses are recognised in the income statement. Loans and related currency swaps have been netted in the balance sheet. Foreign exchange gains or losses on derivatives that hedge future cash flow are recognised once the underlying income or expense occurs.

Option premiums are treated as advances paid or received until the options mature or elapse. The difference between the paid or received premium and the closing price of the option on the balance sheet date is entered in the income statement. However, revenue can only be recognised to the extent of expenses having been charged for the underlying transaction.

Interest income or expense for derivatives used to manage exposure to interest rate risk is accrued over the period to maturity and is recognised as adjustment to the interest income or expense of the underlying liability or transaction. Losses for interest rate derivatives used for purposes other than hedging are valued at the interest rate as of the balance sheet date and entered as an expense in the income statement.

Fortum also enters into commodity derivatives as a part of its trading and hedging activities. These instruments are marked-to-market, and any losses arising from such instruments used for purposes other than hedging are expensed. Gains or losses on derivatives used for hedging purposes are recognised as income or expense once the underlying income or expense occurs. In the financial statements, commodity options are treated in the same way as currency options. Until 1997, Neste expensed only probable losses expected in the following 12 months.

Sales and procurement contracts

Probable losses on sales and procurement contracts have been estimated and expensed. Until 1997, Neste expensed probable losses expected in the following 12 months.

Fixed assets and depreciation

The balance sheet value of fixed assets consists of historical costs less depreciation and other deductions, plus any revaluations permitted by local regulations. Some foreign companies have also capitalised direct acquisition costs and interests relating to the construction period.

Depreciation according to plan is straight-line depreciation based on the probable lifespan of investments. Depreciation on oil and gas reserves and production equipment is calculated using the unit-of-production method. Peat bogs are depreciated according to use. The depreciation periods used for different asset groupings are as follows:

Hydro-electric power plant buildings, structures and machinery	40–50 years
Other power plant buildings, structures and machinery	25 years
Substation buildings, structures and machinery	30-40 years
Transmission lines	15-40 years
Other buildings and structures	20–40 years
Other tangible assets	20–40 years
Other machinery and equipment	5–20 years
Other long-term investments	5–10 years

Acquisition costs are depreciated at the end of their actual lifespan at the latest, irrespective of their planned lifespan. Sales and scrapping losses are recorded either as other operating expenses or extraordinary expenses.

Oil and gas reserves are valued as per each field on the basis of future cash flows in line with the practice of the country concerned. If required, the balance sheet value of capitalised expenditure is reduced by additional depreciation.

Finance leases

In the consolidated financial statements, properties acquired through finance-lease agreements have been recognised as assets and liabilities in the balance sheet. Depreciation on fixed assets and interest expenses on debt instead of rental expenses have been entered in the income statement.

Investments

Interest-bearing net debt of acquired companies has been included in investments.

Inventories

Inventories have been valued on the FIFO principle at the lower of direct acquisition cost or market value, taking into account the impact of possible hedging operations. In the case of some foreign subsidiaries, the acquisition cost also includes indirect

expenses in line with the practice of the country concerned. Valuation differences do not have a material impact on the consolidated financial statements.

Identifiable assets

Identifiable assets include fixed assets and working capital.

Marketable securities

Marketable securities are accounted for at the lower of acquisition cost or market value.

Oil exploration expenditures

Oil exploration expenditures are recorded using the successful-efforts method under which projects are capitalised and either depreciated according to the plan or expensed once it has been established that commercially exploitable oil or gas reserves were not discovered.

Research and development

Research and development expenditures have been recorded as annual expenses with the exception of investments in buildings and equipment.

Income recognition of long-term projects

Income from long-term projects is recognised according to percentage of completion. A provision has been made for expected losses from long-term projects, as well as for costs arising during the warranty period.

Pension expenses

Pension expenses have been entered in the results in line with the practice observed in the host countries in which Fortum operates. The compulsory liabilities deficit of the Neste Pension Foundation as well as the liabilities on pensions granted by Fortum itself have been included in pension costs and entered as a provision in the balance sheet.

Extraordinary items

Profits and losses associated with withdrawing from a business, or significantly reducing Fortum's presence in a business, have been entered as extraordinary income or expenses.

Deferred tax liabilities

In the consolidated accounts, appropriations have been divided into shareholders' equity and deferred tax liabilities. Since 1 January 1998, deferred tax assets on loss carry forwards and tax impacts on unrealised intergroup profits have been recognised in deferred tax liabilities.

Provisions

Foreseeable future expenses and losses that no longer accrue corresponding revenues and which Fortum is committed or obliged to settle, and whose monetary value can reasonably be assessed, are entered as expenses in the income statement and included as provisions in the balance sheet. These items include expenses relating to the decommissioning of production platforms, guarantee reserves, expenses relating to the future clean-up of proven environmental damage, and long-term projects.

Exchange rates 1994–1998

The table below shows the most important exchange rates used in the financial statements during the years 1994 and 1998:

	Exchange rates on the balance sheet date					Average exchange rates during the accounting period				
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998
USD	4.7432	4.3586	4.6439	5.4207	5.0960	5.2295	4.3714	4.5841	5.1670	5.3557
CAD	3.3780	3.1960	3.3900	3.7820	3.2920	3.8290	3.1838	3.3588	3.7238	3.6146
GBP	7.4090	6.7410	7.8690	8.9920	8.4280	7.9886	6.9134	7.1855	8.4880	8.8853
SEK	0.6358	0.6546	0.6748	0.6863	0.6267	0.6754	0.6153	0.6833	0.6782	0.6728
NOK	0.7014	0.6899	0.7209	0.7394	0.6702	0.7399	0.6906	0.7113	0.7340	0.7101
DKK	0.7794	0.7862	0.7809	0.7948	0.7982	0.8210	0.7810	0.7919	0.7862	0.7975
DEM	3.0615	3.0435	2.9880	3.0275	3.0400	3.2174	3.0559	3.0521	2.9960	3.0372
NLG	2.7337	2.7185	2.6624	2.6861	2.6981	2.8694	2.7276	2.7235	2.6620	2.6943
BEF	0.1490	0.1482	0.1449	0.1468	0.1474	0.1562	0.1486	0.1483	0.1452	0.1472
FRF	0.8873	0.8906	0.8862	0.9046	0.9064	0.9413	0.8789	0.8983	0.8901	0.9060

EUR 1 = FIM 5.94573

	1998 FIM million	1997 FIM million	1998 EUR million	1997 EUR million
2. Divisional segment information				
Net sales				
Exploration & Production	866	1,244	146	209
Oil	28,183	37,882	4,740	6,371
Gas	3,868	3,655	651	615
Power and Heat	10,216	10,896	1,718	1,833
Operation and Maintenance	1,487	1,371	250	231
Engineering	2,120	2,179	357	367
Energy Measurement	537	413	90	69
Chemicals	5,397	4,771	908	802
Other operations	1,025	887	172	149
Inter-divisional sales	-3,198	-3,908	-538	-657
Total	50,501	59,390	8,494	9,989
Discontinued operations *)	-	654	-	110
Group	50,501	60,044	8,494	10,099

*) Includes grid services, polystyrene business, and other discontinued operations.

Depreciation, amortisation and write-downs				
Exploration & Production	389	392	65	66
Oil	861	819	145	138
Gas	88	83	15	14
Power and Heat	1,161	1,018	195	171
Operation and Maintenance	29	15	5	3
Engineering	34	25	6	4
Energy Measurement	33	29	6	5
Chemicals	260	203	44	34
Other operations	106	96	17	16
Eliminations	-11	-8	-2	-2
Total	2,950	2,672	496	449
Discontinued operations *)	-	107	-	18
Group	2,950	2,779	496	467

*) Includes grid services, polystyrene business, and other discontinued operations.

Operating profit				
Exploration & Production	72	532	12	89
Oil	854	544	144	91
Gas	385	372	65	63
Power and Heat	2,210	2,066	372	347
Operation and Maintenance	46	92	8	15
Engineering	50	80	8	13
Energy Measurement	58	32	10	5
Chemicals	111	153	19	26
Other operations	-173	-39	-30	-5
Eliminations	-72	-20	-13	-3
Total	3,541	3,812	595	641
Discontinued operations *)	-	595	-	100
Group	3,541	4,407	595	741

*) Includes grid services, associated company Borealis, polystyrene business, and other discontinued operations.

	1998 FIM million	1997 FIM million	1998 EUR million	1997 EUR million
Investments				
Exploration & Production	1,346	852	226	143
Oil	649	1,090	109	183
Gas	139	150	23	25
Power and Heat	7,586	7,307	1,276	1,229
Operation and Maintenance	33	37	6	6
Engineering	58	35	10	6
Energy Measurement	49	44	8	7
Chemicals	196	747	33	126
Other operations	156	321	26	54
Eliminations	-93	-52	-15	-8
Total	10,119	10,531	1,702	1,771
Discontinued operations*)	-	152	-	26
Group**)	10,119	10,683	1,702	1,797

*) Includes grid services, polystyrene business, and other discontinued operations.

**) Including interest-bearing net debt of acquired subsidiaries as of the relevant acquisition date amounting to FIM 4,668 million and FIM 472 million for the years 1998 and 1997, respectively.

Identifiable assets				
Exploration & Production	4,912	4,302	826	724
Oil	9,337	10,487	1,570	1,764
Gas	1,795	1,808	302	304
Power and Heat	32,488	28,005	5,464	4,710
Operation and Maintenance	119	90	20	15
Engineering	355	441	60	74
Energy Measurement	205	214	34	36
Chemicals	2,411	2,513	406	423
Other operations	2,671	2,552	449	429
Eliminations	-495	-286	-83	-48
Total	53,798	50,126	9,048	8,431
Discontinued operations*)	-	3,947	-	663
Group	53,798	54,073	9,048	9,094

*) Includes grid services, associated company Borealis, polystyrene business, and other discontinued operations.

Average number of employees		
Exploration & Production	220	81
Oil	4,105	4,337
Gas	419	430
Power and Heat	2,806	2,967
Operation and Maintenance	3,191	2,465
Engineering	2,591	2,199
Energy Measurement	722	603
Chemicals	2,745	2,154
Other operations	2,204	2,158
Total	19,003	17,394
Discontinued operations*)	-	378
Group	19,003	17,772

*) Includes grid services, polystyrene business, and other discontinued operations.

Average number of personnel in companies consolidated using the proportionate method	3,982
of which included in the Group	1,991

3. Effect on net sales of income recognition from contracts in progress

The share of net sales entered as income according to the percentage of completion of total net sales	588	209	99	35
Net sales from contracts in progress entered as income according to the percentage of completion				
for the period	725	630	122	106
for previous periods	1,109	616	1,870	104
Total	1,834	1,246	309	210

		1998 FIM million	1997 FIM million	1998 EUR million	1997 EUR million
4.	**Net sales by market area**				
	Finland	23,156	25,347	3,895	4,263
	Sweden	6,781	6,393	1,140	1,075
	Other Nordic countries	756	910	127	153
	Baltic Rim[1)]	2,190	2,993	368	503
	Other European countries	7,472	7,304	1,257	1,228
	USA and Canada	5,188	6,013	873	1,012
	Other international sales	4,958	11,084	834	1,865
	Net sales	50,501	60,044	8,494	10,099
	[1)] Baltic countries, north-west Russia and Poland.				
5.	**Share of profits (losses) of associated companies**				
	Asko Group	63	168	11	28
	Nynäs Petroleum Group	55	36	9	6
	Teollisuuden Voima Oy	22	24	4	4
	Finnish Power Grid Plc	51	24	8	4
	Borealis Group	-	157	-	27
	Other associated companies	59	35	10	6
	Total	250	444	42	75
6.	**Other operating income**				
	Rental income	69	58	12	10
	Gains on the sales of fixed assets	475	528	80	89
	Other	61	42	10	6
	Total	605	628	102	105
7.	**Depreciation, amortisation and write-downs**				
	Depreciation and amortisation according to the plan	2,916	2,762	490	464
	Write-downs on fixed assets	34	17	6	3
	Total	2,950	2,779	496	467
8.	**Other operating expenses**				
	Change in product inventories	86	19	15	3
	Own products capitalised in fixed assets	-15	-1	-3	0
	Materials and external services				
	Materials and supplies				
	Purchases	33,589	44,324	5,650	7,455
	Change in inventories	841	-76	141	-13
	External services	1,369	784	230	132
	Personnel expenses				
	Wages, salaries, and remunerations	3,433	3,082	578	518
	Indirect employee costs				
	Pension costs	417	438	70	74
	Other indirect employee costs	544	441	91	74
	Other operating expenses	4,601	4,919	775	828
	Total	44,865	53,930	7,547	9,071
	Write-offs and losses on sales of fixed assets included in other operating expenses				
	Losses on sales of fixed assets	53	14	9	2
	Write-offs and losses on liquidation	67	105	11	18
	Total	120	119	20	20
	Salaries and remunerations				
	Presidents and members of the Boards	89	62	15	9
	Supervisory Boards	1	0	0	1
	Total	90	62	15	10
9.	**Change in provisions for liabilities and charges**				
	Provisions for pensions	-3	80	0	13
	Other provisions				
	Provisions for Exploration & Production	48	8	8	1
	Provisions for a planned refinery maintenance and upgrade shutdown	77	-	13	-
	Other	38	49	6	9
	Total	160	137	27	23

	1998 FIM million	1997 FIM million	1998 EUR million	1997 EUR million
10. Financial income and expenses				
Financial income and expenses				
Income from participating interests	1	1	0	0
Income from other long-term investments				
Dividend income	36	37	6	6
Interest income	108	70	18	12
Share of profits (losses) of associated companies	0	2	0	0
Other interest and financial income	279	248	47	42
Exchange rate differences	50	-43	9	-7
Write-downs on other long-term investments	-40	-1	-7	0
Interest and other financial expenses	-1,732	-1,765	-291	-297
Total	-1,298	-1,451	-218	-244
Total interest income and expenses				
Interest income	364	293	61	49
Interest expenses	-1,698	-1,744	-285	-293
Net interest expenses	-1,334	-1,451	-224	-244
11. Extraordinary items				
Extraordinary income				
Gains on the sales of fixed assets	62	3,614	11	608
Other	1	30	0	5
Total	63	3,644	11	613
Extraordinary expenses				
Write-offs and sales losses	-59	-1,098	-10	-185
Liability covered for nuclear waste disposal	-	-567	-	-95
Other	-33	-40	-6	-7
Total	-92	-1,705	-16	-287
Extraordinary items total	-29	1,939	-5	326
12. Income taxes				
Taxes on regular business operations	811	528	136	89
Taxes on extraordinary items	-26	19	-4	3
Total	785	547	132	92
Taxes for the period	697	1,310	117	220
Taxes for previous periods	76	-22	13	-4
Change in deferred tax liabilities	12	-741	2	-124
Total	785	547	132	92
13. Fixed assets and other long-term investments				
Intangible assets				
Intangible rights	168	101	28	17
Goodwill	289	363	49	61
Goodwill on consolidation	648	469	109	79
Other long-term expenditure	721	815	121	137
Advances paid	1	1	0	0
Total	1,827	1,749	307	294
Tangible assets				
Land and water areas	7,022	3,950	1,181	664
Buildings and structures	8,124	9,256	1,366	1,557
Machinery and equipment	22,158	20,352	3,727	3,423
Other tangible assets	1,366	1,426	230	240
Advances paid and construction in progress	2,979	1,713	501	288
Total	41,649	36,697	7,005	6,172
Other long-term investments				
Shares in participating interests	6,629	10,018	1,115	1,685
Receivables from participating interests	1,174	411	198	69
Other shares and holdings	886	3,041	149	511
Other receivables	425	522	71	88
Total	9,114	13,992	1,533	2,353

14. Changes in acquisition cost

Intangible assets

FIM million	Intangible rights	Goodwill	Goodwill on consolidation	Negative goodwill on consolidation	Other long-term investments	Advances paid	Total
Acquisition cost as of 1 January	266	759	879	-37	1,592	0	3,459
Exchange rate differences and other adjustments	-26	-2	-5	-	-2	0	-35
Increases	51	45	244	-1	71	1	411
Decreases	18	15	13	0	38	0	84
Transfers between categories	62	-13	13	-	-54	0	8
Acquisition cost as of 31 December	335	774	1,118	-38	1,569	1	3,759
Accumulated depreciation, amortisation and write-downs as of 1 January	165	396	400	-24	777	-	1,714
Exchange rate differences and other adjustments	-22	0	-5	-	-1	-	-28
Accumulated depreciation, amortisation and write-downs of decreases and transfers	1	-27	-7	-	46	-	13
Depreciation and amortisation for the period	25	62	52	-2	118	-	255
Write-downs for the period	-	-	4	0	-	-	4
Accumulated depreciation, amortisation and write-downs as of 31 December	167	485	458	-26	848	-	1,932
Balance sheet value as of 31 December	168	289	660	-12	721	1	1,827

Tangible assets

FIM million	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and contruction in progress	Total
Acquisition cost as of 1 January	3,852	14,028	36,785	2,022	1,713	58,400
Exchange rate differences and other adjustments	-225	-225	-981	-106	-140	-1,677
Increases	3,784	443	5,626	145	1,941	11,939
Decreases	244	748	651	13	78	1,734
Transfers between categories	-	33	274	0	-457	-150
Acquisition cost as of 31 December	7,167	13,531	41,053	2,048	2,979	66,778
Accumulated depreciation, amortisation and write-downs as of 1 January	25	5,201	16,449	597	-	22,272
Exchange rate differences and other adjustments	-2	-74	-343	-33	-	-452
Accumulated depreciation, amortisation and write-downs of decreases and transfers	-210	-206	-726	-1	-	-1,143
Depreciation and amortisation for the period	2	465	2,077	117	-	2,661
Write-downs for the period	-	30	-	-	-	30
Accumulated depreciation, amortisation and write-downs as of 31 December	235	5,828	18,909	682	-	25,654
Revaluations	90	421	14	0	-	525
Balance sheet value as of 31 December	7,022	8,124	22,158	1,366	2,979	41,649

Other long-term investments

FIM million	Shares in participating interests	Receivables from participating interests	Other shares and holdings	Other receivables	Total
Acquisition cost as of 1 January	10,662	411	3,025	516	14,614
Exchange rate differences and other adjustments	-97	-90	-91	-4	-282
Increases	360	707	142	59	1,268
Decreases	5,734	408	1,287	94	7,523
Transfers between categories	735	557	-855	-52	385
Acquisition cost as of 31 December	5,926	1,177	934	425	8,462
Accumulated write-downs as of 1 January	1,572	-	28	-	1,600
Exchange rate differences and other adjustments	-	-	0	0	0
Accumulated write-downs of decreases and transfers	1,553	-	-	-	1,553
Write-downs for the period	5	3	28	0	36
Accumulated write-downs as of 31 December	24	3	56	0	83
Revaluations	33		8		41
Retained earnings in associated companies	694				694
Balance sheet value as of 31 December	6,629	1,174	886	425	9,114

	1998 FIM million	1997 FIM million	1998 EUR million	1997 EUR million
Goodwill on consolidation included in shares in associated companies	566	572	95	96
Negative goodwill on consolidation included in shares in associated companies	0	0	0	0
Interest expenses capitalised during the period	79	36	13	6
Undepreciated capitalised interest expenses				
Buildings and structures	15	12	2	2
Machinery and equipment	244	278	41	47
Advances paid and construction in progress	113	52	19	9
Total	372	342	62	58
Market value of listed companies' shares included in other long-term investments				
Associated companies				
Market value	836	844	141	142
Book value	632	593	107	100
Difference	204	251	34	42
Other companies				
Market value	297	608	56	102
Book value	105	299	24	50
Difference	192	309	32	52

15. Revaluations

Land areas				
Revaluations as of 1 January	98	148	16	25
Exchange rate differences	-2	0	0	0
Increases in revaluations	3	6	1	1
Decreases in revaluations	9	56	2	10
Revaluations as of 31 December	90	98	15	16
Buildings				
Revaluations as of 1 January	417	453	70	76
Exchange rate differences	-1	2	0	0
Increases in revaluations	7	3	1	1
Decreases in revaluations	2	41	0	7
Revaluations as of 31 December	421	417	71	70
Machinery and equipment				
Revaluations as of 1 January	14	9	2	1
Exchange rate differences	-	-1	-	0
Increases in revaluations	-	12	-	2
Decreases in revaluations	-	6	-	1
Revaluations as of 31 December	14	14	2	2
Shares in participating interests				
Revaluations as of 1 January	72	71	12	12
Exchange rate differences	-6	1	-1	0
Decreases in revaluations	33	-	5	-
Revaluations as of 31 December	33	72	6	12
Other shares and holdings				
Revaluations as of 1 January	44	74	7	12
Decreases in revaluations	36	30	6	5
Revaluations as of 31 December	8	44	1	7
Revaluations total				
Revaluations as of 1 January	645	755	107	126
Exchange rate differences	-9	2	-1	0
Increases in revaluations	10	21	2	4
Decreases in revaluations	80	133	13	23
Revaluations as of 31 December	566	645	95	107

Revaluations are based on current replacement cost and, in respect of listed shares, on market value.

16. Inventories

Raw materials and supplies	1,817	2,671	306	450
Work in progress	358	465	60	78
Products/finished goods	967	971	162	163
Other inventories	248	238	42	40
Advances paid	37	38	6	6
Total	3,427	4,383	576	737

Difference between replacement value and book value of inventories is immaterial.

	1998 FIM million	1997 FIM million	1998 EUR million	1997 EUR million
17. Long-term receivables				
Long-term receivables				
Trade receivables	1	1	0	0
Receivables from participating interests				
Other receivables	5	-	1	-
Accrued income and prepaid expenses	5	-	1	-
Total	10	-	2	-
Loans receivable	2	2	0	0
Other receivables	302	1	51	0
Accrued income and prepaid expenses	66	43	11	8
Total	381	47	64	8
Long-term accrued income and prepaid expenses	71	43	12	8
18. Short-term receivables				
Short-term receivables				
Trade receivables	5,042	6,707	848	1,128
Receivables from participating interests				
Trade receivables	131	243	22	41
Other receivables	98	14	17	2
Accrued income and prepaid expenses	57	65	10	11
Total	286	322	49	54
Loans receivable	38	269	6	45
Other receivables	394	585	66	99
Accrued income and prepaid expenses	946	695	159	117
Total	6,706	8,578	1,128	1,443
Short-term accrued income and prepaid expense				
Accrued interests	87	64	15	11
Accrued taxes	161	96	27	16
Other	755	600	127	101
Total	1,003	760	169	128

19. Treatment of balance sheet items relating to income from projects in progress

All contracts in progress are included in the balance sheet on a project basis. The net amount of advance payments made and accrued income relating to contracts as well as advance payments received and accrued expenses relating to contracts is included in the balance sheet either in accrued income or in accrued expenses separately for each project.

Advance payments for inventories	236	167	40	28
Prepayments and accrued income	1,700	1,044	286	176
Deductions in inventories and financial assets	1,936	1,211	326	204
Advance payments received	1,700	1,044	286	176
Accruals	236	167	40	28
Deductions in liabilities	1,936	1,211	326	204
20. Investments				
Market value	1,396	1,550	235	261
Book value	1,386	1,535	233	258
Difference	10	15	2	3

21. Pension commitments to corporate management

The executive directors of Fortum Corporation are eligible for retirement at the age of 60. Other Group companies have corresponding arrangements.

22. Changes in shareholders' equity				
Share capital as of 1 January	15,656	15,656	2,633	2,633
Share issue	40	-	7	-
Share capital as of 31 December	15,696	15,656	2,640	2,633
Additional paid-in capital as of 1 January	-	-	-	-
Share premium	18	-	3	-
Additional paid-in capital as of 31 December	18	-	3	-
Retained earnings as of 1 January	7,712	4,053	1,297	682
Dividends paid	587	407	99	68
Transfer to restricted equity	48	42	8	7
Other distribution	4	4	1	1
Translation differences	-541	76	-90	13
Other changes	120	-4	20	-1
Net profit for the period	1,267	4,040	213	679
Retained earnings as of 31 December	7,919	7,712	1,332	1,297
Distributable funds as of 31 December	7,919	7,712	1,332	1,297

	1998 FIM million	1997 FIM million	1998 EUR million	1997 EUR million
23. Provisions for liabilities and charges				
Provisions for pensions	97	101	16	17
Other provisions				
Provisions for Exploration & Production	64	16	11	3
Provisions for a planned refinery maintenance and upgrade shutdown	77	-	13	-
Other provisions	141	102	24	17
Total	379	219	64	37
24. Deferred tax liabilities				
Change in deferred tax liabilities				
Appropriations	-34	-718	-6	-120
Consolidation entries	34	-37	6	-6
Separate financial statements of subsidiaries	12	14	2	2
Total	12	-741	2	-124
Deferred tax liabilities				
Appropriations	3,944	4,442	663	747
Consolidation entries	-27	-399	-4	-67
Separate financial statements of subsidiaries	121	209	20	35
Total	4,038	4,252	679	715
25. Liabilities				
Long-term liabilities				
Bonds	3,296	6,033	554	1,015
Convertible bonds	45	386	8	65
Loans from financial institutions	9,848	8,925	1,656	1,501
Pension loans	1,438	1,917	242	322
Advances received	69	492	12	83
Trade payables	0	0	0	0
Liabilities to participating interests				
Other long-term liabilities	1,798	619	302	104
Accruals and deferred income	38	-	6	0
Total	1,836	619	308	104
Other long-term liabilities	6,510	6,868	1,095	1,155
Accruals and deferred income	513	139	86	23
Total	23,555	25,379	3,961	4,268
of which interest-bearing	20,704	23,264	3,482	3,913
Short-term liabilities				
Bonds	1,946	205	327	34
Loans from financial institutions	2,563	1,889	431	318
Pension loans	57	24	10	4
Advances received	344	328	58	55
Trade payables	2,657	4,501	447	757
Liabilities to participating interests				
Advances received	1	1	0	0
Trade payables	77	132	13	22
Other short-term liabilities	29	288	5	49
Accruals and deferred income	46	531	8	89
Total	153	952	26	160
Other short-term liabilities	3,581	4,497	602	757
Accruals and deferred income	2,301	2,028	387	341
Total	13,602	14,424	2,288	2,426
of which interest-bearing	5,828	3,348	980	563
Interest-bearing and interest-free liabilities				
Interest-bearing liabilities	26,532	26,612	4,462	4,476
Interest-free liabilities	10,625	13,191	1,787	2,218
Total	37,157	39,803	6,249	6,694
Interest-bearing liabilities				
Loans in Euro currencies	6,551	-	1,102	-
Loans in other currencies	19,981	-	3,360	-
Total	26,532	-	4,462	-
Interest-bearing liabilities				
Loans in Finnish markka	-	8,534	-	1,435
Foreign currency loans	-	18,078	-	3,041
Total	-	26,612	-	4,476

	1998 FIM million	1997 FIM million	1998 EUR million	1997 EUR million
Maturity of long-term liabilities				
Year				
1999	5,487		923	
2000	7,795		1,311	
2001	1,751		294	
2002	2,745		461	
2003	676		114	
2004 and later	10,588		1,781	
Total	29,042		4,884	
Liabilities due after five years				
Bonds	1,328	1,661	223	279
Loans from financial institutions	2,306	3,284	388	552
Pension loans	1,588	1,832	267	308
Other long-term liabilities	5,366	2,424	903	408
Total	10,588	9,201	1,781	1,547
Long-term accruals and deferred income				
Accrual differences on contracts	539	107	91	18
Other long-term accruals and deferred income	12	32	1	5
Total	551	139	92	23
Short-term accruals and deferred income				
Accrued interests	492	423	83	71
Accrued taxes	329	647	55	109
Other short-term accruals and deferred income	1,526	1,489	257	250
Total	2,347	2,559	395	430

26. Bonds, debentures and other notes

Issuing year		Maturity year				
Imatran Voima Oy						
1988 DEM loan	No. 4/88/518	1998	-	166	-	28
1991 USD loan		2001	184	185	31	31
1991 USD loan		2002-2011	348	385	58	65
1991 USD loan		2011	185	187	31	31
1992 USD loan		2002	226	245	38	41
1992 USD loan		2005	218	228	36	38
1992 USD loan		2007	272	298	45	50
Gullspång Kraft AB						
1973 SEK loan		1973-98	-	1	-	0
1974 SEK loan		1974-99	0	2	0	0
1983 SEK loan		1983-98	-	3	-	1
1993 SEK loan	No. SE 0000209488	2003	94	206	16	35
1996 SEK loan	No. SE 0000310708	1999	63	137	11	23
1996 SEK loan	No. SE 0000325714	2001	63	137	11	23
1996 SEK loan	No. SE 0000337651	1999	63	137	11	23
1997 SEK loan	No. SE 0000384323	2000	63	137	11	23
1997 SEK loan	No. SE 0000386088	1999	94	206	16	35
Stockholm Energi AB						
1995 SEK loan		1995-1999	3	-	0	-
1995 SEK loan		1995-1999	3	-	0	-
1995 SEK loan		2000	17	-	3	-
1995 SEK loan		1995-2000	5	-	1	-
1997 SEK loan		1997-2006	5	-	1	-
Neste Finance B.V.	1992	1999-2007	1,962	2,088	330	351
Neste Marketing Ltd	1993 I	1998	-	23	-	4
Neste Oyj						
1989 USD loan	No. 4/89/550	1999	1,274	1,355	214	228
1992 I		2002	100	100	17	17
1993 I	No. 4/93/035	1998	-	12	-	2
Total			5,242	6,238	881	1,049

27. Contingent liabilities

Collaterals and other undertakings on own behalf	1998 FIM million Debt	1998 FIM million Value of collateral	1997 FIM million Debt	1997 FIM million Value of collateral	1998 EUR million Debt	1998 EUR million Value of collateral	1997 EUR million Debt	1997 EUR million Value of collateral
Own debt secured by pledged assets								
Bonds	-	-	23	24	-	-	4	4
Loans from financial institutions	1,337	972	1,925	2,271	225	163	324	383
Pension loans	367	405	323	341	62	68	54	57
Other liabilities	2,494	630	2,856	1,257	419	106	480	211
Accruals and deferred income	24	24	-	-	4	4	-	-
Total	4,222	2,031	5,127	3,893	710	341	862	655
Own debt secured by real estate mortgages								
Loans from financial institutions	724	767	833	1,341	122	129	140	225
Pension loans	13	14	247	247	2	2	42	42
Trade payables	0	50	-	37	0	8	-	6
Other liabilities	37	68	-	3	6	11	-	1
Accruals and deferred income	2	0	3	0	0	0	0	0
Total	776	899	1,083	1,628	130	150	182	274
Own debt secured by company mortgages								
Loans from financial institutions	259	297	299	352	44	50	51	59
Pension loans	18	18	20	20	3	3	3	3
Total	277	315	319	372	47	53	54	62
Own debt secured by other mortgages								
Loans from financial institutions	310	310	318	318	52	52	54	54
Collaterals for other own commitments								
Pledges		415		195		70		33
Real estate mortgages		820		1,341		138		225
Total		1,235		1,536		208		258
Collaterals given on behalf of others								
Pledges		48		0		8		0
Real estate mortgages		-		3		-		1
Other mortgages		2		21		0		3
Total		50		24		8		4
Collaterals total		4,840		7,771		812		1,307
Liability for nuclear waste disposal		2,732		2,624		459		441
Share of reserves in the Nuclear Waste Disposal Fund		-1,963		-1,648		-330		-277
Liabilities in the balance sheet		-769*)		-775*)		129*)		34 *)
*) Mortgaged bearer papers as security								
Other contingent liabilities								
Operating leasing liabilities								
Due within a year		244		142		41		24
Due after a year		940		291		158		49
Total		1,184		433		199		73
Finance leases are recognised as assets and liabilities in the balance sheet.								
Sale and leaseback		64		68		11		11
Other contingent liabilities given on own behalf		1,216		1,153		205		194
Other undertakings given on behalf of associated companies								
Guarantees		1,478		320		249		54
Other contingent liabilities		-		182		-		30
Total		1,478		502		249		84
Other undertakings given on behalf of persons referred to in § 11:7 of the Companies Act								
Guarantees		0		0		0		0
Other undertakings given on behalf of others								
Guarantees		219		1,230		37		207
Other contingent liabilities		224		56		38		9
Total		443		1,286		75		216
Other contingent liabilities total		4,385		3,442		739		578

Derivatives	1998 FIM million			1997 FIM million			1998 EUR million			1997 EUR million		
Interest and currency derivatives	Contract or notional value	Fair value	Not recognised as an income	Contract or notional value	Fair value	Not recognised as an income	Contract or notional value	Fair value	Not recognised as an income	Contract or notional value	Fair value	Not recognised as an income
FRAs and bond futures	-	-	-	7,284	1	1	-	-	-	1,225	0	0
Interest rate swaps	9,237	-191	-191	5,529	-14	-14	1,554	-32	-32	930	-2	-2
Interest rate options												
Purchased	197	0	0	120	0	0	33	0	0	20	0	0
Written	1,404	-17	-17	1,355	-36	-36	236	-3	-3	228	-6	-6
Forward foreign exchange contracts	11,609	56	-5	18,163	-39	-12	1,953	9	-1	3,055	-7	-2
Currency swaps	3,182	175	0	2,613	173	1	535	29	0	440	29	0
Currency options												
Purchased	555	-3	-3	760	-4	-4	94	-1	-1	128	-1	-1
Written	555	6	6	733	0	0	94	1	1	123	0	0

Oil futures and forward instruments	Volume 1000 bbl	Fair value FIM mill.	Not recognised as an income FIM mill.	Volume 1000 bbl	Fair value FIM mill.	Not recognised as an income FIM.mill	Volume 1000 bbl	Fair value EUR mill.	Not recognised as an income EUR mill.	Volume 1000 bbl	Fair value EUR mill.	Not recognised as an income EUR mill.
Sales contracts	9,585	30	30	12,867	89	0	9,585	5	5	12,867	15	0
Purchase contracts	2,586	-11	-11	9,132	-50	0	2,586	-2	-2	9,132	-8	0
Options												
Purchased	325	1	1	275	0	0	325	0	0	275	0	0
Written	425	0	0	600	0	0	425	0	0	600	0	0

Electricity derivatives	Volume TWh	Fair value FIM mill.	Not recognised as an income FIM mill.	Volume TWh	Fair value FIM mill.	Not recognised as an income FIM mill.	Volume TWh	Fair value EUR mill.	Not recognised as an income EUR mill.	Volume TWh	Fair value EUR mill.	Not recognised as an income EUR mill.
Sales contracts	19	197	221	6	-22	-5	19	33	37	6	-4	-1
Purchase contracts	22	-242	-242	9	1	1	22	-41	-41	9	0	0
Options												
Purchased	0	0	0	-	-	-	0	0	0	-	0	0
Written	1	0	0	-	-	-	1	0	0	-	0	0

The fair values of derivative contracts subject to public trading are based on market prices as of the balance sheet date. The fair values of other derivatives are based on the present value of cash flows resulting from the contracts, and, in respect of options, on evaluation models. Other contingent liabilities include a rent liability totalling at most DEM 60 million, tied to the price development of petrochemicals and plastics in 1996-1999. This liability will not materialise at market prices on the balance sheet date.

28. Legal proceedings

In its partial award, an arbitral tribunal ordered Neste Oyj to pay FIM 10 million to Suomalainen Energiaosuuskunta (SEO) as compensation for an overcharge in 1993. Neste Oyj has paid the compensation. Neste Oyj and SEO have now signed, after a period of five years, a written delivery agreement for 1999, which is a sign of the general normalisation of their business relationship.

Sähköenergialiitto (Finland's electricity association) asked the Finnish Competition Authority to investigate IVO's actions, and the conditions it applies in its long-term electricity agreements. In October, as a reply to the request for investigation by Sähköenergialiitto, Fortum submitted a rejoinder to the Finnish Competition Authority on its position in the electricity market. Fortum considers the request to be unjustified because the electricity market can now justifiably be considered a Nordic market, and because Fortum does not occupy a dominant position in this market. Furthermore, the market can no longer be divided into wholesale markets and retail markets, because, in the wake of the removal of limits to electricity delivery, there are no longer limits on logistics in the market. The Finnish Competition Authority is expected to give its ruling during spring 1999.

The administrators nominated by the Finnish Ministry of Trade and Industry to investigate IVO's electricity agreements have completed their work. They concluded that the company has neither abused its position nor given preference to its subsidiaries in the agreements. The administrators also recommended that, because of changes in the external circumstances, customers should be entitled to reduce their agreed base-load capacity by a maximum of 25% during the remainder of the agreement period. Fortum Power and Heat Oy (former IVO) has almost fulfilled this recommendation already: it has reduced the base-load capacity by 20%.

In February 1999, the Electricity Market Authority adopted a decision concerning the pricing of network services by Megavoima Oy, which is part of the Länsivoima Group. It had investigated the matter on the basis of an investigation request made in 1995. Länsivoima has decided to file an appeal to the Supreme Administrative Court.

Fortum has extensive international operations, and is both defendant and plaintiff in a number of legal proceedings connected with its operations. The management believes that the results of these proceedings will not, together or separately, have any materially adverse impact on Fortum's operational performance or financial position.

Group shares and holdings

	Domicile	No. of shares	Group holding, %		Nominal value FIM 1,000/cur	Book value 31 Dec. 1998 FIM 1,000
Group shares (book value more than FIM 10 million)						
Oil						
Eastex Crude Company (General Partnership)	USA		70.00	USD	-	33,683
Neste Crude Oil Inc.	USA	1,000	100.00	USD	1	12,329
Neste Eesti A/S	Estonia	1,246	100.00	EEK	1,246	35,234
Neste Markkinointi Oy	Espoo	752,000	100.00		376,000	1,100,972
Neste MTBE S.A.	Portugal	600,000	100.00	PTE	600,000	12,465
Neste Oel GmbH	Germany	1	100.00	DEM	6,457	19,628
Neste Oil Holding (U.S.A.) Inc	USA	1,000	100.00	USD	1	109,569
Neste Oil Inc.	USA	3,000	100.00	USD	3	73,850
Neste Polska sp.z.o.o.	Poland	6,809	100.00	PLZ	1,815	98,464
Neste Oil Services Inc.	USA	1,000	100.00	USD	1	130,921
Neste PAO N.V.	Belgium	55,000	100.00	BEF	550,000	80,737
Neste St. Petersburg	Russia	10	100.00	RUR	-	189,312
Petro Service A/O	Russia	100	100.00	RUR	-	11,742
SIA Neste Latvija	Latvia	10	100.00	LVL	629	76,435
Tidelands Oil Production Company Partnership	USA		80.00	USD	-	29,256
UAB Neste Lietuva	Lithuania	230,000	100.00	LTL	23,000	51,343
Gas						
Gasum Oy	Espoo	39,750,000	75.00		795,000	795,000
Helsinkikaasu Oy	Helsinki	120,000	75.00		6,000	27,707
Kotkan Kaasuenergia Oy	Kotka	380	71.25		1,900	10,541
Neste Lämpö Oy	Espoo	2,000	100.00		10,000	49,940
Tehokaasu Oy	Helsinki	7,200	100.00		18,000	23,190
Power and Heat						
AS Läänemaa Elektrivörk	Estonia	837,003	95.10	EEK	83,700	31,806
Edenderry Power Limited	Ireland	7,000	100.00	IEP	7,000	52,863
Imatran Voima Holding B.V.	Holland	52	100.00	NLG	52	289,243
Imatran Voima Malaysia B.V.	Holland	13,456	100.00	NLG	13,456	66,421
IVO Energi Aktiebolag	Sweden	8,046,868	100.00	SEK	8,046,868	6,978,429
IVO Energia AS	Estonia	101	100.00	EEK	1,010	35,196
IVO Energieanlagen GmbH	Germany	6	100.00	DEM	10,600	32,221
IVO Energy Limited	Great Britain	25,382,000	100.00	GBP	25,382	213,737
IVO Kraftwerk Lubmin GmbH	Germany	1	100.00	DEM	5,600	17,024
Koillis-Pohjan Sähkö Oy	Pudasjärvi	23,487	53.90		2,349	82,020
Lidköpings Energi AB	Sweden	500	100.00	SEK	500	20,132
Länsiverkot Oy	Paimio	5,000	65.10		5,000	10,004
Länsivoima Oyj	Paimio	4,254,258	65.10		42,543	892,896
Merikarvian Sähkö Oy	Merikarvia	526	65.10		117	14,000
Oy Tersil Ab	Paimio	15,000	65.10		1,500	16,350
Oy Tertrade Ab	Paimio	15,000	65.10		1,500	14,420
Regional Power Generators Ltd	Great Britain	10,000	100.00	GBP	10	123,352
Tainionkosken Voima Oy	Helsinki	200	100.00		200	60,260
Tuusulanjärvi Energy Ltd	Järvenpää	490,000	100.00		49,000	308,800
Vuoksen Voima Oy	Helsinki	200	100.00		200	23,160
Operation and Maintenance						
IVO Generation Services Ltd	Helsinki	5,000	100.00		50,000	50,000
Kymen Kunnossapito Oy	Kuusankoski	637	69.20		637	10,465
Engineering						
AS Linjebygg	Norway	7,667	57.10	NOK	2,492	10,585
ETV Eröterv Rt.	Hungary	54,422	84.20	HUF	544,220	16,999
Fortum Engineering Ltd	Helsinki	11,000	100.00		110,000	111,350
IVO Transmission Engineering Ltd	Helsinki	10,000	100,00		10,000	10,000
Länsitec Oy	Paimio	43,000	77.30		4,300	11,326
Energy Measurement						
Enermet A.G.	Swizerland	5,000	100.00	CHF	5,000	18,535
Enermet Ltd.	New Zealand	600,000	100.00	NZD	600	21,625
Enermet Oy	Jyväskylä	400,000	100.00		40,000	136,628
Enermet Pty.Ltd.	Australia	626,750	100.00	AUD	1,254	13,734
Chemicals						
EPS Downstream Danmark A/S	Denmark	13,300	100.00	DKK	13,300	25,295
Krems Chemie AG	Austria	760,970	89.53	ATS	760,970	276,857
NCT Hong Kong Ltd.	Hong Kong	200	100.00	HKD	200	25,942
Neste Chemicals Benelux Holding B.V.	The Netherlands	173,406	100.00	NLG	78,380	173,823
Neste Chemicals GmbH	Germany	1	100.00	DEM	1,052	15,359
Neste Chemicals Holding Inc.	USA	1,000	100.00	USD	1	212,738
Neste Chimie France SA	France	302,992	99.99	FRF	30,299	26,799
Neste Kemi Danmark A/S	Denmark	14,000	100.00	DKK	7,000	22,304
Neste Oxo Aktiebolag	Sweden	100	100.00	SEK	100	34,647
Neste Polyester Inc.	USA	100	100.00	USD	1	20,496
Neste Polyester S.A.	France	90,394	99.98	FRF	22,599	77,046
Neste Resins B.V.	The Netherlands	76,000	100.00	NLG	16,188	118,714
Neste Resins Corporation	USA	200	100.00	USD	-	193,526
Neste Resins Oy	Hamina	10,000	100.00		10,000	41,487

	Domicile	No. of shares	Group holding, %		Nominal value FIM 1,000/cur	Book value 31 Dec. 1998 FIM 1,000
Other operations						
Infrarödteknik Aktiebolag	Sweden	25,000	100.00	SEK	2,500	21,000
IVO Finance SA	Luxembourg	154,000	100.00	BEF	1,540,000	227,524
IVO Tähtivoima Oy	Helsinki	4,500	100.00		450	12,700
Kiinteistö Oy IVOn Vanhakaupunki	Helsinki	1,600	100.00		16,000	64,000
Neste Coordination Center N.V.	Belgium	572,500	100.00		5,725,010	73,086
Neste Corporate Holding Inc.	USA	142	100.00	USD	0	220,493
Neste Deutschland Holding GmbH	Germany	50	100.00	DEM	50	22,879
Neste Finance B.V.	The Netherlands	237,001	100.00	NLG	237,001	1,315,341
Neste Investments	Ireland	30,910,002	100.00	USD	30,910	466,295
Neste Sverige AB	Sweden	5,980,530	100.00	SEK	598,053	580,151
Osakeyhtiö Malminkatu 16	Helsinki	1,600	100.00		160	115,780
Group companies consolidated using the pooling-of-interests method						
Oil						
Neste Oyj	Espoo	98,523,082	100.00		985,231	15,611,735
Power and Heat						
Imatran Voima Oy	Helsinki	91,197,542	100.00		911,975	17,234,147
Participating interests (book value more than FIM 10 million)						
Joint ventures						
Power and Heat						
AB Avesta Energi	Sweden	25,000	50.00	SEK	2,500	50,913
AB Hudik Kraft	Sweden	6,000	50.00	SEK	6,000	14,092
AB Hälsingekraft	Sweden	74,500	50.00	SEK	74,500	302,507
AB Kallströmmen	Sweden	165,000	50.00	SEK	16,500	10,780
AB Skandinaviska Elverk	Sweden	1,000,000	50.00	SEK	100,000	1,159,395
Avestaforsen AB	Sweden	328,000	50.00	SEK	32,800	138,743
Birka Energi AB [1]	Sweden	10,000,000	50.00	SEK	1,000,000	6,855,750
Birka Kraft AB	Sweden	6,500	50.00	SEK	6,500	21,569
Brännälven Kraft AB	Sweden	20,000	3.40	SEK	5,000	76,144
Cajero AB,(f d Västkraft)	Sweden	1,000	50.00	SEK	1,000	238,330
Degerforsens Kraft AB	Sweden	10,000	25.10	SEK	1,000	352,848
Fryksdalens Kraft AB	Sweden	70,000	25.10	SEK	7,000	66,430
Gullspång Kraft AB	Sweden	44,155,643	50.00	SEK	220,778	3,603,525
Gullspång Nät AB	Sweden	15	50.00	SEK	150	1,109,571
Gullspång Nät Småland AB	Sweden	250,000	50.00	SEK	25,000	250,680
Gullspång Nät Yngeredsfors AB	Sweden	400,000	50.00	SEK	40,000	376,020
Gullspång Service AB	Sweden	500	50.00	SEK	50	12,565
Gullspång Värme AB	Sweden	1,000	50.00	SEK	1,000	16,989
Hudiksvalls Energiverk AB	Sweden	1,000	50.00	SEK	1,000	25,398
Karåsen Kraft AB	Sweden	408,000	50.00	SEK	40,800	41,985
Krångede AB	Sweden	50	50.00	SEK	50	1,145,945
Lillnabben AB	Sweden	3,012,162	50.00	SEK	3,012	132,831
Lindsnäsfors Kraft AB	Sweden	2,151,924	50.00	SEK	215,193	531,762
Ljunga Kraft AB	Sweden	5,088,813	50.00	SEK	142,487	530,556
Parteboda Kraft AB	Sweden	500	5.10	SEK	50	100,287
Stockholm Energi AB	Sweden	6,099,985	50.00	SEK	609,999	5,608,965
Stockholm Energi Elnät AB	Sweden	100,000	50.00	SEK	100,000	219,345
Stockholm Energi Vattenkraft AB	Sweden	250	50.00	SEK	25	747,265
Sundshagsfors Karft AB	Sweden	2,850	50.00	SEK	2,850	80,561
Svarthålsforsens Intressenter AB	Sweden	100,050	50.00	SEK	10,005	94,457
Täby Energi Nät AB	Sweden	15,751	49.20	SEK	3,938	237,134
Uddeholm Kraft AB	Sweden	2,976,666	50.00	SEK	297,667	410,102
Voxnan Kraft AB	Sweden	500	5.10	SEK	50	403,813
Värmlandsenergi AB	Sweden	26,806,635	50.00	SEK	268,067	339,137
Värmlandskraft - OKG-delägarna AB	Sweden	210	36.50	SEK	210	37,257
Älvkraftintressenterna AB	Sweden	62,500	22.80	SEK	12,500	18,832
Österede Kraft AB	Sweden	500	50.00	SEK	50	258,705
Österärkes Kraft AB	Sweden	250	23.50	SEK	765	14,145
Operation and Maintenance						
Birka Service AB [2]	Sweden	5,000	50.00	SEK	5,000	15,668
Senea Service AB	Sweden	20,000	50.00	SEK	1,000	24,410

[1] Shares are owned by IVO Energi AB. Only 50% of Birka Energi AB's group companies are accounted for.

[2] Shares are owned by Birka Kraft AB.

	Domicile	No. of shares	Group holding, %		Nominal value FIM 1,000/cur	Book value 31 Dec. 1998 FIM 1,000
Other associated companies (book value more than FIM 10 million)						
Exploration & Production						
Closed Joint Stock Company SeverTek	Russia	43,000	50.00		-	40,745
Oil						
Kuljetusristikko Oy	Helsinki	3,786	45.19		189	18,565
AB Nynäs Petroleum	Sweden	33,765	49.99	SEK	33,765	248,584
Power and Heat (owned by Birka Energi Group)						
Birka Norden AB	Sweden	15,667	35.30	SEK	15,667	10,682
Blåsjöns Kraft AB	Sweden	3,000	25.00	SEK	3,000	45,833
Eurotrem AB	Sweden	9,150	55.80	SEK	9,150	10,990
Gulsele AB	Sweden	60,000	25.00	SEK	60,000	26,372
Härjeåns Kraft AB	Sweden	15,779	23.10	SEK	1,578	20,606
Katrineholm Energi AB	Sweden	33,075	24.50	SEK	3,308	53,270
Mellansvensk Kraftgrupp AB	Sweden	29,849	39.00	SEK	29,849	106,827
OKG AB	Sweden	122,025	16.70	SEK	12,203	22,878
Ryssa Elverk AB	Sweden	109,040	17.30	SEK	5,437	51,679
Stensjöns Kraft AB	Sweden	110,000	25.00	SEK	5,500	134,427
Tåsans Kraft AB	Sweden	960	20.00	SEK	960	25,443
Power and Heat (others)						
Budapesti Erömü Rt.	Hungary	629,839	43.80	HUF	6,298,390	144,788
Karlskoga Energi & Miljö AB	Sweden	26,950	49.00	SEK	26,950	214,958
Keuruun Sähkö Oy	Keuruu	1,754	35.10		18	14,613
Lappeenrannan Lämpövoima Oy	Lappeenranta	1,800	50.00		18,000	18,000
Sallilan Sähkölaitos Oy	Alastaro	27,250	30.00		1,363	48,598
Teollisuuden Voima Oy	Helsinki	189,877,285	26.60		189,877	741,166
Union Power Development Company Limited	Thailand	2,325,000	28.00	THB	232,500	67,264
Uudenmaan Sähköverkko Oy	Vihti	500,000	50.00		5,000	10,000
Chemicals						
Asko Oyj	Lahti	9,642,144	24.81		96,421	373,265
Creative Pultrusions Inc.	USA	4,355	25.00	USD	4	20,384
Other operations						
Finnish Power Grid Plc	Helsinki	834	25.10		83,400	166,800
Länsilasi Oy	Alavus	470	37.00		2,350	15,002
UVCC II Parallel Fund, L.P.	USA		33.30	USD	4,832	18,065
Other participating interests (book value more than FIM 10 million)						
Kemijoki Oy	Rovaniemi	412,907	16.90		41,291	1,638,580
Other shares and holdings (book value more than FIM 10 million)						
Oil						
Neptun Maritime Oyj	Helsinki	3,079,586	4.95		30,796	38,641
Gas						
AS Eesti Gas	Estonia	599,523	13.77	EEK	25,523	22,556
Nokian Lämpövoima Oy	Nokia	19,900	19.90		199	26,000
Vattenfall Naturgas AB	Sweden	31,610	10.00	SEK	15,178	53,296
Power and Heat						
AO Lenenergo	Russia	37,349,760	4.90	RUR	37,350	115,828
Imatran Seudun Sähkö Oy (of votes 15.3%)	Imatra	57,704	13.30		577	11,846
Korsselbränna AB	Sweden	25,920	8.10	SEK	2,592	87,817
Lapin Sähkövoima Oy	Tervola	183,534	7.00		184	60,312
The Cogeneration Company Limited	Thailand	59,576,522	7.40	THB	595,765	93,443
Vakka-Suomen Voima Oy	Laitila	14,194	9.20		213	13,809
Chemicals						
Saudi European Petrochemical Company Ibn Zahr	Saudi Arabia	98,832	10.00	SAR	98,832	88,301
Other operations						
Utility Competetive Advantage Fund, L.L.C.	USA		11.10			54,153

A complete list of shares and holdings is included in Fortum Corporation´s official financial statements.

Key financial indicators 1994-1998

FIM		1994	1995	1996	1997	1998
INCOME STATEMENT						
Net sales	FIM million	56,604 [1]	51,849	56,068	60,044	50,501
- change	%	-18.7	-8.4	8.1	7.1	-15.9
Share of profits (losses) of associated companies	FIM million	178	452	67	444	250
Other operating income [2]	FIM million	550	663	420	628	605
Depreciation, amortisation and write-downs	FIM million	-2,363	-2,241	-2,456	-2,779	-2,950
Other operating expenses [2]	FIM million	-51,956	-47,205	-50,900	-53,930	-44,865
Operating profit [2]	FIM million	3,013	3,518	3,199	4,407	3,541
- of net sales	%	5.3	6.8	5.7	7.3	7.0
Financial income and expenses [2]	FIM million	-1,435	-1,024	-897	-1,451	-1,298
Profit before extraordinary items and taxes	FIM million	1,578	2,494	2,302	2,956	2,243
- of net sales	%	2.8	4.8	4.1	4.9	4.4
Extraordinary items	FIM million	278	24	207	1,939	-29
Profit before taxes	FIM million	1,856	2,518	2,509	4,895	2,214
- of net sales	%	3.3	4.9	4.5	8.2	4.4
Income taxes	FIM million	-339	-1,082	-773	-547	-785
Minority interests	FIM million	-15	-61	-165	-308	-162
Net profit for the period	FIM million	1,502	1,375	1,571	4,040	1,267
BALANCE SHEET						
Fixed assets and other long-term investments	FIM million	35,084	34,166	47,603	52,438	52,590
Current assets						
Inventories	FIM million	4,509	3,933	4,205	4,383	3,427
Receivables	FIM million	7,136	6,678	8,042	8,625	7,087
Cash and marketable securities	FIM million	5,113	5,438	2,523	3,943	3,352
Shareholders' equity	FIM million	16,379	18,540	19,709	23,368	23,633
Minority interests	FIM million	411	444	2,767	1,747	1,249
Provisions for liabilities and charges	FIM million	243	126	82	219	379
Deferred tax liabilities	FIM million	3,557	4,108	4,720	4,252	4,038
Interest-bearing debt	FIM million	21,690	17,963	24,468	26,612	26,532
Interest-free debt	FIM million	9,562	9,034	10,627	13,191	10,625
Total assets	FIM million	51,842	50,215	62,373	69,389	66,456
PROFITABILITY						
Return on shareholders' equity	%	8.3	7.9	7.4	10.2	5.7
Return on capital employed	%	9.0	10.7	9.1	9.7	7.8
FINANCING AND FINANCIAL POSITION						
Interest-bearing net debt	FIM million	16,577	12,525	21,945	22,669	23,180
- of net sales	%	29.3	24.2	39.1	37.8	45.9
Gearing	%	99	66	98	90	93
Equity-to-assets ratio	%	33	38	36	37	38
Net cash from operating activities	FIM million	2,757	3,610	4,077	4,326	4,952
Cash flow before financing activities	FIM million	2,386	1,789	-1,561	954	4,042
Dividends	FIM million	215	373	407	587	589 [3]
Net interest expenses	FIM million	1, 279	1,049	1,152	1,451	1,334
Interest coverage		2.4	3.4	2.8	3.0	2.7
OTHER INDICATORS						
Capital employed	FIM million	38,480	36,947	46,944	51,727	51,414
Investments	FIM million	2,019	3,045	13,486	10,683	10,119
- of net sales	%	3.6	5.9	24.1	17.8	20.0
Research and development expenditures	FIM million	395	430	440	516	546
- of net sales	%	0.7	0.8	0.8	0.9	1.1
Average number of employees		14,406	14,490	16,083	17,772	19,003

EUR		1994	1995	1996	1997	1998
INCOME STATEMENT						
Net sales	EUR million	9,520 [1]	8,720	9,430	10,099	8,494
- change	%	-18.7	-8.4	8.1	7.1	-15.9
Share of profits (losses) of associated companies	EUR million	30	76	11	75	42
Other operating income [2]	EUR million	92	112	71	105	102
Depreciation, amortisation and write-downs	EUR million	-397	-377	-413	-467	-496
Other operating expenses [2]	EUR million	-8,738	-7,939	-8,561	-9,071	-7,547
Operating profit [2]	EUR million	507	592	538	741	595
- of net sales	%	5.3	6.8	5.7	7.3	7.0
Financial income and expenses [2]	EUR million	-242	-173	-151	-244	-218
Profit before extraordinary items and taxes	EUR million	265	419	387	497	377
- of net sales	%	2.8	4.8	4.1	4.9	4.4
Extraordinary items	EUR million	47	4	35	326	-5
Profit before taxes	EUR million	312	423	422	823	372
- of net sales	%	3.3	4.9	4.5	8.2	4.4
Income taxes	EUR million	-57	-182	-130	-92	-132
Minority interests	EUR million	-2	-10	-28	-52	-27
Net profit for the period	EUR million	253	231	264	679	213
BALANCE SHEET						
Fixed assets and other long-term investments	EUR million	5,901	5,746	8,006	8,819	8,845
Current assets						
Inventories	EUR million	758	661	707	737	576
Receivables	EUR million	1,200	1,123	1,353	1,451	1,192
Cash and marketable securities	EUR million	860	915	424	663	564
Shareholders' equity	EUR million	2,755	3,118	3,315	3,930	3,975
Minority interests	EUR million	69	75	465	294	210
Provisions for liabilities and charges	EUR million	41	21	14	37	64
Deferred tax liabilities	EUR million	598	691	794	715	679
Interest-bearing debt	EUR million	3,648	3,021	4,115	4,476	4,462
Interest-free debt	EUR million	1,608	1,519	1,787	2,218	1,787
Total assets	EUR million	8,719	8,445	10,490	11,670	11,177
PROFITABILITY						
Return on shareholders' equity	%	8.3	7.9	7.4	10.2	5.7
Return on capital employed	%	9.0	10.7	9.1	9.7	7.8
FINANCING AND FINANCIAL POSITION						
Interest-bearing net debt	EUR million	2,788	2,107	3,691	3,813	3,898
- of net sales	%	29.3	24.2	39.1	37.8	45.9
Gearing	%	99	66	98	90	93
Equity-to-assets ratio	%	33	38	36	37	38
Net cash from operating activities	EUR million	464	607	686	728	833
Cash flow before financing activities	EUR million	401	301	-263	160	680
Dividends	EUR million	36	63	68	99	99 [3]
Net interest expenses	EUR million	215	176	194	244	224
Interest coverage		2.4	3.4	2.8	3.0	2.7
OTHER INDICATORS						
Capital employed	EUR million	6,472	6,214	7,895	8,900	8,647
Investments	EUR million	340	512	2,268	1,797	1,702
- of net sales	%	3.6	5.9	24.1	17.8	20.0
Research and development expenditures	EUR million	66	72	74	87	92
- of net sales	%	0.7	0.8	0.8	0.9	1.1
Average number of employees		14,406	14,490	16,083	17,772	19,003

[1] In 1994 credit losses, freights and other delivery expenses of the Neste Group have been entered under sales adjustments. Since 1995, those items have been entered under other operating expenses.

[2] Write-downs and reversals of those write-downs of shares that are included in other long-term investments, which have previously been entered under other operating expenses and other operating income, have been entered under financial income and expenses according to the new bookkeeping act. As a result, the operating profit for 1996 decreased by FIM 66 million (EUR 11 million), but profit before extraordinary items was the same.

[3] Board of Directors' proposal.

Formulae for the key financial indicators are presented on page 72.

SHARE-RELATED DATA		1994	1995	1996	1997	1998
FIM						
Earnings per share (EPS)	FIM	1.67	1.73	1.75	2.70	1.62
Cash flow per share	FIM	3.51	4.60	5.20	5.51	6.31
Shareholders' equity per share	FIM	20.87	23.62	25.11	29.78	30.11
Dividend per share	FIM	0.27	0.48	0.52	0.75	0.75 [1)]
Dividend per earnings	%	16.3	27.4	29.6	27.7	46.3 [1)]
Dividend yield	%					2.5 [1)]
Price/earnings ratio (P/E)						18.5
Share prices						
Share price at the end of the period	FIM					29.92
Average share price	FIM					33.63
Highest share price	FIM					28.90
Lowest share price	FIM					36.00
Market capitalisation at the end of the period	FIM million					23,481
Trading volumes						
Number of shares						17,642,594
In relation to the weighted average number of shares	%					2.2
Number of shares		784,782,635	784,782,635	784,782,635	784,782,635	784,782,635
EUR						
Earnings per share (EPS)	EUR	0.28	0.29	0.29	0.45	0.27
Cash flow per share	EUR	0.59	0.77	0.87	0.93	1.06
Shareholders' equity per share	EUR	3.51	3.97	4.22	5.01	5.06
Dividend per share	EUR	0.05	0.08	0.09	0.13	0.13 [1)]
Dividend per earnings	%	16.3	27.4	29.6	27.7	46.3 [1)]
Dividend yield	%					2.5 [1)]
Price/earnings ratio (P/E)						18.5
Share prices						
Share price at the end of the period	EUR					5.03
Average share price	EUR					5.66
Highest share price	EUR					4.86
Lowest share price	EUR					6.05
Market capitalisation at the end of the period	EUR million					3,949
Trading volumes						
Number of shares						17,642,594
In relation to the weighted average number of shares	%					2.2
Number of shares		784,782,635	784,782,635	784,782,635	784,782,635	784,782,635

[1)] Board of Directors' proposal

Formulae for the key financial indicators are presented on page 72.

QUARTERLY NET SALES BY DIVISION	1997					1998				
FIM million	1-3	4-6	7-9	10-12	1-12	1-3	4-6	7-9	10-12	1-12
Exploration & Production	325	213	366	340	1,244	266	224	224	152	866
Oil	9,045	8,928	9,349	10,560	37,882	7,695	7,142	6,953	6,393	28,183
Gas	1,042	775	630	1,208	3,655	1,317	790	694	1,067	3,868
Power and Heat	3,187	2,364	2,209	3,136	10,896	3,000	2,302	1,993	2,921	10,216
Operation and Maintenance	281	309	306	475	1,371	293	357	357	480	1,487
Engineering	460	573	494	652	2,179	391	536	464	729	2,120
Energy Measurement	89	108	96	120	413	111	157	131	138	537
Chemicals	1,133	1,261	979	1,398	4,771	1,518	1,419	1,293	1,167	5,397
Other operations	183	204	221	279	887	193	238	249	345	1,025
Inter-divisional sales	-977	-821	-920	-1,190	-3,908	-806	-729	-728	-935	-3,198
Total	14,768	13,914	13,730	16,978	59,390	13,978	12,436	11,630	12,457	50,501
Discontinued operations*)	239	200	156	59	654	-	-	-	-	-
Group	15,007	14,114	13,886	17,037	60,044	13,978	12,436	11,630	12,457	50,501

*) Include grid services, polystyrene business and other discontinued operations.

QUARTERLY OPERATING PROFIT BY DIVISION	1997					1998				
FIM million	1-3	4-6	7-9	10-12	1-12	1-3	4-6	7-9	10-12	1-12
Exploration & Production	153	69	141	169	532	35	25	13	-1	72
Oil	57	201	261	25	544	70	277	396	111	854
Gas	158	55	59	100	372	142	52	66	125	385
Power and Heat	769	478	217	602	2,066	958	406	67	779	2,210
Operation and Maintenance	52	-13	9	44	92	26	-13	9	24	46
Engineering	11	13	-12	68	80	-16	-2	8	60	50
Energy Measurement	6	14	3	9	32	12	25	11	10	58
Chemicals	42	51	22	38	153	63	60	3	-15	111
Other operations	-100	-59	101	19	-39	-56	-133	-67	83	-173
Eliminations	-18	-12	5	5	-20	-11	-12	-20	-29	-72
Total	1,130	797	806	1,079	3,812	1,223	685	486	1,147	3,541
Discontinued operations *)	197	112	75	211	595	-	-	-	-	-
Group	1,327	909	881	1,290	4,407	1,223	685	486	1,147	3,541

*) Include grid services, the associated company Borealis, polystyrene business and other discontinued operations.

Formulae for the key financial indicators

Cash and marketable securities	=	Cash and cash equivalents + marketable securities	
Return on shareholders' equity (%)	=	Profit before extraordinary items - taxes / (Shareholders' equity + minority interests) average	x 100
Return on capital employed (%)	=	Profit before extraordinary items + interest and other financial expenses / Capital employed average	x 100
Interest-bearing net debt	=	Interest-bearing debt - cash and marketable securities	
Gearing (%)	=	Interest-bearing net debt / Shareholders' equity + minority interests	x 100
Equity-to-assets ratio (%)	=	Shareholders' equity + minority interests / Total assets - advances received	x 100
Interest coverage	=	Operating profit / Net interest expenses	
Capital employed	=	Total assets - interest-free liabilities - deferred tax liabilities - provisions for liabilities and charges	
Earnings per share (EPS)	=	Profit before extraordinary items - taxes on regular business operations - minority interests / Adjusted average number of shares during the period	
Cash flow per share	=	Net cash from operating activities / Adjusted average number of shares during the period	
Shareholders' equity per share	=	Shareholders' equity / Adjusted average number of shares at the end of the period	
Dividend per share	=	Dividend for the financial period / Adjusted average number of shares during the period	
Dividend per earnings (%)	=	Dividend per share / Earnings per share	x 100
Dividend yield (%)	=	Dividend per share / Share price at the end of the period	x 100
Price/earnings ratio	=	Share price at the end of the period / Earnings per share	
Average share price	=	Amount traded in Finnish markka during the period / Adjusted number of shares traded during the period	
Market capitalisation at the end of the period	=	Number of shares at the end of the period x share price at the end of the period	
Trading volumes	=	Number of shares traded during the period, and in relation to the weighted average number of shares during the period	

Parent company income statement, balance sheet and cash flow statement

Income statement

FIM million	Note	1998
Net sales	1	31
Depreciation, amortisation and write-downs	2	0
Other operating expenses	3	-34
Operating loss		-3
Financial income and expenses	4	1,378
Profit before extraordinary items and taxes		1,375
Appropriations	5	-1
Income taxes	6	-385
Net profit for the period		989

Balance sheet

FIM million	Note	1998
ASSETS		
Fixed assets and other long-term investements	7,8	
Intangible assets		0
Tangible assets		3
Other long-term investments		32,847
Total		32,850
Current assets		
Short-term receivables	9	942
Cash and cash equivalents		1
		943
Total		33,793
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity	11	
Share capital		15,696
Additional paid-in capital		16,530
Net profit for the period		989
Total		33,215
Accumulated appropriations	12	1
Short-term liabilities	13	
Interest-bearing		520
Interest-free		57
		577
Total		33,793

Cash flow statement

FIM million	1998
Operating activities	
Operating loss	-3
Depreciation, amortisation and write-downs	0
Other items	98
Operating profit before changes in working capital	95
Changes in working capital	
Decrease (+) / increase (-) in trade and other short-term receivables	-38
Decrease (-) / increase (+) in interest-free liabilities	11
Total	-27
Funds generated from operations	68
Interest paid, net	-10
Net cash from operating activities	58
Investing activities	
Acquisition of shares in subsidiaries	-167
Investments in other shares	-1
Asset transfer taxes paid	-474
Other capital expenditures	-3
Cash flow from investing activities	-645
Cash flow before financing activities	-587
Financing activities	
Payment of (-) / proceeds from (+) short-term borrowings	520
Proceeds from issuance of share capital	68
Cash flow from financing activities	588
Net increase (+) / decrease (-) in cash and marketable securities	1
Reconciliation (cash and marketable securities)	
As reported for at the beginning of the period	-
As reported for at the end of the period	1
Net increase (+) / decrease (-) in cash and marketable securities	1

Notes to the parent company financial statements

FIM million	1998
1. Net sales by market area	
Finland	31
2. Depreciation, amortisation and write-downs	
Depreciation and amortisation according to the plan	0
3. Other operating expenses	
Other operating expenses	
Personnel expenses	
Wages, salaries and remunerations	8
Indirect employee costs	
Pension costs	2
Other indirect employee costs	1
Other operating expenses	23
Total	34
Salaries and remunerations	
President and members of the Board	3
Supervisory Board	0
Total	3
Average number of employees	10
4. Financial income and expenses	
Financial income and expenses	
Income from Group companies	1,389
Other interest income from Group companies	0
Other interest income	0
Interest and other financial expenses to Group companies	-6
Other interest and other financial expenses	-5
Total	1,378
Total interest income and expenses	
Interest income	0
Interest expenses	-10
Net interest expenses	-10
5. Appropriations	
Depreciation above the plan	1
6. Income taxes	
Taxes on regular business operations	385
7. Fixes assets and other long-term investments	
Intangible assets	
Other long-term expenditure	0
Tangible assets	
Machinery and equipment	3
Other long-term investments	
Shares in Group companies	32,846
Other shares and holdings	1
Total	32,847
8. Changes in acquisition cost	
Intangible assets	
Other long-term investments	
Acquisition cost as of 1 January	-
Increases	0
Acquisition cost as of 31 December	0
Accumulated depreciation, amortisation and write-downs as of 1 January	-
Depreciation and amortisation for the period	0
Accumulated depreciation, amortisation and write-downs as of 31 December	0
Balance sheet value as of 31 December	0
Tangible assets	
Machinery and equipment	
Acquisition cost as of 1 January	-
Increases	3
Acquisition cost as of 31 December	3
Accumulated depreciation, amortisation and write-downs as of 1 January	-
Depreciation and amortisation for the period	0
Accumulated depreciation, amortisation and write-downs as of 31 December	0
Balance sheet value as of 31 December	3

Other long-term investments	Shares in Group companies	Other shares and holdings	Total
Acquisition cost as of 1 January	-	-	-
Increases	32,846	1	32,847
Acquisition cost as of 31 December	32,846	1	32,847
Balance sheet value as of 31 December	32,846	1	32,847

9. Short-term receivables	
Receivables from Group companies	
Trade receivables	38
Other receivables	900
Total	938
Other receivables	4
Accrued income and prepaid expenses	0
Total	942
10. Pension commitments to corporate management	
The executive directors of Fortum Corporation are eligible for retirement at the age of 60.	
11. Changes in shareholders' equity	
Share capital as of 1 January	-
Share issue	15,696
Share capital as of 31 December	15,696
Additional paid-in capital as of 1 January	-
Share premium	16,530
Additional paid-in capital as of 31 December	16,530
Retained earnings as of 1 January	-
Net profit for the period	989
Retained earnings as of 31 December	989
Distributable funds as of 31 December	989
12. Accumulated appropriations	
Accumulated depreciation above the plan	
Other long-term expenditure	0
Machinery and equipment	1
Total	1
13. Liabilities	
Short-term liabilities	
Trade payables	3
Liabilities to Group companies	
Trade payables	0
Other short-term liabilities	520
Accruals and deferred income	0
Total	520
Other short-term liabilities	4
Accruals and deferred income	50
Total	577
of which interest-bearing	520
Interest-bearing and interest-free liabilities	
Interest-bearing liabilities	520
Interest-free liabilities	57
Total	577
Short-term accruals and deferred income	
Asset transfer taxes	47
Other short-term accruals and deferred income	3
Total	50

Shares and shareholders

Share capital

The company was set up on 7 February 1998 with a registered share capital of FIM 10 million.

By the end of 1998, a total of 784,782,635 Fortum Corporation shares had been issued. The nominal value of one share is FIM 20, and each share carries one vote at the annual general meeting. All shares entitle holders to an equal dividend.

In accordance with the Articles of Association at the end of 1998, Fortum Corporation's share capital is a minimum of FIM 10 billion and a maximum of FIM 40 billion. Within these parameters, the share capital can be increased or decreased without changing the Articles of Association. Fortum Corporation's share capital on 31 December 1998, paid in its entirety and entered in the trade register, was FIM 15,695,652,700.

Fortum Corporation's shares were entered in the Finnish book-entry securities system on 29 April 1998.

Development of share capital

	No. of new shares	Increase in share capital, FIM	New share capital, FIM
Rights issue on 3 June	293,104,055	5,862,081,100	5,872,081,100
Rights issue on 29 June	397,906,226	7,958,124,520	13,830,205,620
Rights issue on 17 December	91,272,354	1,825,447,080	15,655,652,700
Employee offering on 18 December	2,000,000	40,000,000	15,695,652,700

The issue of 293,104,055 shares to the Finnish State against the transfer of 81,939,969 shares in Neste Oyj from the Finnish State to Fortum was entered in the trade register in June 1998.

The issue of 397,906,226 shares to the Finnish State and the Finnish Social Insurance Institution (SII) against the transfer of 87,174,346 and 4,023,194 shares in IVO from the Finnish State and SII, respectively, to Fortum was also registered in June 1998.

Share exchange and cash redemption offer to Neste's minority shareholders

In April 1998, Fortum and the Finnish State signed an agreement, under which Fortum offered to exchange the Neste shares held by Neste's minority shareholders into Fortum shares. Fortum published the conditions of the exchange and redemption offer to Neste's minority shareholders and warrant holders on 28 April 1998. The exchange value of the Neste share during 30 April–15 May 1998 was FIM 178 and during 16 May–30 June 1998 FIM 176, and of the warrant certificates FIM 91.50 and FIM 89.50, respectively, plus an additional amount accruing at 4% p.a. from 15 May 1998 until the expiry of the cancellation period for the subscriptions. Under the same agreement, Fortum was obliged to offer to redeem the shares held by the minority shareholders at a price of FIM 168.10 per share in accordance with Neste's Articles of Association and the Securities Markets Act, and the warrant certificates at a price of FIM 81.60 per certificate.

The exchange offer was completed in November and December as part of the initial public offering, when the final acceptance of the offer was obtained from 18,507 Neste's shareholders and holders of the warrant certificates, who held 15,985,963 shares and 156,550 warrant certificates. The final exchange values of the shares were FIM 181.96 and FIM 179.92, respectively, and of the warrant certificates FIM 93.54 and FIM 91.49, respectively, depending on the date of acceptance of the exchange offer.

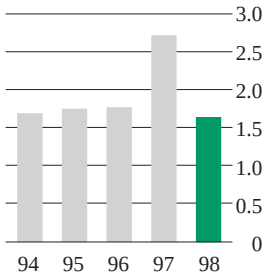
Following the transfer of the Neste shares held by the Finnish State to Fortum on 1 June 1998, Fortum began the redemption procedures pursuant to the Finnish Companies Act to acquire the Neste shares held by Neste's other shareholders. On 21 August 1998, an arbitral tribunal confirmed Fortum's redemption right, and Fortum acquired ownership of the remaining Neste shares on 28 August 1998 upon placement of the security approved by the arbitral tribunal. The listing of the Neste share on the Helsinki Exchanges ceased on 4 September 1998. The redemption price was confirmed to be FIM 168.10, and it was paid to the shareholders in December after the judgement had gained legal force.

Sale of shares and initial public offering

In the sale of shares and the initial public offering carried out in November–December, a total of 160,000,000 Fortum shares was initially floated. The Finnish State initially offered 8,000,000 shares to retail investors and institutions with effect from 24 November 1998, and a minimum of 15,875,737 and a maximum of 35,718,223 shares to Finnish institutional investors, as well as a maximum of 25,000,000 shares to international investors. The total number of shares offered to Finnish institutions was dependent on the number of shares issued

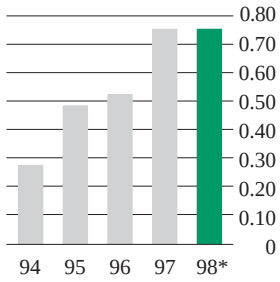
Earnings per share

FIM



Dividend per share

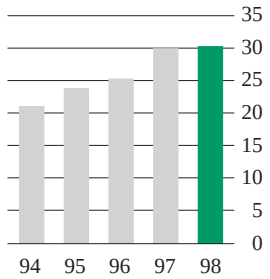
FIM



*) Board of Directors' proposal

Shareholders' equity per share

FIM



to Neste's minority shareholders in the exchange offer. In the employee offering Fortum offered 2,000,000 new shares for subscription. From the company's point of view, an important economic reason for deviating from the shareholders' priority was to encourage the employees, and the desire to increase the shareholding of the employees and important stakeholders

In response to heavy demand, the Finnish State decided to use its right to increase the number of shares on offer as permitted by the conditions of the sale of shares. On 10 December 1998, the number of shares on offer was increased by 15,000,000 shares. Of this, 14,000,000 were targeted at retail investors and 1,000,000 at Finnish institutional investors.

A total of 22 million shares was sold to retail investors, 34.7 million shares to Finnish institutional investors, and 25 million shares to international institutional investors. Those investors who participated in the exchange offer subscribed for 91.3 million shares, while 2 million shares were subscribed for by the employees. At the end of 1998, Fortum had 62,425 shareholders.

The tentative offering price in the initial public offering, determined as a result of book-building, was FIM 27–33. The final offering price was confirmed to be FIM 32. In the employee offer, the subscription price was 10% lower than the final offering price in the retail offer, in other words, FIM 28.80 per share. Retail investors were entitled, with certain exceptions after six months' uninterrupted ownership of the shares, to one bonus share for each 20 shares in their ownership.

Except for the bonus shares to be issued later, the shares acquired in the sale of shares and the initial public offering entitle the holders to a full dividend for the accounting period that started on 1 January 1998.

Fortum's shareholders as of 31 December 1998

Shareholders	No. of shares	Holding %
Finnish State	592,228,939	75.46
Social Insurance Institution	17,553,696	2.24
Ilmarinen Mutual Pension Insurance Company	7,344,600	0.94
Varma-Sampo Mutual Pension Insurance Company	7,300,000	0.93
Alko Group	7,206,747	0.92
The Local Government Pension Institution	6,913,585	0.88
Neste Pension Foundation	4,157,575	0.53
Finnish Captive & Risk Services Oy Ltd	3,496,637	0.45
Mutual Insurance Company Pension-Fennia	3,250,567	0.41
Pohjola Insurance Company Ltd	3,180,410	0.41
Nominee registrations	36,715,327	4.68
Other shareholders in total	95,434,552	12.15
Total	784,782,635	100.00

Distribution of ownership of shares as of 31 December 1998

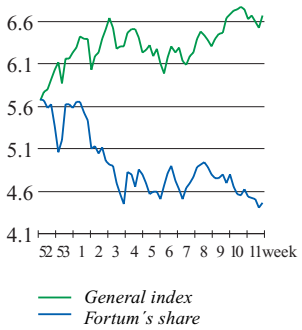
No. of Shares	No. of shareholders	% of shareholders	No. of shares	% of share capital
1 – 100	4,306	6.90	413,571	0.05
101 – 500	31,473	50.42	10,981,096	1.40
501 - 1,000	16,183	25.92	11,095,674	1.41
1,001 – 10,000	10,010	16.04	23,626,573	3.01
10,001 – 100,000	357	0.57	9,760,756	1.24
100,001 - 1,000,000	76	0.12	26,581,488	3.39
1,000,001 - 10,000,000	17	0.03	57,820,262	7.37
over 10,000,000	3	0.00	644,442,339	82.12
	62,425	100.00	784,721,759	99.99
Unregistered/uncleared transactions as of 31 Dec. 1998			60,876	0.01
Total			784,782,635	100.00
of which nominee registrations			36,715,327	4.68

Distribution of ownership of shares by owner category as of 31 December 1998

Owner category	% of owners	% of share capital
Private non-financial corporations	3.08	1.02
Public non-financial corporations	0.01	0.95
Financial and insurance institutions	0.21	3.96
General government	0.10	82.89
Non-profit organisations	0.35	0.51
Households	95.22	5,87
Outside Finland and nominee registrations	1.03	4.79
Unregistered/uncleared		0.01
Total	100.00	100.00

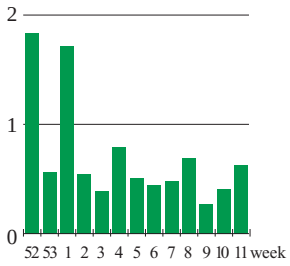
Quotations,

EUR



Number of shares traded

million



On the listing day of the share about 10 million shares were traded.

State ownership

Following the transfer of shares in Neste Oyj and Imatran Voima Oy to Fortum Corporation, the Finnish State owned 97.5% of Fortum Corporation at the end of June. As a result of the sale of shares and the initial public offering, carried out in November–December, the ownership of the Finnish State decreased and was, at the end of 1998, 75.46% of the shares and voting rights. The Finnish Parliament has authorised the Council of State to reduce the Finnish State's holding in Fortum Corporation to no less than 50.1% of the share capital and voting rights.

Management holdings

The members of the Supervisory Board of Fortum Corporation own 2,283 shares or 0.00% of the shares and voting rights of the company. The members of the Board of Directors own 225,266 shares or 0.03% of the shares and voting rights.

The Board of Directors of Fortum Corporation has decided to use its authorisation as explained below to issue a bond loan with warrants and to launch a stock option scheme in spring 1999. Fortum Corporation has not issued any other bonds or bond loans with warrants that would entitle the holders to Fortum shares.

Authorisation for the issue of a bond loan with warrants and for the launch of a stock option scheme

An extraordinary general meeting of 8 September 1998 agreed to authorise the Board of Directors to issue a bond loan with warrants to the employees by 8 September 1999. As part of the loan, the company may issue a maximum of 7,500,000 new shares. The share increase represents 1.0% of the company's share capital.

An extraordinary general meeting of 17 November 1998 authorised the Board of Directors to issue a maximum of 15,000 stock options to a maximum of 150 key members of its employees by the annual general meeting of 1999 or by 17 November 1999 at the latest. The stock options entitle the holders to subscribe for a total of 15,000,000 new shares, which corresponds to 1.9% of the company's share capital.

On 18 February 1999, the Board of Directors agreed on the preliminary conditions for a bond loan with warrants to the employees and on a stock option scheme to the management. The bond loan with warrants will be issued in April 1999. The subscription period of the stock option scheme is 1 March–15 March 1999.

Quotation of shares

The quotation of Fortum Corporation's share in the main list of the Helsinki Exchanges began on 18 December 1998.

Quotation and trading of shares

The highest quotation of Fortum Corporation's share on the Helsinki Exchanges in 1998 was FIM 36.00, the lowest FIM 28.90, and the middle-market quotation FIM 33.63. The average quotation on the last trading day of the year was FIM 29.92 and the closing quotation FIM 30.98.

A total of 17.6 million shares for a total value of FIM 593 million was traded during 1998. Fortum's market capitalisation, calculated using the average quotation of the last trading day, was FIM 23,477 million.

Proposal for the distribution of retained earnings

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

The Board of Directors proposes that Fortum Corporation should 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 the distributable equity will be carried over to retained earnings.

Helsinki, 8 March 1999

Matti Vuoria

Krister Ahlström

Jaakko Ihamuotila

L.J. Jouhki

Heikki Pentti

Gerhard Wendt

Heikki Marttinen
President and CEO

Auditors' report

To the shareholders of Fortum Corporation

We have audited the accounting, the financial statements and the corporate governance of Fortum Corporation for the financial period ended 31 December 1998. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President and CEO. Based on our audit we express an opinion on these financial statements and corporate governance.

We have conducted the audit in accordance with Finnish Standards of Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosure in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statements presentation. The purpose of our audit of corporate governance is to examine that the members of the Supervisory Board and the Board of Directors and the President and CEO have legally complied with the rules of the Companies´Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give true and fair view, as defined in the Accounting Act, of both the consolidated and parent company´s results of operations as well as of the financial position. The financial statements can be adopted and the members of the Supervisory Board and the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors concerning the distribution of retained earnings is in compliance with the Companies´Act.

We have reviewed the interim reports published during the financial period. The interim reports have been prepared in accordance with applicable regulations.

Helsinki, 8 March 1999

SVH Pricewaterhouse Coopers Oy	Arthur Andersen Oy
Authorised public accountants	Authorised public accountants
Pekka Kaasalainen	Hannu Vänskä
Authorised Public Accountant	Authorised Public Accountant

Statement by the Supervisory Board

Fortum Corporation's Supervisory Board today reviewed the company's financial statements for 1998, which include the income statement, the balance sheet, notes to the financial statements, the consolidated financial statements, the report on activities, and the Board of Directors' proposal contained in the latter for the disposal of retained earnings, and the auditors' report provided by the company's auditors. The Supervisory Board proposes to the annual general meeting that the financial statements be approved and that the profits from previous years be disposed of in accordance with the Board of Directors' proposal.

The Supervisory Board is satisfied that its decisions and instructions have been followed, and that it has received adequate information from the Board of Directors and the Company's management.

Helsinki, 9 March 1999

	Ilkka-Christian Björklund	
Pirkko Alitalo	Kaarina Dromberg	Ulrika Gyllenberg
Satu Hassi	Tuulikki Hämäläinen	Tytti Isohookana-Asunmaa
Heikki Järvenpää	Timo Järvilahti	Timo Laaksonen
Jouko K. Leskinen	Leena Luhtanen	Erkki Tuomioja
Pekka Tuomisto	Taisto Turunen	Matti Vanhanen

Organisation

Fortum´s directors from left to right: Jaakko Ihamuotila, Heikki Pentti, Krister Ahlström (Deputy Chairman), Matti Vuoria (Chairman), Gerhard Wendt and Heikki Marttinen. L.J. Jouhki is not in the picture.

Board of Directors

The Board of Directors is responsible for managing the company. It conceives, and oversees the implementation of, the company's central strategic and operational guidelines, approves its organisational structure and nominates the members of the Corporate Executive Committee. The Board must comprise between five and seven directors, each of whom is elected by the Supervisory Board for a four-year term. The Board of Directors has appointed a compensation committee, comprised of the non-executive directors, which sets the compensation of the directors and the Group´s senior management.

Matti Vuoria, born 1951, Master of Laws, Executive Chairman.
The Chairman, and the President and CEO together outline the Group's strategy, the development of its structure, and cooperation projects. The Chairman is responsible for developing the Group's shareholder value, the company's investor relations, and contacts with the authorities and cooperation partners. Mr Vuoria was formerly Secretary General of the Ministry of Trade and Industry and Chairman of Finnish Power Grid Plc.

Krister Ahlström, born 1940, MSc (Eng), Deputy Chairman.
Mr Ahlström is a director of a number of companies, including A. Ahlström Corporation, ABB Oy, Oy Aga Ab, and Stora Enso Oyj. He is also Chairman of the Supervisory Board of Varma-Sampo Mutual Pension Insurance Company and a member of the Supervisory Board of Merita Bank Plc.

Jaakko Ihamuotila, born 1939, MSc (Eng), Executive Director.
Mr Ihamuotila is responsible for Group-level contacts with the European Union, issues relating to the Northern dimension, and relations with Russia. Formerly Chairman and Chief Executive Officer of Neste, he is Chairman of Asko Oyj and Neptun Maritime Oyj and a director of a number of companies, including Pohjola Group Insurance Corporation and Finnair Oyj. Mr Ihamuotila is also a member of the Supervisory Board of Merita Bank Plc.

L.J. Jouhki, born 1944, MSc (Econ), Non-Executive Director.
Mr Jouhki is Chairman of Thominvest Oy and was formerly a director of Neste. He is Chairman of Finnlines plc and a director of a number of companies, including Oyj Hartwall Abp, Sanoma Corporation and UPM-Kymmene Corporation. He is also a member of the Supervisory Board of Merita Bank Plc.

Heikki Marttinen, born 1946, MSc (Econ), President and Chief Executive Officer of Fortum Corporation.
As President and CEO, Mr Marttinen is responsible for the Group's operative and strategic management including the control of the Group's subsidiaries. He is Chairman of Fortum Oil and Gas Oy, Fortum Power and Heat Oy, Fortum Service Oy, Fortum Engineering Ltd and Neste Chemicals Oy, and was formerly Chief Executive Officer of IVO. He is a member of the Supervisory Boards of a number of companies, including Varma-Sampo Mutual Pension Insurance Company, Huhtamäki Oyj and Merita Bank Plc.

Heikki Pentti, born 1946, BSc (Econ), Non-Executive Director.
Mr Pentti is Chairman of Lemminkäinen Oyj. He is a member of the Supervisory Boards of Oyj Talentum Abp and Merita Bank Plc and a member of the Supervisory Board and a director of a number of companies, including Myllykoski Corporation.

Gerhard Wendt, born 1934, PhD, Non-Executive Director.
Mr Wendt is Chairman of Instrumentarium Corporation and Outokumpu Oyj and was formerly a director of IVO. He is a director of a number of companies, including Kone Corporation, A. Ahlström Corporation, Assa-Abloy AB and Vaisala Corporation.

Veli-Matti Ropponen

Kalervo Nurmimäki

Pekka Päätiläinen

Anders Palmgren

Georges Marzloff

Heads of divisions

Oil and Gas

Veli-Matti Ropponen, born 1949, MSc (Eng), MSc (Econ)

Power and Heat

Kalervo Nurmimäki, born 1937, MSc (Eng). His term of office as head of the Power and Heat Division runs until 31 December 1999 and he will retire on 30 April 2000.
Tapio Kuula, born 1957, MSc (Eng), MSc (Econ), has been appointed head of the Power and Heat Division starting on 1 January 2000.

Operation and Maintenance

Pekka Päätiläinen, born 1948, MSc (Eng)

Engineering

Anders Palmgren, born 1940, DTech.

Chemicals

Georges Marzloff, born 1944, MBA

Corporate Executive Committee

The Corporate Executive Committee assists the President and Chief Executive Officer in managing and coordinating the company's strategic and operational goals.

Heikki Marttinen (Chairman)
Eero Aittola, Corporate Executive Vice President, Chief Financial Officer (Deputy Chairman)
Kari Huopalahti, Corporate Executive Vice President, International Business Development
Tapio Kuula, Executive Vice President, Distribution, Power and Heat
Pekka Leskelä, Corporate Executive Vice President, Corporate Planning
Kalervo Nurmimäki, Corporate Executive Vice President, Power and Heat
Niilo Oksa, Corporate Executive Vice President, Human Resources
Anders Palmgren, Corporate Executive Vice President, Engineering
Harri Pynnä, Corporate Executive Vice President, Legal Affairs
Pekka Päätiläinen, Corporate Executive Vice President, Operation and Maintenance
Veli-Matti Ropponen, Corporate Executive Vice President, Oil and Gas
Antti Ruuskanen, Corporate Executive Vice President, Communications
Jukka Viinanen, President and Chief Executive Officer, Fortum Oil and Gas Oy

Matti Vuoria, Chairman of Fortum, also participates in the work of the Corporate Executive Committee.

Supervisory Board

The Supervisory Board must comprise at least ten and not more than 20 members, each of whom is elected for a one-year term by shareholders at the annual general meeting. In addition, there are currently four representatives of personnel groups who, while not members of the Board, have the right to attend its meetings. The Supervisory Board is responsible for the supervision of the company's management, and for ensuring that the company's affairs are carried out in accordance with sound business principles and in compliance with its Articles of Association. In addition, it determines the number of directors of the company. It elects the Chairman, Deputy Chairman and the other members of the Board, and, on the proposal of the Board of Directors, nominates the company's President and Chief Executive Officer. The term of the current members will expire during 1999.

Ilkka-Christian Björklund, born 1947, Special Adviser to the Ministry of Trade and Industry, Chairman
Kimmo Sasi, born 1952, Member of Parliament, Deputy Chairman*
Pirkko Alitalo, born 1949, Vice President, Pohjola Group Insurance Corporation
Kaarina Dromberg, born 1942, Member of Parliament
Ulrika Gyllenberg, born 1942, Special Researcher, VTT Technical Research Centre of Finland
Satu Hassi, born 1951, Member of Parliament
Tuulikki Hämäläinen, born 1940, Member of Parliament
Tytti Isohookana-Asunmaa, born 1947, Member of Parliament
Heikki Järvenpää, born 1948, Member of Parliament
Timo Järvilahti, born 1943, Member of Parliament
Timo Laaksonen, born 1945, Member of Parliament
Jouko K. Leskinen, born 1943, President and Chief Executive Officer, Sampo Group Ltd.
Leena Luhtanen, born 1941, Member of Parliament
Erkki Tuomioja, born 1946, Member of Parliament
Pekka Tuomisto, born 1940, Director General of Social Insurance Institution
Taisto Turunen, born 1945, Director General, Energy Department, Ministry of Trade and Industry
Matti Vanhanen, born 1955, Member of Parliament

* Kimmo Sasi resigned from the Supervisory Board on 18 January 1999

Employee representatives

Satu Laiterä, managers and professionals
Tapio Lamminen, workers
Pentti Paajanen, workers
Esa Paunonen, technical professionals

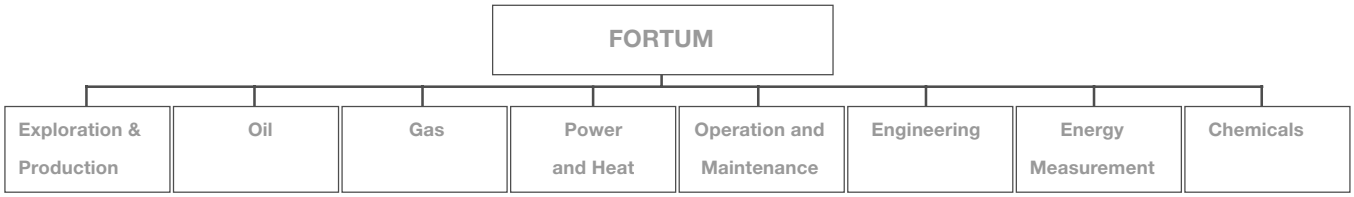
Auditors

SVH Pricewaterhouse Coopers Oy,
Authorised public accountants
Pekka Kaasalainen,
Chief Auditor, MSc (Econ), Authorised Public Accountant

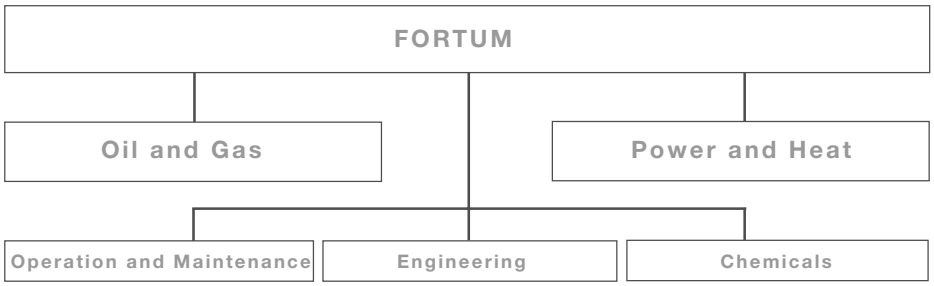
Arthur Andersen Oy,
Authorised public accountants
Hannu Vänskä,
Chief Auditor, BSc (Econ), Authorised Public Accountant

Divisional structure

In 1998, Fortum's organisational structure comprised eight business divisions which corresponded to IVO's and Neste's main business operations.



Our new organisational structure came into operation on 1 January 1999



Oil and Gas

This division covers oil and gas exploration and production, oil refining and marketing, and businesses related to natural gas and liquefied petroleum gas (LPG). Fortum owns two oil refineries. It supplies, wholesales and retails, markets and distributes oil and petroleum products, and has logistics operations. The gas-related businesses include transmission, and the sale and distribution of natural and liquefied petroleum gas.

Power and Heat

The division generates, sells, transmits and distributes power and heat. Fortum owns and administers hydro-electric, nuclear and other condensing power plants, and process steam and district heating plants. It also has holdings in power plants owned and operated by other organisations and owns regional and local transmission networks. In addition, Fortum offers electricity marketing services to other power companies. Fortum Advanced Energy Systems (former NAPS) develops and commercialises systems based on renewable energy sources.

Operation and Maintenance

Fortum operates and maintains the majority of its power and heating plants in Finland, as well as a number of plants outside Finland in which it has or has previously had a holding. It also offers operating and maintenance contracts to owners of other power and heating plants. Furthermore, it offers a range of maintenance and service contracts to industrial and power plants.

Engineering

Engineering operations cover the design and construction of power plants, power transmission systems, oil refineries, chemical plants, and natural gas pipelines; project management, design and consulting services; and technical support and development services for existing plants.

Chemicals

The Chemicals Division develops, produces and markets chemicals and polymers mainly for industrial use. The principal products are adhesive resins, which are mainly used in plywood by the mechanical wood industry, oxo products for the paint, coatings and plastics industries, unsaturated polyester resins and gelcoats, which are used in reinforced plastics and coating applications, and chemicals for the paper industry.

Other operations

The Energy Measurement business develops, manufactures and markets meters, terminal units, and metering and control systems for electricity and energy measurement operations.

Addresses

Fortum Corporation
P.O. Box 1
FIN-00048 FORTUM
tel. int. +358 9 618 580
telefax +358 9 6185 8200
www. fortum.com

Oil and Gas
Fortum Oil and Gas Oy
P.O. Box 100
FIN-00048 FORTUM
tel. int. +358 204 501
telefax +358 204 50 4447

Power and Heat
Fortum Power and Heat Oy
P.O. Box 40
FIN-00048 FORTUM
tel. int. +358 9 85 611
telefax +358 9 566 6235

Operation and Maintenance
Fortum Service Oy
P.O. Box 10
FIN-00048 FORTUM
tel. int. +358 9 85 611
telefax +358 9 566 6235

Engineering
Fortum Engineering Ltd
P.O. Box 10
FIN-00048 FORTUM
tel. int. +358 9 85 611
telefax +358 9 566 6235

Chemicals
Neste Chemicals Oy
P.O. Box 20
FIN-02151 Espoo
tel. int. +358 204 501
telefax +358 204 50 4985

Snellmaninkatu 13, FIN-00170, Helsinki, Finland

www.fortum.com