



Annual report 1999

Cover photo:
Production manager Jarmo Aho,
compression manager Ari
Suomilammi and shift engineer
Juha Raippo at the new natural
gas control centre. There were no
Y2K issues.

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Gasum in brief

Gasum Oy is a company engaged in the natural gas business in Finland.

Natural gas was first used in Finland in 1974. The natural gas consumed in Finland is imported from the gas fields of Western Siberia and is supplied by Russian gas conglomerate OAO Gazprom and its subsidiaries. To date more than 50 billion cubic metres of natural gas have been imported into Finland. Natural gas meets 11 per cent of Finland's primary energy needs.

Gasum is responsible for importing natural gas, operating, maintaining and extending the transmission pipeline, marketing and selling natural gas to large users and local distribution companies.

Gasum supplies liquefied natural gas (LNG) for research purposes and test runs of natural gas driven engines. The company supplies compressed natural gas (CNG) for use as a traffic fuel.

At the end of 1999, Gasum owned 919 kilometres of natural gas transmission pipeline and had 186 delivery points.

Sales of natural gas in 1999 totalled 38.9 TWh, equivalent to around 3.9 billion cubic metres.

Gasum Oy had 141 permanent employees at the end of 1999. 31 persons were employed by subsidiaries.

Operating facilities:

Imatra:	natural gas reception station and 4 compressor units
Valkeala:	natural gas centre and 3 compressor units
Mäntsälä:	2 compressor units
Hyvinkää:	maintenance centre
Tampere:	maintenance centre
Espoo:	head office

Local distribution companies Helsinki Kaasu Oy and Kotkan Kaasuenergia Oy are part of the Gasum Group.

Formulae for the key financial indicators

$$\text{Operating profit (\%)} = \frac{\text{Operating profit}}{\text{Net sales}} \times 100$$

$$\text{Return on capital employed (\%)} = \frac{\text{Profit before extraordinary items} + \text{interest and other financial expenses}}{\text{Capital employed average}} \times 100$$

$$\text{Equity-to-assets ratio (\%)} = \frac{\text{Shareholders' equity} + \text{minority interests}}{\text{Total assets} - \text{advances received}} \times 100$$

$$\text{Gearing (\%)} = \frac{\text{Interest-bearing net debt}}{\text{Shareholders' equity} + \text{minority interests}} \times 100$$

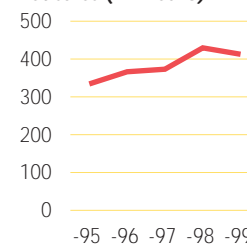
$$\text{Capital employed} = \text{Total assets} - \text{interest-free liabilities} - \text{deferred tax liabilities} - \text{provisions for liabilities and charges}$$

$$\text{Interest-bearing net debt} = \text{Interest-bearing debt} - \text{cash and marketable securities}$$

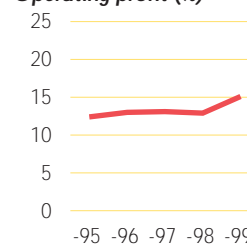
$$\text{Cash and marketable securities} = \text{Cash and cash equivalents} + \text{marketable securities}$$

The key financial indicators Gasum Group

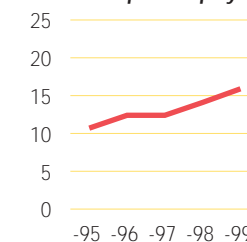
Net sales (mill. euro)



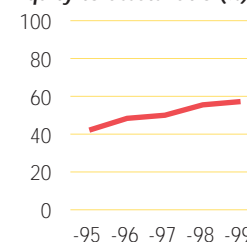
Operating profit (%)



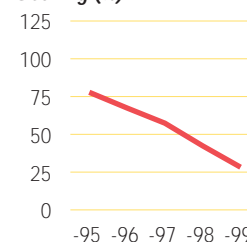
Return on capital employed (%)



Equity-to-assets ratio (%)



Gearing (%)



Gasum became an independent company committed to developing the Finnish gas market

Spring 1999 saw a fundamental change take place in Gasum Oy's ownership structure. The company now operates independently and is no longer a subsidiary of Fortum Oil and Gas Oy. Gasum's new strong, broad ownership base will enable it to develop the natural gas business and grid in response to the requirements of its Finnish customers.

Sales of natural gas rose slightly over the year to reach 38.9 TWh or 3.9 billion cubic metres. Natural gas is the prime source of district heating in Finland and the most significant imported fuel for industry.

Improved performance

Gasum's turnover was 402.6 million euros, of which the natural gas business accounted for 99.5 per cent. The trend in the prices of various fuels was favourable in respect of index-linking in the company's purchase and sales contracts and increased the company's gross margin. Cash flow from operating activities developed encouragingly and the company's equity ratio rose to 58.3 per cent. This provides a sound platform for investments in extending the natural gas grid. In light of trends in oil and coal prices, the operative result for the year 2000 will not reach that of the year under review.

Potential major increase in use of natural gas

The long-term outlook is promising for the use of natural gas. Electricity consumption continues rising. Municipal and industrial combined heat and power (CHP) plant projects can increase use of natural gas within the existing catchment area. We are convinced that when any decisions are made in respect of new CHP production capacity, natural gas will be a viable option compared to rival fuels. Consumption of natural gas can reach six billion cubic metres by 2010. An extension of the natural gas grid to the west of Finland is also possible by 2005.

There have been no problems in natural gas supplies to Finland. On the technical side, the security of natural gas supplies to Finland will be further improved with the completion in the early summer of 2000 of a parallel pipeline in the Karelian Isthmus in Russia. Lentransgaz's new compressor station at Severnaja began operation earlier. Security of supply reasons pose no barriers to increasing the use of natural gas. In spring 1999, the Finnish Ministry of Trade and Industry carried out a study from the aspect of security of supply to ascertain the upper limit for the use of natural gas when the supply of gas is dependent on one channel. The study showed that the existing emergency supplies system is adequate to enable power and heat production to continue operating in the event of the supply of both natural gas and electricity imported from Russia being disrupted at the same time.

Development of the natural gas market in Finland depends essentially on how and when our natural gas grid can be linked to that of other EU Member States. The next few years will shed further light on the feasibility of the various options open in this respect.

We're creating the conditions for a secondary market

In consequence of the EU's Natural Gas Directive, Finland will ratify a new Natural Gas Market Act and the related decrees and official guidelines during the year 2000. Thanks to the exemption granted to Finland by the Directive, the present operations model in the natural gas domestic wholesale market will remain unchanged for as long as there is only one principal gas supplier and the Finnish grid is not connected to that of other EU Member States.

The new Act will open the so-called secondary market to competition. End users will be able to trade between themselves the natural gas they have bought from the importer for their own use but which, for one reason or another, they do not use themselves. This will pave the way for greater flexibility to optimise customers' use of natural gas.

Gasum is making preparations in compliance with the Act to provide new transmission grid services in 2001. The creation of a secondary market will have an impact on the natural gas tariff system and structure. New tariffs for grid services will be published by early September 2000. Sales tariffs applying to the wholesale of natural gas will also be confirmed at the same time. In compliance with the Act, Gasum will begin to separate its natural gas and grid activities in its accounts from 2001.

Gasum serves Finnish natural gas users

Gasum furthers peoples' well-being by supplying natural gas and related services to its customers. The company is committed to being the leading developer of the Finnish natural gas market and number one gas supplier in Finland.

I would like to take this opportunity to thank our employees and partners for their invaluable part in Gasum's achievements over the past year.

Espoo, 18 February 2000



Antero Jännes
Chief Executive Officer



Board of Directors' report for 1999

During the year under review, we achieved many milestones in the natural gas business. The use of natural gas in Finland began 25 years ago, Gasum Oy celebrated its 5th anniversary, and total natural gas imports from Russia exceeded 50 billion m³.

Changes in ownership structure

1999 marked the 6th year of business for Gasum Oy. The company was founded on 2 June 1994 by the Finnish oil company Neste Oy (75% holding) and the Russian natural gas company OAO Gazprom (25% holding) to continue the natural gas business in Finland, which had been started by Neste Oy. Since the beginning of 1998, Neste Oy's operations have been continued by Fortum Oil and Gas Oy.

In spring 1999, Fortum Oil and Gas sold a part of its Gasum holding. As a result, at the end of 1999, Gasum's owners were:

Fortum Oil and Gas Oy	25%	Metsä-Serla Corp.	2%
OAO Gazprom	25%	Stora Enso Oyj	2%
Finnish state	24%	UPM-Kymmene Corp.	2%
Ruhrgas Energie Beteiligungs- Aktiengesellschaft	20%	In addition, the Finnish state owned one K-Share.	

Natural gas sales

Despite exceptionally mild weather conditions at the end of the year, combined with the exceptionally low price of electricity throughout the year, Finland's natural gas consumption increased in 1999. All in all, natural gas sales totalled 3.9 billion m³ (38.9 TWh).

Investments

The most important investment projects completed during the year were the construction of a parallel pipeline from the Imatra reception station to the Finnish-Russian border and work on upgrading the natural gas grid control system in Finland. In connection with the latter, a new control building was built at the Valkeala natural gas centre. Furthermore, during summer 2000, a new pipeline will be connected to a parallel pipeline, which is currently under construction in Russia. To meet the obligations of new delivery agreements, new pressure reduction stations were built in Hamina, Kaipiainen and Siuntio.

During 1999, some important investment projects were launched: a parallel pipeline in Kotka, south-eastern Finland, a parallel pipeline from Lappeenranta to Luumäki, also in south-eastern Finland, and a natural gas pipeline from Lempäälä to Nokia, central Finland.

Total investment in 1999 amounted to EUR 14.9 million.

"Y2K" had no impact on natural gas deliveries

Gasum began its Y2K programme in 1997 to minimise risks relating to the transition into the new millennium. The programme was implemented together with the Russian natural gas supplier, equipment manufacturers and our owner, Fortum. The necessary remedial work was completed well before the turn of the year, as a result of which there were no disruptions in natural gas deliveries during the rollover into the new millennium.

Environment, health and safety

There were neither damages to the transmission pipeline network nor any uncontrolled gas leaks. We succeeded in significantly reducing methane emissions resulting from the use of the transmission pipeline and in reducing the use of chemicals needed in the drying of gas. There were two lost time accidents.

For more information on Gasum Oy's environmental targets and programme, please refer to our separate environmental report.

Employees

Gasum Oy had an average of 151 employees in 1999, which was the same as last year.

Subsidiaries

Gasum Oy owns the entire share capital of Helsinkikaasu Oy and 95% of Kotkan Kaasuenergia Oy.



Supervisory Board, and Board of Directors

Gasum Oy's annual general meeting was held on 23 March 1999, and an extraordinary general meeting on 12 June 1999. The Supervisory Board met four times during the review period. The Board of Directors convened 11 times.

Members of Gasum's Board of Directors: Birger Sandström, Juha Vainikka, Björn Ahlnäs, Antero Jännes and Vladimir Hramoff.

Net sales and results

Gasum Oy's net sales for 1999 totalled EUR 402.6 million, down 4% on 1998. Net financing expenses were EUR 6.4 million and depreciations EUR 17.0 million. Profit before extraordinary items, appropriations and taxes was EUR 54.5 million. Net profit for the period was EUR 18.1 million. Balance sheet bottom line was EUR 485.3 million. Return on capital employed was 16%, and equity-to-assets ratio rose to 58.3%. Net debt totalled EUR 75.1 million. The fall in net sales was principally attributed to the price development of coal and oil during the first half of 1999. Our operating results for 1999 were improved by differences in the calculation periods of indexes used in determining the sales and purchase prices of natural gas, on the one hand, and by moderate increases in fixed costs, on the other. As far as fuel factors are concerned, the result is expected to even out in the coming year.

Prospects for the future

Consumption of electricity is estimated to continue to grow by approximately 2% a year. For the time being, the pan-Nordic electricity market is characterised by over-capacity in electricity generation. Customers have postponed new power plant projects and plant upgrades. Natural gas is a competitive fuel alternative especially in industrial and municipal energy projects where combined heat and power generation is considered. In these applications, the benefits of natural gas are indeed the most apparent. Besides the requirement to generate heat, the realisation of these projects depends on the price and availability of electricity. The use of natural gas is expected to continue to grow.

In summer 2000, the parallel pipeline constructed by Lentransgaz on the Karelian Isthmus will be connected to the Finnish natural gas grid. This will benefit the increasing use of natural gas in Finland as gas deliveries will then be assured by at least two pipelines all the way from the Siberian gas fields. Gasum has started an investigation into extending the natural gas network to the Turku region in southwestern Finland.

In accordance with the natural gas market act, which is currently being drafted, we have started preparations in respect of the secondary market trading of natural gas.

Proposal for the distribution of profit

Gasum Oy's profit for the financial year amounted to EUR 18,074,607.67. The Board of Directors propose that Gasum pay a 1999 dividend of 10% on the share capital, equivalent to EUR 17,827,920.54, and that the remaining EUR 246,687.13 be retained.

Income statement

1 Jan. - 31 Dec. 1999

EUR million		GROUP		PARENT COMPANY	
		1999	1998	1999	1998
Net sales	(1)	407	423	403	420
Materials and services					
Materials, supplies and goods					
Purchases during the period		-310	-334	-308	-334
Employee costs	(2)				
Wages and salaries		6	6	6	5
Social security costs					
Pension costs		1	1	1	1
Other social security costs		1	1	1	1
		-8	-8	-8	-7
Depreciation and write-offs					
Depreciation according to plan		-18	-17	-17	-16
Other operating expenses		-10	-9	-9	-9
Operating profit		61	55	61	54
Financial income and expenses					
Other interest and financial income					
From others		1	1	1	1
Interest and other financial expenses					
To others		-7	-10	-7	-9
		-6	-9	-6	-8
Profit before extraordinary items		55	46	55	46
Profit before appropriations and taxes		55	46	55	46
Appropriations					
Change in depreciation above plan		0	0	-30	-26
Income taxes	(4)	-16	-13	-7	-5
Net profit for the period		39	33	18	15

Cash flow statement

1 Jan. - 31 Dec. 1999

EUR million	GROUP		PARENT COMPANY	
	1999	1998	1999	1998
Operating activities				
Cash flow from operating activities				
Operating profit	61	55	61	54
Depreciations	18	17	17	16
Operating profit before changes in working capital	79	72	78	70
Change in working capital				
Increase (-), decrease (+)				
in short-term receivables	-9	23	-9	24
Increase (+), decrease (-)				
in current interest-free liabilities	9	1	8	0
	0	24	-1	24
Funds generated from activities	79	96	77	94
Interest paid	-8	-11	-7	-11
Income taxes paid	-6	-6	-6	-6
Net cash from operating activities	65	79	64	77
Capital expenditure				
Increase in fixed assets	-16	-15	-15	-13
Proceeds from sales of fixed assets	1	1	1	1
Cash flow from capital expenditure	-15	-14	-14	-12
Cash flow before financing activities	50	65	50	65
Financing				
Payment of long-term liabilities	-25	-67	-25	-67
Increase in long-term liabilities	0	29	0	29
Increase (-), decrease (+)				
in interest-bearing receivables	0	0	0	0
Dividends paid	-14	-14	-14	-14
Cash flow from financing	-39	-52	-39	-52
Net increase (+), decrease (-) in cash and marketable securities	11	13	11	13
Liquid assets at 1 Jan.	15	2	15	2
Liquid assets at 31 Dec.	26	15	26	15
Net increase (+), decrease (-) in cash and marketable securities	11	13	11	13

Balance sheet

31 Dec. 1999

EUR million	GROUP		PARENT COMPANY	
	1999	1998	1999	1998
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	(5)			
Other long-term expenditure	3	2	3	2
Goodwill on consolidation	4	4	-	-
	7	6	3	2
Tangible assets	(5)			
Land and water	2	2	2	2
Buildings and structures	348	357	337	346
Machinery and equipment	35	35	34	35
Other tangible assets	3	3	3	3
Construction in progress	12	6	12	6
	400	403	388	392
Investments	(5)			
Shares in Group companies	0	0	6	6
Loan receivables from Group companies	0	0	3	3
Other shares and holdings	1	1	1	1
	1	1	10	10
CURRENT ASSETS				
Stocks	(6)			
	6	6	5	5
Receivables				
Long-term receivables				
Other receivables	1	1	1	1
	1	1	1	1
Current receivables	(7)			
Trade receivables	52	43	51	42
Receivables from Group companies	0	0	1	0
Other receivables	1	1	0	1
	53	44	52	43
Cash and cash equivalents				
	26	15	26	15
	494	476	485	468

EUR million	GROUP		PARENT COMPANY	
	1999	1998	1999	1998
LIABILITIES				
SHAREHOLDERS' EQUITY (8)				
Share capital	178	178	178	178
Retained earnings	70	51	1	0
Net profit for the period	39	33	18	15
	287	262	197	193
MINORITY INTERESTS				
	0	0	0	0
ACCUMULATED APPROPRIATIONS				
Accumulated depreciation above the plan (9)	0	0	119	90
DEFERRED TAX LIABILITIES (10)				
	36	27	0	0
CREDITORS				
Long-term creditors				
Loans from financial institutions	17	35	16	35
Other long-term payables	59	65	59	65
	76	100	75	100
Current creditors (11)				
Installments on long-term loans	25	25	25	25
Trade payables	51	43	51	43
Other creditors	12	12	12	11
Accruals and deferred income	7	7	6	6
	95	87	94	85
	494	476	485	468

Notes to the financial statements

ACCOUNTING PRINCIPLES

CONSOLIDATION

Gasum Oy is part of the Gasum Group. The parent company of the Gasum Group is Gasum Oy, which has its registered office in Espoo.

Copies of the consolidated financial statements are available from Gasum Oy's head office at Keilaranta 6 B, 02150 Espoo. The consolidated financial statement includes the parent company Gasum Oy, Helsingin Kaasu Oy and Kotkan Kaasuenergia Oy. Associated undertaking Asunto Oy Espoon Johans (a housing company) has not been consolidated. 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 treated as goodwill, which is depreciated over its estimated lifespan, subject to a maximum of 20 years. Intra-group transactions, balances and profits have been eliminated and minority interests appear as a separate item in the income statement and balance sheet.

FOREIGN CURRENCY ITEMS

Receivables and payables in foreign currency are valued at the middle rate quoted by the European Central Bank at the balance sheet date.

DEPRECIATION

The acquisition cost of fixed assets is booked as straight-line depreciation based on estimated economic life expectancy. The estimated economic life expectancies used are as follows:

	GROUP		PARENT COMPANY	
	1999	1998	1999	1998
Buildings and structures	20-40 years	20-40 years	20-40 years	20-40 years
Other tangible assets	20-40 years	20-40 years	20-40 years	20-40 years
Machinery and equipment	5-15 years	5-15 years	5-15 years	5-15 years
Other long-time expenditure	5-10 years	5-10 years	5-10 years	5-10 years
Intangible rights	5 years	5 years	5 years	5 years
Goodwill on consolidation	20 years	20 years		

STOCKS

Stocks have been valued on the FIFO principle at direct acquisition cost or likely market value, whichever is the lower.

DEFERRED TAX LIABILITIES

The depreciation difference and untaxed reserves in the consolidated accounts have been divided into distributable shareholders' equity and deferred tax liabilities.

EUR million	GROUP		PARENT COMPANY	
	1999	1998	1999	1998
1. NET SALES				
By geographical area				
Finland	407	423	403	420
2. EMPLOYEE COSTS				
Salaries and remunerations				
To Managing Directors and Members of the Board and Supervisory Board	0,4	0,4	0,3	0,3
Average employee numbers in the Group and parent company during the period				
Salaried employees	114	113	99	99
Manual workers	68	67	52	52
Total	182	180	151	151
3. MANAGEMENT PENSION COMMITMENTS				
Senior management within the Gasum Group may take retirement at the age of 60 and receive pension benefits in accordance with the regulations of Neste Pension Foundation.				
4. INCOME TAXES				
Taxes on regular business operations	7	6	7	5
Change in deferred tax liability	9	7	0	0
Total	16	13	7	5
5. NON-CURRENT ASSETS				
Intangible assets				
Intangible rights	0	0	0	0
Other long-term expenditure	3	2	3	2
Goodwill on consolidation	4	4	0	0
Book value of intangible assets, total at 31 Dec.	7	6	3	2
Tangible assets				
Land and water	2	2	2	2
Buildings and structures	348	357	337	346
Machinery and equipment	35	35	34	35
Other tangible assets	3	3	3	3
Advance payments and construction in progress	12	6	12	6
Book value of tangible assets, total at 31 Dec.	400	403	388	392

The acquisition cost of fixed assets includes tangible assets which have yet to be booked in full as planned depreciation.

Investments

Group shares and holdings

Helsinkikaasu Oy, Helsinki
Parent company holding 100%
Kotkan Kaasuenergia Oy, Kotka
Parent company holding 95%

Associated company

Asunto Oy Espoon Johans
Holding 27.43%
Shareholders' equity at 31 December 1998 FIM 8,996,598.13
Loss for the financial year, FIM 2,969.53

EUR million	GROUP		PARENT COMPANY	
	1999	1998	1999	1998
Group companies				
Shares in Group companies	0	0	6	6
Other shares and holdings	1	1	1	1
Receivables from Group companies	0	0	3	3
Book value of investments, total at 31 Dec.	1	1	10	10
NON-CURRENT ASSETS TOTAL	407	409	401	404
6. STOCKS				
Goods	6	6	5	5
Replacement value	11	8	10	7
Book value	6	6	5	5
Difference	5	2	5	2
7. CURRENT RECEIVABLES				
Trade receivables	52	43	51	42
Receivables from Group companies				
Trade receivables	0	0	1	0
Loan receivables	0	0	0	0
Prepayments and accrued income	0	0	0	0
Other receivables	0	0	0	0
Current receivables, total	0	0	1	0
Other receivables	1	1	0	1
Prepayments and accrued income	0	0	0	0
Current receivables, total	53	44	52	43
8. SHAREHOLDERS' EQUITY				
Share capital at 1 Jan.	178	178	178	178
Share capital at 31 Dec.	178	178	178	178
Retained earnings at 1 Jan.	84	65	15	14
Dividend paid	-14	-14	-14	-14
Retained earnings at 31 Dec.	70	51	1	0
Profit for the period	39	33	18	15
Shareholders' equity, total	287	262	197	193
Distributable equity according to statement at 31 Dec.				
Retained earnings	70	51	1	0
Profit for the period	39	33	18	15
Less accumulated depreciation difference in shareholders' equity	-91	-70	0	0
Total	18	14	19	15
The parent company's share capital is distributed as follows:			number of shares	
Series A Shares			53 mill.	53 mill.
Series K Shares			1	1

EUR million	GROUP		PARENT COMPANY	
	1999	1998	1999	1998
9. ACCUMULATED APPROPRIATIONS				
In the parent company, accumulated appropriations consist of the accumulated depreciation difference				
10. DEFERRED TAX LIABILITIES				
Deferred tax liabilities				
Accumulated appropriations	36	27		
12. CURRENT CREDITORS				
Loans from financial institutions	25	25	25	25
Trade payables	51	43	51	43
Payables to Group companies				
Trade payables	0	0	0	0
Accruals and deferred income	0	0	0	0
Other creditors	0	0	0	0
Total	0	0	0	0
Other creditors	12	12	12	11
Accruals and deferred income	7	7	6	6
Current creditors, total	95	87	94	85
Significant items included in accruals and deferred income				
Annual holiday provision and social security costs	1	1	1	1
Unpaid wages and social security costs	1	0	1	0
Interest payable	3	5	3	5
Income taxes	1	0	1	0
13. CONTINGENT LIABILITIES				
Leasing commitments				
Payable during 2000	3	3	3	3
Payable later	31	33	31	33
Total	34	36	34	36

Gasum Oy has, on the expiry of the lease in 2005, the right to redeem leased property for the sum of FIM 143.2 million. Should Gasum not exercise this right, ABB Credit Oy can compel Gasum Oy to find a buyer for the property in question.

Gasum Oy's Board of Directors

Espoo, 18 February 2000

Antero Jännes, Chairman
Juha Vainikka, Vice Chairman

Björn Ahlnäs
Vladimir Hramoff

Birger Sandström

Auditors' report

To the shareholders of Gasum Oy

We have audited the accounting, the financial statements and the corporate governance of Gasum Oy for the period 1 January 1999 to 31 December 1999. 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 CEO. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with the Finnish Standards on 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 disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement 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 CEO have legally complied with the rules of the Companies Act.

In our opinion the financial statements, which show a profit of the consolidated Profit and Loss account 39,337,837.95 Euros and a profit of the parent company 18,074,607.67 Euros, have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Supervisory Board and the Board of Directors and the CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies Act.

Espoo, 16 March 2000

Arthur Andersen Oy
Authorized Public Accounting Firm

Hannu Vänskä
Authorized Public Accountant

Statement by the Supervisory Board

Meeting today, Gasum Oy's Supervisory Board considered the company's financial statements for 1999, which include the consolidated and parent company income statements, balance sheets, the annual report and the Board of Directors' proposal contained in the latter for the disposal of profits, and the auditors' report provided by the Company's auditors. The Supervisory Board has decided to recommend to the annual general meeting that the financial statements be approved and that the profit 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.

Espoo, 31 March 2000

Harri Malmberg
Chairman
Valeri V. Remizov
Vice Chairman

Burckhard Bergmann
Tapio Harra
Juhani Pohjolainen

Veli-Matti Ropponen
Evgenya K. Selihova
Anja Silvennoinen

Gasum Oy's subsidiaries

Helsinkikaasu Oy

The financial year 1999 was Helsinkikaasu Oy's 12th year of trading. The company's operations originate in the town gas works, which began business in 1860. Use of town gas was replaced by natural gas in 1994. Helsinkikaasu is responsible for the local distribution of natural gas in Helsinki.

The company's 1999 turnover was 5.4 million euros, a rise of 18 per cent on the year. The company sold 10.5 million m³ of natural gas, up by 17 per cent on the figure a year earlier. This growth was attributable to new customers, an extremely long, cold winter and the increased use of natural gas as a bus fuel. Helsinkikaasu has 257 kilometres of distribution pipelines and delivered natural gas to 31,000 customers.

Helsinkikaasu spent 0.5 million euros on overhauling the Helsinki gas distribution network and extending the network from Kasarmintori to the Munkkisaari district.

Autumn 1999 saw the building of a 3-km long distribution pipeline to Siuntio, where the first customers were able to heat their homes by natural gas by Christmas. Work on extending the local distribution pipeline in Siuntio will start in spring 2000.

Helsinkikaasu was responsible for welding a 52-km long PE natural gas transmission pipeline built by Haminan Energia Oy from Hamina to Vaalimaa. This project was exceptional even by European standards because of the pipeline's high structural pressure of 8 bars. The project consolidates Helsinkikaasu's position as Finland's leading builder of PE gas pipelines.

Helsinkikaasu had 26 employees at the end of 1999. Managing director of the company is Jarko Alanko.

Kotkan Kaasuenergia Oy

Kotkan Kaasuenergia Oy is a local natural gas distribution and gas appliance sales company. The company began trading in 1987.

The company's 1999 turnover was 2 million euros, of which one fifth was generated by the sale of natural gas appliances. The company sold 8.2 million m³ of natural gas and has 72 kilometres of distribution pipelines.

During the year under review, Kotkan Kaasuenergia Oy had 380 customers, who use natural gas for central heating and various processes in light industry. The company sells valves, filters, regulators, measuring instruments and transformers to industry and other natural gas distribution companies.

An extension of the natural gas distribution pipeline to the Mussalo deep harbour area was completed in February 2000.

Kotkan Kaasuenergia Oy employed 5 persons. Managing director of the company is Pekka Hyvönen.

Natural gas market in Finland

Use of natural gas in Finland was 3.9 billion m³ (38.9 TWh), slightly up on the figure for 1998. Natural gas accounted for 11 per cent of Finland's primary energy needs.

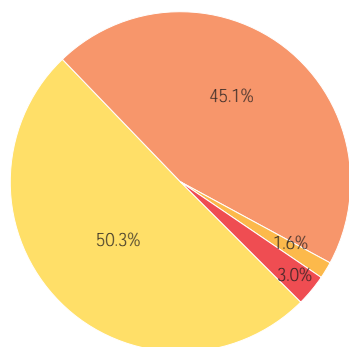
Natural gas is the most significant imported fuel in industry. Gasum's sales to industry remained unchanged.

A warm summer and autumn reduced the need for district heating by some 5 per cent throughout the country. CHP production was 4 per cent below the figure achieved a year earlier. Natural gas accounted for a growing share of district heating production and is now used to generate 36 per cent of combined district heat and power production. Coal accounted for 26 per cent and peat 19 per cent.

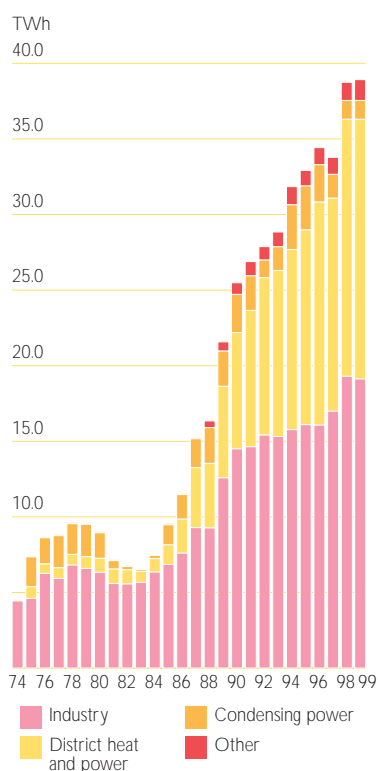
Low market prices for electricity reduced fuel-based power production in Finland. Extremely little condensing power was generated using natural gas.

75 per cent of natural gas was used in CHP in industry and district heating. Natural gas is an efficient fuel, generating a high proportion of electricity. CHP is set to grow further and new gas-driven power plants are scheduled for completion in Tampere and Anjalankoski in autumn 2000. There is still unused back-pressure potential in both industrial and municipal power generation. Trends in the electricity market will have a major impact on any future decisions to build new natural gas -fired power plants.

Local distribution of natural gas was expanded in 1999. HelsinkiKaasu Oy was involved in building both the local distribution pipeline system in Siuntio and a natural gas pipeline in Viroljoki. Discussions are underway in respect of starting up local distribution in other areas.



Natural gas consumption in Finland totalled 38.9 TWh in 1999.



Natural gas consumption in Finland 1974-1999 (TWh).

Natural gas secondary market to open up to competition

Work began on harmonising Finland's national legislation with the EU's Natural Gas Directive. September 1999 saw the Finnish government introduce its natural gas market bill to parliament. When it becomes law, the bill will open the natural gas secondary market up to competition. Users will be able to trade the gas they have bought from Gasum among themselves and buy the network services to do so from Gasum and local distribution companies. Under the bill, transmission and distribution companies must separate their natural gas sales and network business in their accounts. The Natural Gas Market Act is likely to enter into force in August 2000. New natural gas transmission and energy tariffs will be confirmed in the autumn. These will enter into force at the beginning of 2001.

Natural gas as a traffic fuel

At the end of 1999 there were 29 natural gas-driven buses and two lorries operating in Helsinki. These vehicles tanked up at the natural gas filling station completed in 1998 at the Ruskeasuo bus depot in Helsinki. The station is run, serviced and maintained by HelsinkiKaasu Oy. There are likely to be one hundred natural gas-driven buses in Helsinki traffic by 2003. Other towns in Finland are also showing an interest in natural gas-driven buses.

Natural gas at higher pressure

Gasum offers its customers natural gas also at a higher pressure than normal. The maximum permitted service pressure in the transmission pipeline, compressor capacity and pipe dimensioning limit the pressure to which natural gas can be raised.

Liquefied natural gas for research requirements

Oy AGA Ab's liquefaction plant in Porvoo delivered liquefied natural gas (LNG) by road tanker to customers in Finland and Sweden for testing and research requirements. New LNG applications include biogas plants, where natural gas is used as a reserve fuel and to cut requirement peaks.



Natural gas, a source of energy in CHP, is also used as a traffic fuel in Helsinki.



Just before talks begin. Esko Partio, Vice President, Energy Resources, Metsä-Serla, Björn Ahlnäs, Senior Vice President, Marketing, Gasum Oy, Pertti Simola, UPM-Kymmene Energy, Vice President, Timo Koivuniemi, Senior Vice President, Stora Enso and Gasum's sales manager Ossi Savolainen. Metsä-Serla, Stora Enso and UPM-Kymmene are Gasum's large customers and new owners.



The parallel pipeline from the Imatra reception station heading towards the parallel pipeline under construction in the Karelian Isthmus crossed the Finnish-Russian frontier in July, under the watchful eyes of frontier guards.

Natural gas supply

Supplies of natural gas from Russia to Finland are based on long-term contracts concluded with Gazprom. This allows the envisaged increase in the use of natural gas within the existing catchment area, in West Finland and in the generation of condensing power. Solutions are now being sought in gas supply to enable natural gas to retain its competitiveness in all market segments.

In the event of any disruptions to natural gas supplies, Gasum has a propane-air mixing plant for those customers who are unable to replace the use of natural gas with other fuels or production methods. The mixing plant can deliver an air-propane mixture via the natural gas pipeline during prolonged disruptions.

In spring 1999, the Finnish Ministry of Trade and Industry commissioned a study from the aspect of security of supply to ascertain the upper limit for the use of natural gas when the supply of gas is dependant on one channel. The study showed that the existing security of supply system is adequate to enable power and heat production to continue operating in the event of the supply of both natural gas and electricity imported from Russia being disrupted at the same time and that there were no barriers to increasing the use of natural gas in this respect.

Natural gas transmission

Gasum owns 919 kilometres of transmission pipeline with 186 supply points in Finland. A further 80 kilometres of new pipeline are under construction.

New control centre

A new control centre was completed at the Valkeala Natural Gas Centre in July 1999. The new building better protects the functions and equipment needed to monitor and control the transmission pipeline from any interference.

The pipeline control system was commissioned in the autumn and was tailored to monitor the natural gas grid together with the system suppliers and natural gas users.

Maintenance services for outsiders

Gasum's raft of experience of gas equipment maintenance and operation, together with the tools and machinery acquired for maintenance, enables us to maintain outsiders' gas equipment and systems. Gasum's certified quality management system translates into confidence in our maintenance operations: regular inspections carried out by inspection bodies have been able to be replaced by maintenance operations in accordance with Gasum's quality system.



Quality and environmental management

Gasum is systematically committed to the ongoing improvement of quality in the spirit of the Finnish Quality Award it won in 1995. Development work in this respect is based on a certified quality and environmental management system. Gasum's quality management system was re-certified in December 1999.

Our annual self-assessment is carried out using European Quality Award criteria. Self-assessment has already led to the start of work on developing a bonus scheme, strategy adaptation and process improvement. Gasum has already been improving its production processes for several years in a bid to improve its overall view of process links, enhance process flow and to identify process bottlenecks and hold-ups. In 1999, we addressed investments, procurement and maintenance processes.

We have continued our efforts to reduce adverse environmental impacts. Our aim is to reduce the adverse impacts associated with building natural gas pipelines and stations, to minimise methane and NO_x emissions arising from the transmission of natural gas and to promote industrial safety and health.

More detailed information about Gasum's environmental policy and commitments in this respect are given in our separate environmental report, which is now being published for the second time.

Development projects

Natural gas to West Finland

Gasum is currently studying the conditions under which the natural gas grid could be extended to West Finland. Preliminary estimates suggest that energy consumption in the Turku and Naantali area would be sufficient to recoup the capital expenditure required if the most significant customers in the area decided to switch to using natural gas. The aim is to commence use of natural gas in the Turku region by the end of 2005. Gasum's study is also examining the feasibility of extending the natural gas pipeline to Rauma and Pori and assessing the viability of natural gas transmission via Gasum's grid to meet the needs of the Stockholm area. A feasibility study covering marketing, technical solutions and viability will continue until the end of the year 2000.

Fortum's associate, Svensk Naturgas AB is simultaneously studying the potential of natural gas in the Stockholm area, Mälardalen and Bergsdalen.



Completion of the parallel pipeline in the Karelian Isthmus will increase natural gas transmission pipeline capacity.

Natural gas has been used in Finland for 25 years. To mark this milestone, a natural gas seminar was held in autumn 1999. Cristóbal Burgos, Head of the EU's Gas Unit, Jaakko Ihamuotila, Member of the Board, Fortum Corporation, Dr. Burckhard Bergmann, Vice Chairman, Ruhrgas AG and J.A. Komarov, Vice Chairman OAO Gazprom, going to face the press. In summer 1999, Gasum hosted the annual Eurogas conference in Helsinki. Eurogas is the European Union of the natural gas industry.



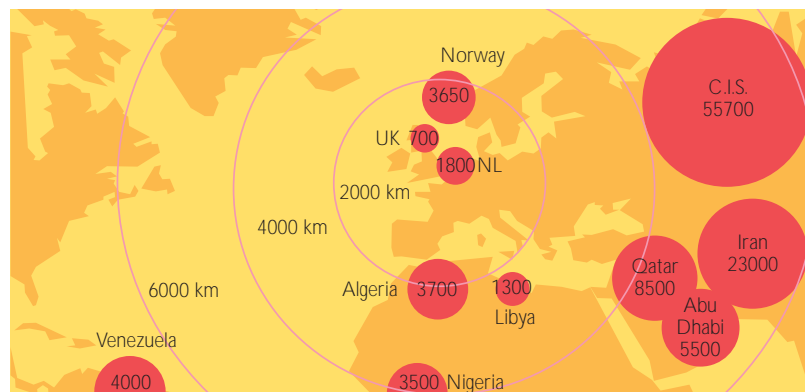
Studies concerning new natural gas supply channels

Finland's natural gas interests were considered during the Finnish EU Presidency in the second half of 1999. The conclusions of energy issues in respect of the Northern Dimension were approved and the Commission was requested to draft an agenda for the Northern Dimension. The conference of Energy Ministers of the Baltic Sea Region approved a communiqué issued by member countries of the Baltic Sea Council and the European Commission on the basic principals to develop the electricity and natural gas markets in the Baltic Sea Region and on the measures to develop cooperation in the fields of climatic policy, energy saving and use of renewable energy. The conference agreed on the organisation of energy cooperation for the years 2000-2002. The Commission was tasked with reporting to the Council on the further development of cooperation in the field of energy in the Baltic Sea Region.

Fortum and Gazprom's joint venture North Transgas Oy is studying the feasibility of various options for a northern pipeline route to export natural gas from Russia to Continental Europe. The first stage of the study was completed during 1999. Based on the findings of the study, North Transgas chose to make an additional study of the submarine pipeline options going under the Baltic Sea.

In 1999, Gasum and thirteen other natural gas companies in the Baltic Sea Region set up the Baltic Gas Association to further the development and integration of the natural gas grid in the region. Working together with a consortium of electricity companies, Baltrel, Baltic Gas is responsible for ascertaining the potential to develop the electricity and natural gas markets in the Baltic Sea Region.

Proven gas reserves (billion m³) close to Europe.



Source: Eurogas/Cedigaz

Employees

The number of our permanent employees rose somewhat during the year largely as a result of changes in Gasum's ownership structure.

The year under review saw the completion of our cooperation training, which began in 1998 and involved practically our entire staff. Appropriately enough, the theme of our annual training day was "Five years of Gasum - what have we learnt and where we are going". Gasum has a performance management scheme in place. An essential part of this scheme is development discussions between managers and their subordinates.

Gasum has run employee attitude surveys throughout the 1990s. Feedback received from these surveys has been used to explore any issues that need attention.

Gasum makes the most of information technology

Our information technology solutions are strongly directed towards web technology based systems. Gasum's extranet customer service system provides an interactive on-line channel for the exchange of information between Gasum and its customers. Such information includes news, natural gas consumption and invoicing data. A decision was made in 1999 to build an intranet. All open Internet home pages have been used earlier.

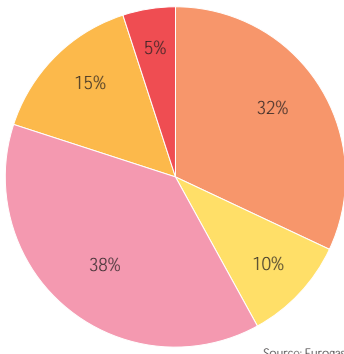
Gasum recently introduced a GID system. This comprises geographic information system (GIS), intranet (I) and a datawarehouse (D). It is an effective in-house tool where access is provided through a map user interface to pipeline, pressure reduction, valve and compressor station control and consumption data as well as to enterprise business intelligence software. The system will be enlarged and diversified in future years.

Smooth transition into the year 2000

1999 was marked by preparations for any Y2K computer problems. Gasum mapped any problem spots and carried out the required modifications in good time. Deliveries of natural gas continued smoothly and without the slightest interruption during the transition into the year 2000 and beyond. The estimated cost of our Y2K exercise, including upgrading natural gas reception and control systems and other software and hardware, was almost 1 million euros.



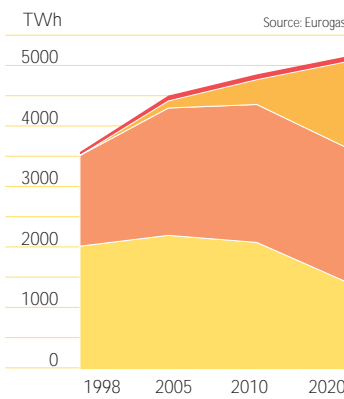
Gasum has developed systems based on web technology for customer service and tools to ensure uninterrupted deliveries of gas. Information resources manager Jussi Hyvärinen and systems expert Tiina Koste's new responsibility is Gasum's intranet.



Source: Eurogas



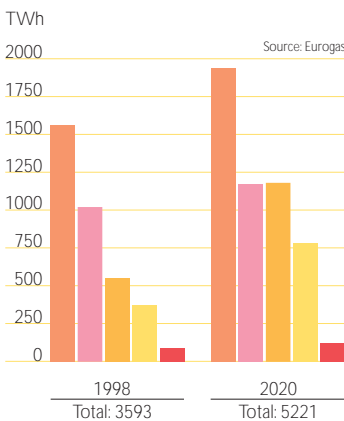
Natural gas sales by sector in EU Member States in 1998.



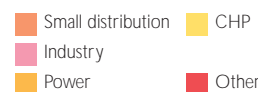
Source: Eurogas



Natural gas supply and demand in EU 1998-2020. The percentage figure reflects EU dependency on imports.



Source: Eurogas



Natural gas demand by sector in the EU.

Western European gas market

Natural gas consumption

Consumption of natural gas continued to grow in Western Europe (EU Member States, Switzerland and Norway) to reach 385 billion m³ in 1999. This represents an increase of 4.7 per cent on the figure for the previous year. Growth is essentially based on the use of natural gas in electricity production. The past five years have seen the consumption of natural gas rise by 30 per cent and the number of natural gas customers grow by 15 per cent. Natural gas is currently delivered to 79 million private consumers or companies in Western Europe.

Around 66 per cent of natural gas came from inside Western Europe, with the UK, the Netherlands and Norway being the largest suppliers. Major outside suppliers were Russia (19% of consumption) and Algeria (14%), with around one per cent coming from other sources.

In EU Member States, natural gas accounted for 22.5 per cent of primary energy consumption in 1998. Consumption of natural gas is expected to witness further dynamic growth, and its share of primary energy consumption is likely to rise to 27 per cent in 2010 and to 28 per cent by 2020.

This dynamic growth in the consumption of natural gas and the downturn in the production of natural gas within EU Member States will increase the area's dependence on imports. Estimates suggest that by 2020 as much as 2/3 of the gas consumed in Europe will need to be imported.

Opening of the natural gas markets

The Natural Gas Directive that entered into force in 1998 paves the way for the birth of a single EU natural gas market. The Directive and national legislation it requires create new conditions for players in the natural gas market. The Directive calls for the market to be gradually opened up starting in the year 2000. In the UK the market has already been opened to competition between gas sellers.

Gasum employee of the year

Gasum employee of the year in 1999 is machine fitter Antero Lähteenaro, who works at the Valkeala Natural Gas Centre. Antero Lähteenaro was voted Gasum employee of the year because he is an active valued employee. He has long served as Gasum's chief shop steward. Antero has brightened up his colleagues' day with his own inimitable personal appearances at joint Gasum events.

An employee of the year has been elected since 1987 and is chosen by previous Gasum employees of the year.

Antero Lähteenaro:

"You should look for the reasons for problems not who's guilty."



Corporate governance and organisation

Supervisory Board

Harri Malmberg (from 12 June 1999)
Chairman
Director General of the Federation of Finnish Metal, Engineering and Electrotechnical Industries

Valeri V. Remizov
Vice Chairman
Deputy Chief Executive, OAO Gazprom

Burckhard Bergmann (from 12 June 1999)
Vice Chairman, Ruhrgas AG

Tapio Harra (from 12 June 1999)
Executive Vice President, Fortum Corporation

Juhani Pohjolainen (from 12 June 1999)
Director (retired), Stora Enso Oyj

Veli-Matti Ropponen (from 24 March 1999)
Corporate Executive Vice President,
Fortum Corporation

Evgenya K. Selihova
Advisor, OAO Gazprom

Anja Silvennoinen (from 12 June 1999)
Industrial Counsellor,
Ministry of Trade and Industry, Energy Department

Jaakko Ihamuotila (until 12 June 1999)
Chairman
Executive Member of the Board of Directors of Fortum Corporation

Jukka Viinanen (until 12 June 1999)
Vice Chairman
President and CEO (retired 1 May, 1999)
Fortum Oil and Gas Oy

Eero Aittola (until 12 June 1999)
Corporate Executive Vice President, CFO,
Fortum Corporation

Pauli Kulvik (until 24 March 1999)
CEO, Tamro Group

Erkki Liimatainen (until 12 June 1999)
Divisional Executive Vice President,
Neste Engineering Oy

Board of Directors

Antero Jännes
Chairman
CEO, Gasum Oy

Juha Vainikka
Vice chairman
Senior Vice President, Transmission, Gasum Oy

Björn Ahlnäs (from 12 June 1999)
Senior Vice President, Marketing, Gasum Oy

Vladimir Hramoff
Senior Vice President, Supply, Gasum Oy

Birger Sandström (until 12 June 1999
and from 1 January 2000)
Senior Vice President, Finance, Gasum Oy

Tapio Harra (until 12 June 1999)
Chairman
Executive Vice President, Fortum Oil and Gas Oy

Bo Lindfors (until 12 June 1999)
Divisional Executive Vice President,
Fortum Oil and Gas Oy

Seppo Viitanen (until 12 June 1999)
Treasurer, Fortum Corporation

Markku Tuomi (until 12 June 1999)
Corporate Vice President, Legal Affairs and
Contracts, Fortum Oil and Gas Oy

Auditors Public accountants Arthur Andersen Oy, with Hannu Vänskä APA as principal auditor

Organisation

CEO: Antero Jännes

Marketing: Björn Ahlnäs

Projects: Kaj Christiansen

Quality and environment: Sonja Héllen-Nieminen

Supply: Vladimir Hramoff

Accounting: Paula Lähde

Human resources: Pekka Mäkitalo

Business planning: Christer Paltschik

Corporate communications: Tuomo Saarni

Development projects: Kari Salminen

Finance: Birger Sandström

Transmission: Juha Vainikka

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Helsinkikaasu Oy

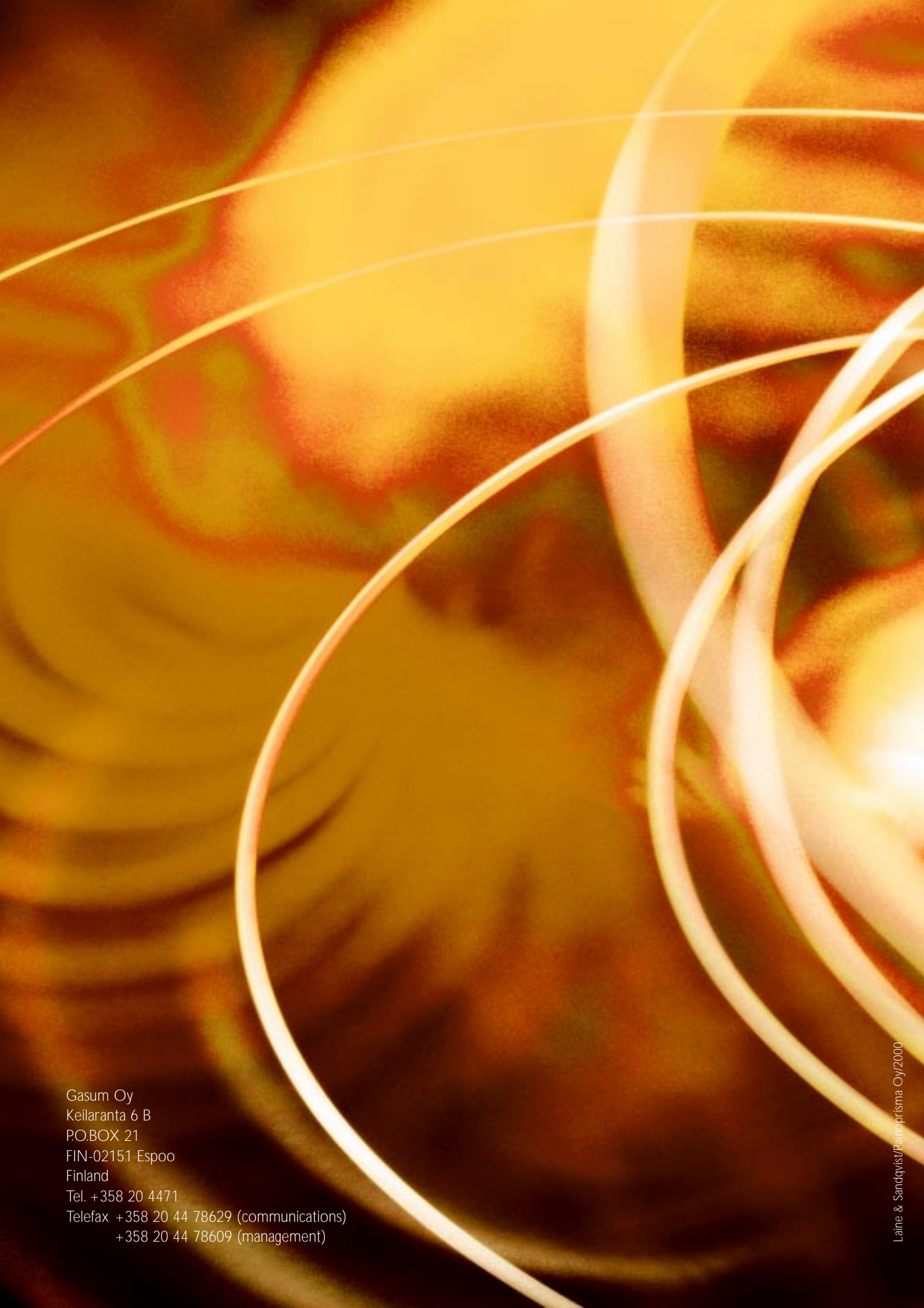
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