Fortum

Annual Report 2003

Contents

2003 Annual Report 2003 Annual Repo

Investor Information

Annual General Meeting

The Annual General Meeting of Fortum Corporation will be held on Thursday, 25 March 2004, at 1.00 pm, at Finlandia Hall, Mannerheimintie 13 e, Helsinki. Registration of shareholders who have notified the Company of their attendance will begin at 12.00 am.

Registrations for the AGM must be received by 4.00 pm, on 17 March 2004. Those wishing to register can do so by telephone on +358 (0) 10 452 9460, by fax on +358 (0) 10 262 2727, by e-mail to fortum.yhtiokokous@yhteyspalvelut.elisa.fi or by mail to Fortum Corporation, Suvi Åkerblom, POB 1, FIN-00048 FORTUM. Written registrations and any powers of attorney should arrive before the end of the registration period.

Payment of dividends

The Board of Directors will propose to the AGM that a dividend of EUR 0.42 per share be paid for the financial period 2003. The record date for dividend payment is 30 March, and the expected dividend payment date is 6 April 2004.

Publication of results

- Interim Report 1 January – 31 March 2004 will be published on 22 April 2004
- Interim Report 1 January – 30 June 2004 will be published on 28 July 2004
- Interim Report 1 January – 30 September 2004 will be published on 21 October 2004

The Annual Report and Interim Reports are available in Finnish, Swedish and English and can also be read on Fortum's Internet home pages at www.fortum.com, www.fortum.se and www.fortum.fi.

Fortum management serves analysts and the media with regular press conferences, which are webcasted to the company's home pages. Management also gives personal interviews on a one-on-one and group basis. Fortum participates in various conferences for investors.

Fortum observes a silent period of three weeks prior to publishing its results.

Additional information about shares and shareholders is available on pages 85–88.

Contact information

The contact for financial information is Raija Norppa-Rahkola, Vice President, Investor Relations, tel. +358 10 452 4135, fax +358 10 452 4176, e-mail raija.norppa-rahkola@fortum.com.

Financial documents can be obtained from Fortum Corporation, Juha Ahonen, POB 1, FIN-00048 FORTUM, tel. +358 10 452 9151, fax +358 10 452 4065, e-mail juha.ahonen@fortum.com.

SHARE INFORMATION FOR 2003

Highest share price	EUR 8.75
Lowest share price	EUR 5.66
Average share price	EUR 6.94
Total number of shares traded, mill.	270.3
Market capitalisation (31 Dec 2003)	EUR billion 6.9

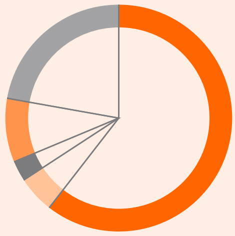
LARGEST REGISTERED SHAREHOLDERS

31 December 2003

Finnish State	60.53%
Social Insurance Institution	1.44%
Ilmarinen Mutual Pension Insurance Company	1.12%
The municipality of Kurikka	0.73%
Fortum Pension Foundation	0.59%
The State Pension Fund	0.52%
Varma-Sampo Mutual Pension Insurance Company	0.49%
Mutual Pensions Insurance Company Etera	0.36%
Suomi Mutual Life Assurance Company	0.35%
Mutual Insurance Company Pensions Fennia	0.30%

DISTRIBUTION OF OWNERSHIP

31 December 2003



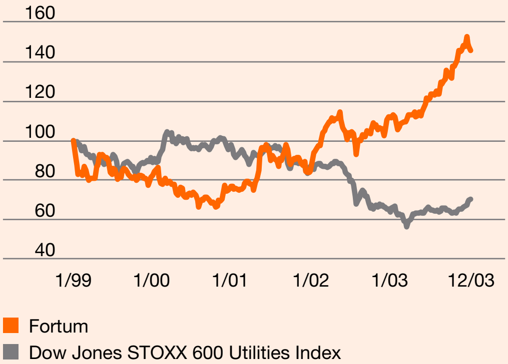
- Finnish State 60.5%
- Households 5.3%
- Financial and insurance institutions 2.9%
- Other Finnish investors 9.1%
- International investors 22.2%

BANKS AND BROKERS COVERING FORTUM

ABG Sundal Collier, Oslo	Evli Bank Plc, Helsinki
Alfred Berg Finland Oy, Helsinki	FIM Securities Ltd, Helsinki
Citigroup Smith Barney, London	Handelsbanken Securities, Helsinki
Conventum Securites Limited, Helsinki	Kaupthing Sofi, Helsinki
Crédit Agricole Indosuez Cheuvreux Nordic AB, Stockholm	Lehman Brothers, London
Carnegie Investment Bank AB, Finland Branch, Helsinki	Mandatum Stockbrokers Ltd, Helsinki
Delta Lloyd, Amsterdam	Merrill Lynch, London
Deutsche Bank AG, Helsinki Branch	Morgan Stanley Dean Witter & Co, London
Dresdner Kleinwort Wasserstein Securities, London	Nordea Securities Oyj, Helsinki
Enskilda Securities AB, Helsinki	Opstock Investment Banking, Helsinki

SHARE QUOTATIONS

weekly averages, week 1/1999 = 100



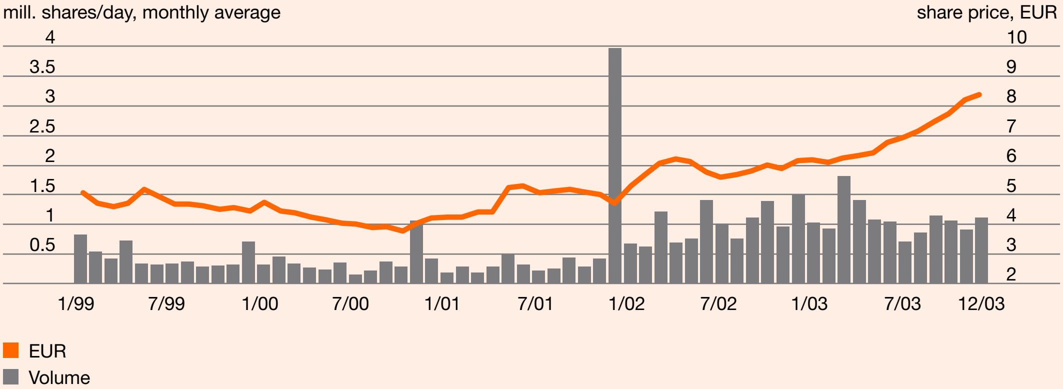
MARKET CAPITALISATION 1999–2003

1,000 EUR mill.

NUMBER OF SHARES TRADED 1999–2003

mill. shares/day, monthly average

share price, EUR



Fortum 2003

A successful year with many achievements.

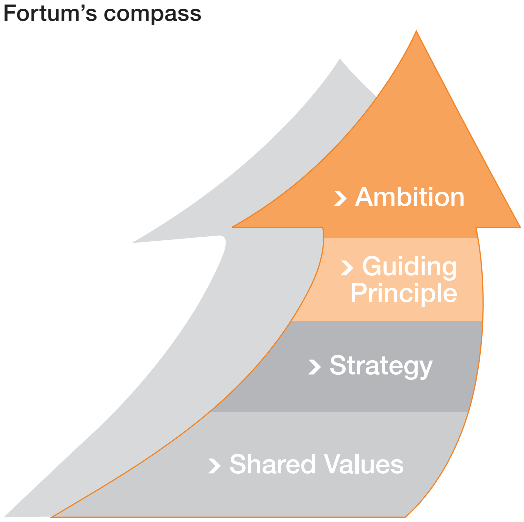
Fortum in brief

Fortum is a leading energy company in the Nordic countries and the other parts of the Baltic Rim. Fortum's activities cover the generation, distribution and the sale of electricity and heat, the production, refining and marketing of oil, the operation and maintenance of power plants as well as energy-related services. The main products are electricity, heat and steam, traffic fuels and heating oils.

Fortum's competitiveness in the power and heat business is based on a pan-Nordic concept which is characterised by a high level of operational efficiency and a broad customer base. As an oil refiner, Fortum is the leading manufacturer of environmentally benign petroleum products.

In 2003, Fortum's net sales totalled EUR 11.4 billion and operating profit stood at EUR 1.4 billion. The average number of employees was 13,343. Fortum's shares are quoted on the Helsinki Exchanges.

Fortum's compass

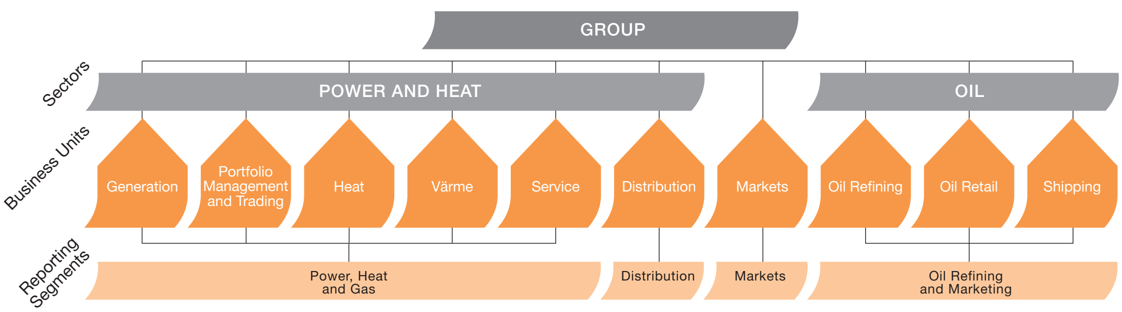


See page 10

POSITION IN THE NORDIC MARKET	
Electricity distribution	#1
District heating	#1
Refining of clean traffic fuels	#1
Power generation	#2
Number of electricity customers	#2

CUSTOMER BASE	million
Electricity customers	1.2
Electricity distribution customers	1.4
Traffic fuel retail customers	
with branded cards	0.5
Heating oil and gas customers	0.2

FORTUM CORPORATE STRUCTURE IN DECEMBER 2003



Operational highlights in 2003

The following developments during 2003 have contributed to the attainment of Fortum's strategic goals:

CREATE THE LEADING POWER AND HEAT COMPANY

- strategic position in Norwegian Hafslund ASA and Russian OAO Lenenergo
- decision to participate in fifth Finnish nuclear power unit
- significant benefits from flexible production portfolio
- further divestment of non-core assets
- full implementation of pan-Nordic business concept

STRENGTHEN POSITION AS THE LEADING CLEAN FUELS REFINING COMPANY

- decision to invest EUR 500 million to further improve the product slate at the Porvoo refinery
- further increase in sulphur-free traffic fuel volumes
- ongoing programme on fleet renewal
- start of oil production in Russia

BECOME THE ENERGY SUPPLIER OF CHOICE

- creation of new Customer Service Unit
- improved business processes increased efficiency
- positive customer feedback on simplified invoice

ACHIEVEMENTS

- continued performance improvement
- important footholds in Norway and north-west Russia
- synergy benefits in excess of EUR 100 million from new pan-Nordic business concept, ahead of schedule
- major increase in share of high-margin traffic fuels and base oil sales
- turnaround in Fortum Markets' results

Financial summary

(detailed financial information on pages 46–90)

KEY FIGURES

	2003	2002
Net sales, EUR million	11,392	11,148
Operating profit, EUR million	1,420	1,289
Profit before taxes, EUR million	1,184	1,008
Earnings per share, EUR	0.91	0.79
Shareholders' equity per share, EUR	7.55	6.97
Capital employed (at end of period), EUR million	12,704	13,765
Interest-bearing net debt (at end of period), EUR million *)	5,626	5,848
Investments, EUR million	1,136	4,381
Net cash from operating activities, EUR million	1,577	1,351
Cash flow before financing activities, EUR million	1,759	-27
Return on capital employed, %	11.4	11.1
Return on shareholders' equity, % *)	12.3	10.5
Gearing, % *)	85	80
Average number of employees	13,343	14,053

*) the figure for 2003 includes the impact of the redemption of the preference shares worth EUR 1.2 billion issued by Fortum Capital Ltd

KEY FIGURES BY SEGMENT

	Net sales EUR million		Operating profit EUR million		RONA % 1)	
	2003	2002	2003	2002	2003	2002
Power, Heat and Gas	3,418	3,644	780	617	8.9	7.5
Distribution	688	640	247	279	7.9	9.3
Markets	1,540	1,280	43	-11	72.0	-11.4
Oil Refining and Marketing	7,192	7,083	396	253	27.0	16.0
Other operations	84	64	-46	-64		
Eliminations	-1,530	-1,668	-	-		
Total	11,392	11,043	1,420	1,074		
Discontinuing operations	-	105	-	215		
Group	11,392	11,148	1,420	1,289		

1) Return on net assets (RONA), % = Operating profit / average net assets

RATINGS

	S&P	Moody´s
Fortum Corporation	BBB+ (Stable)/A-2	Baa1 (Stable)/P-2 (as of 13 February 2004)

GROUP FINANCIAL TARGETS

ROCE	12%
ROE	12%
Gearing	< 100%

KEY SENSITIVITIES DURING 2004

Approximate effect on the Group's full-year operating profit based on hedge ratios at the end of 2003.

Change in	EUR million
Price of electricity, EUR 1/MWh	+/- 25 *)
Oil refining margin, USD 0.1/bbl	+/- 10
Crude oil price, USD 1.0/bbl	+/- 10 **)
US dollar, 10%	+/- 15

*) the effect is not linear

**) mainly inventory gains and losses

Chairman's letter

During 2003 Fortum concluded many of the strategic aims that were set some three years ago. In addition to refocusing its business operations, Fortum ensured that its corporate structure would provide a sound basis for meeting growth targets. Today, from an operational perspective, Fortum is a genuinely Nordic company whose harmonised business model places it on a firm footing for further strengthening its position. Fortum's earnings have continued to develop favourably and the company is close to achieving its financial targets.

In September, Fortum published its plan for spinning off its oil business into an independent company with a plan to list it on the Helsinki Exchanges. At the end of the year, the plan was approved by Fortum shareholders.

Fortum decided on two large-scale investment projects alongside the company's intensive programme for developing its business operations and enhancing their efficiency. Plans for the building of Finland's fifth nuclear power reactor are moving forward, while at the Porvoo oil refinery, a major investment project has been initiated in a move to further improve its competitiveness.

Fortum's satisfactory performance during the period under review was the result of a number of factors. The company further improved its operational efficiency, timed its divestments well and benefited from favourable market conditions. The consistent earnings improvement also boosted the company's share performance.

Corporate governance became a widely debated topic during the year, both in the Nordic countries and internationally. The Helsinki Exchanges have issued a recommendation to listed companies that comes into force on 1 July 2004. Fortum Corporation amended its Articles of Association at the shareholders' meeting held at the end of the year in anticipation of the new recommendation. The company's Board of Directors will in the future be elected by the Annual General Meeting, a change that will bring Fortum's corporate governance more into line with market expectations. I hope that shareholders will in future participate in developing Fortum's corporate governance as a listed company.

My term of office as full-time Chairman of Fortum's Board expired at the end of the review period. My successor steps in from outside the company and I wish him every success in his task. I would like to thank the company's boards, past and present, for their constructive cooperation over the years in what were sometimes very challenging circumstances.

The company's management have made 2003 a very rewarding year for Fortum, and the entire organisation has worked hard. For this I extend my warmest thanks to all those involved. All eyes in the company are now firmly focused on the future. I have every confidence that Fortum's strong success will continue in the years ahead.

Matti Vuoria
Chairman of the Board

Fortum's first phase successfully completed

2003 turned out to be a good year for Fortum. The results were satisfactory and we are very close to meeting our financial targets. Consistent execution of our Nordic strategy culminated in a series of strategic moves that put the pieces in place.

As a result, we are a leading Nordic power company with a broad customer base. We have also strengthened our position as a clean fuels refining company to a point where this business is ready to operate independently. The first phase of Fortum's journey is now successfully completed.

During 2003, we witnessed the deregulated Nordic market undergoing a stress test. The market functioned very well: due to the poor availability of hydropower, mothballed capacity took care of the supply side whilst elasticity on the demand side brought consumption down when prices peaked.

But 2003 was also a stress test for many consumers, who experienced rising prices, power failures due to storms and inadequate customer service. At Fortum we have taken the criticism against our sector very seriously and are determined to work hard to improve our ability to ensure security of supply and better value for our customers.

Reshaping the Nordic power industry

Our view of how the Nordic and European power markets would develop formed the basis for Fortum's strategy. We have had no reason to change that strategy since there is a clear movement towards a common European power market with the Nordic area leading the way. At Fortum we are naturally very pleased with these developments, which provide further justification for our pan-Nordic business concept and organisation.

During 2003, we made several important steps as a shaper of the Nordic electricity market. We secured an important foothold in Norway by acquiring important stakes in Hafslund and some other Norwegian companies. By increasing our shareholding in Lenenergo, we established a good platform in the St Petersburg area with a window seat to the opening up of the Russian electricity market.

These transactions completed EUR 9 billion worth of restructuring of our business portfolio. We have withdrawn from businesses which were non-core or outside our geographical focus area. In the process, we have consistently increased the share of emission-free power production and ensured that we retain a flexible production portfolio. During 2003, we enjoyed significant benefits from this.

The decision in December to participate in the fifth Finnish nuclear power unit with a 25% stake was another important milestone for increasing the share of emission-free production. This decision was not an easy one considering the very different expectations that society has of an energy company, the complex attitudes towards nuclear power as well as the risks involved. Because of this, we have carefully evaluated the roles and liabilities of the parties involved in order to control our exposure.

Successful integration of Nordic operations

The acquisition of Birka Energi in early 2002 has proved a success. The annual benefits of combining the businesses were originally estimated at EUR 60 million as of 2004. In fact, in 2003, we had already reached value creation of EUR 130 million. This is a remarkable achievement and the result of determination and commitment throughout the organisation.

In the spring we started to integrate the fully owned Norwegian businesses into Fortum. The work has proceeded swiftly and culminated in a name switch in early January 2004. Almost 100,000 Norwegian customers now have Fortum as their energy supplier.

Decision to separate and list the oil business

Both the power and the oil sector are undergoing major change. In order to ensure the availability of sufficient resources to capture the opportunities in both businesses, we decided to separate the oil business into a new company, which will be listed on the Helsinki Exchanges. The process has started aiming at readiness towards the end of 2004. The timing of the initial public offering will be dependent on market conditions.

This arrangement enables Fortum to further increase its focus on its Nordic utility strategy and allows the oil business to take full advantage of attractive market developments. It also facilitated the EUR 500 million investment to further increase the share of sulphur-free diesel production at the Porvoo refinery using competitive Russian feedstocks thus enabling the oil business to retain its leadership position in the face of more intense regional competition.

Significant turnaround of Fortum Markets

The electricity retail business is very competitive and the high price volatility at the beginning of the year hit many suppliers with insufficient risk management. In these market conditions it is very satisfying to note that Fortum's retail business made a remarkable earnings improvement compared to the previous year. The hard work on improving customer service and internal processes has clearly borne fruit but we are aware of customers' expectations of further improvements.

Safety targets still to be met

Good environmental and safety conduct is vital to an energy company. We have worked hard to control risks and emissions and we monitor our performance through several related indicators. A drawback in 2003 was the fact that we did not reach our lost workday injury frequency target. The whole organisation will now make occupational safety a priority in order to reach our new ambitious targets.

Our flexible production portfolio enabled us to compensate for the low hydropower availability during the year by increasing the share of thermal power generation. Although good for the supply and demand situation on the market, it regrettably increased our carbon dioxide emissions.

A successful team

Fortum employees have proven that they can deliver on set targets, that there is the will and the determination to excel together. For this I am greatly indebted to every employee. Our good results are a joint achievement based on hard work. Together we have experienced what it is to be part of a successful team. I would also like to express my personal gratitude to Mr Matti Vuoria for his vision and unfailing support as executive chairman.

Starting the second phase of our journey

Today, Fortum has a strong platform in the Nordic area. Our future structure is in place and our financial performance is satisfactory. Additional value creation potential has been identified in the whole Group and work to capture it has started. We are in good shape to start the next phase.

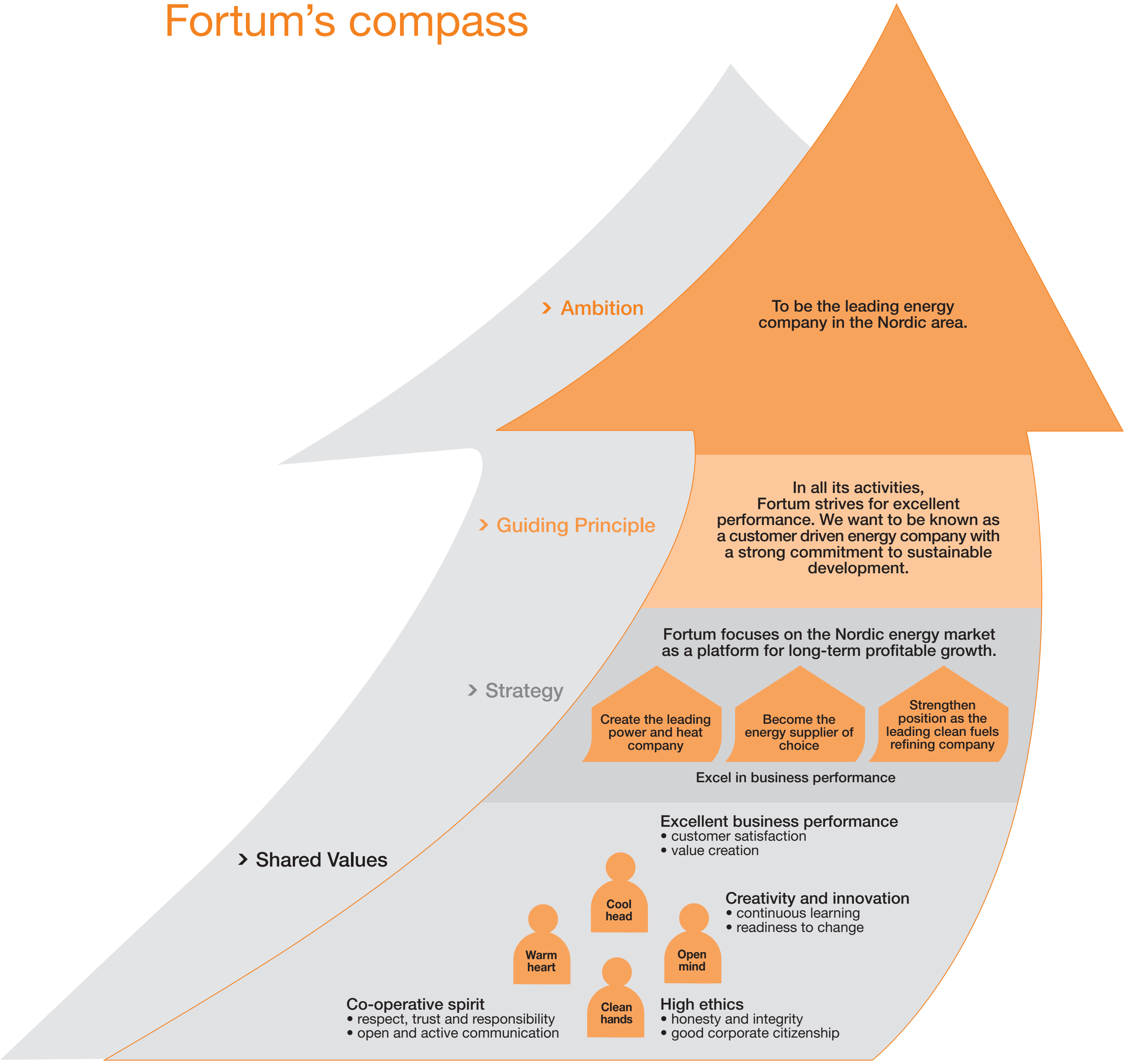
The changes in both our businesses continue. More consolidation in the fragmented Nordic electricity market is to be expected and the oil industry will also change. In many respects, our next steps will be more challenging than the previous ones. We have to make sure that the new independent oil company gets off to a good start. We will also continue to participate in the ongoing restructuring of the power industry.

Fortum's market outlook contains many drivers. A new and interesting one is emissions trading, due to begin in 2005, although the impact of it will already be seen during 2004. In Fortum, we are well positioned for this new feature in the market.

Although our track record is good, we need to accelerate our efforts to continuously improve our performance in all key areas. In order to succeed, we must outperform our competitors. We are determined to do so.

Mikael Lilius

Fortum's compass



"The shared values guide our behaviour when executing our strategy. The guiding principle helps us attain our ambition."

A year of market volatility and continued industry restructuring

The year 2003 was full of challenges. The impact of the dry weather conditions on the Nordic power market together with uncertainties in the oil market resulted in a year of increased price levels and higher volatility.

Energy industry restructuring continued. The Russian and German players were especially active. In Russia, laws initiating power reform were ratified. The aim is to complete the power sector restructuring during the latter part of the decade.

Market-based instruments were introduced into environmental regulation. According to the EU emissions trading directive, all EU countries shall begin CO_2 allowance trading in 2005. This will be a major challenge for the energy industry which represents a considerable part of the emissions that fall under the directive. Sweden initiated trading in green certificates ”Elcertifikat” in May to increase power generation from renewable energy sources.

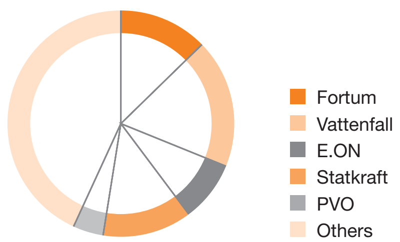
Nordic power market coped well

Fortum operates in the Nordic power market, which is the forerunner in the EU power market liberalisation process. According to the European Commission’s strategy, a common European power market will be created in two stages. First, regional markets will be established from the national markets. In the second stage, these regional markets will be integrated into a single European power market. The overall aim is to increase industry efficiency for the benefit of communities and customers.

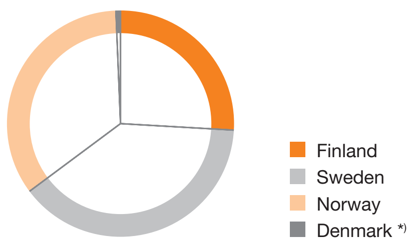
During the winter of 2002/2003, the Nordic hydro reservoirs were very low. The tight energy balance pushed spot market prices upward. The supply side reacted by compensating the decreased hydropower production by more expensive thermal power generation – mothballed condensing power plants were taken into use. Trade within the Nordic market and with the neighbouring areas showed that the

A FRAGMENTED NORDIC ELECTRICITY MARKET (2002)

POWER GENERATION 383 TWh



MORE THAN 350 GENERATION COMPANIES



*) 2 major generators; in addition hundreds of small CHP and wind power generators

market is capable of handling also dry conditions. Moreover, the demand side reacted to the higher market prices.

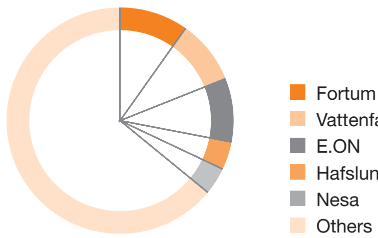
The dry hydrological conditions during the winter of 2002/2003 gave rise to a debate on how well the Nordic power market functions. According to a report issued by the Nordic competition authorities, deregulation of the Nordic market has been largely successful and an integrated Nordic market is advantageous to competition. However, bottlenecks in the Nordic grid system were found to create imperfections in market integration and consequently in competition. A need to develop the infrastructure was expressed. The establishing of Nordenergi by the national industry organisations signalled a shared will to work together to develop the Nordic market. Reducing grid constraints as well as market harmonisation were identified as key tasks. This was further supported by the Nordic Energy Ministers' communiqué.

Major blackouts in Europe and in the north-east of the USA and parts of Canada attracted considerable media interest. There was no indication that shortcomings in power market liberalisation was a cause. These incidents demonstrated, however, the need for the clear separation of transmission from generation and trading activities, and the necessity for independent transmission system operators to ensure security of supply.

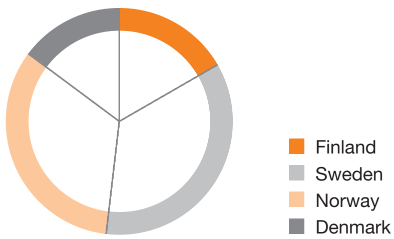
Ownership within the Nordic electricity market is highly fragmented in comparison to the European markets in general. This implies further opportunities to enhance the efficiency of the industry and also increasing competition. E.ON of Germany acquired a majority holding in Graninge, the Swedish company, through Sydkraft, its subsidiary, and expressed its interest to further invest in the Nordic market. The transition to a pan-European market is well under way.

In Finland, Teollisuuden Voima Oy (TVO) signed a contract with a supplier for the fifth nuclear power unit at the end of 2003. In Sweden, the negotiator appointed by the government started discussions about the future of nuclear power.

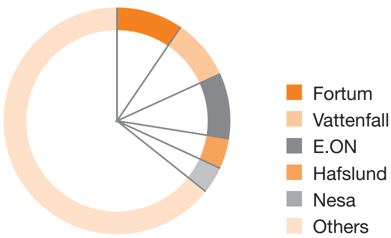
14 MILLION ELECTRICITY DISTRIBUTION CUSTOMERS



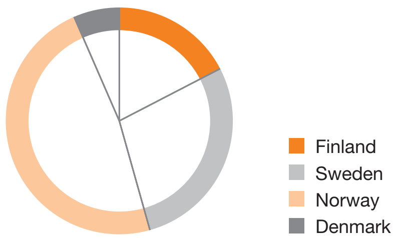
CLOSE TO 550 DISTRIBUTION COMPANIES



14 MILLION ELECTRICITY CUSTOMERS



MORE THAN 450 ELECTRICITY SALES COMPANIES



Unstable oil markets

The increasing threat of war in Iraq at the beginning of 2003 took the price of crude oil to USD 34/bbl at its highest. After the US attack on Iraq, however, the price collapsed quickly, falling by USD 10/bbl. During the second half of 2003, crude oil prices varied mostly between USD 25–30/bbl.

The oil stocks of the consuming countries remained exceptionally low. Shortages in refinery inventories caused by the strike in Venezuela and production problems in Nigeria together with the cold winter could not be offset by additional OPEC deliveries in time. The ending of the war did not stabilise conditions in Iraq, where the recovery of oil production was slowed down by security problems and sabotage.

In spite of low US gasoline inventory levels before the summer driving season, larger problems were avoided. What was the only price spike occurred when refinery problems caused by the power blackout in North America led to a brief market overheating. After the driving season, the market was quickly weakened by a declining gasoline demand and the crude oil price dropped by several dollars in September. Oil stocks started to rise and approach 2002 levels. To avoid oversupply later in 2003, OPEC shocked the markets in late September by cutting its output quotas from November onwards.

Further dieselisation of European traffic

The growing share of diesel-powered vehicles and growth in commercial transportation increased diesel fuel demand in Western Europe. Gasoline demand continued to decline. The European Council has agreed on a January 2009 deadline for switching to sulphur-free (<10 ppm) traffic fuels which must become generally available in all member countries as of 2005. A directive on the increased use of bio-fuels was passed with initially indicative targets. Moves towards national implementation are under way.

European refining margins were better than in the two preceding years and somewhat above the long-term average. Markets remained volatile due to low inventories of both crude oil and products. The euro continued to appreciate against the US dollar throughout the year, having a dampening effect both on refining margin realisations in euro terms and on consumer product prices in the European Monetary Union member countries.

Ongoing oil industry restructuring

Shell announced in April 2003 its desire to divest most of its Swedish assets. Preem acquired Norsk Hydro's Swedish refining interest thus strengthening its Nordic presence while Hydro signalled its exit from oil refining. Elsewhere in Europe, there was particular interest in restructuring opportunities in Central Europe and the Balkans, where potentially the most important development was the signing of a letter of intent between PKN Orlen of Poland and MOL of Hungary on cross-ownership and eventually a full merger.

Russian companies continued to strengthen their positions. The Russian oil industry saw its biggest deals yet. BP and TNK formed the first large joint-venture with western participation. Yukos and Sibneft negotiated an agreement to merge into a public company with the largest oil reserves globally. Following the difficulties faced by Yukos, the planned merger failed towards year-end.

Fast developing Russian crude production and exports are facing growing problems due to constraints in export outlets. Increasing transports via the Baltic Sea put considerable pressure on the logistics infrastructure stressing the future importance of safe marine transportation in the region. The EU decided to ban all single-hull tankers from entering its ports. Consultations on the tightening of the rules on oil shipments in the Baltic Sea are in progress, with all bordering countries except Russia due to become EU members in spring 2004.

Becoming the leading Nordic energy company

Segment reviews

In all of its activities Fortum strives for excellent performance.

Delivering on Nordic strategy

- Firm foothold in Norway and strengthened position in Russia
- Fortum's electricity sales in Nordic area 15% and power generation 14% of total Nordic electricity consumption
- RONA increased from 7.5% to 8.9% mainly due to higher electricity price and improved efficiency of operations

Fortum's goal is to be the leading power and heat company in the Nordic market. Fortum is the region's second largest power company and the leading district heat producer.

Fortum is strongly committed to the environment – a high share of its power generation is free of CO_2 emissions. The production portfolio ensures that Fortum is in a good position considering the possible impacts of emissions trading.

Market prices higher than previous year

The whole year was characterised by a deficit in water reservoirs and low hydro generation resulting in a higher than normal need for condensing power generation. At the beginning of the year, the need for expensive peak load capacity was reflected in high electricity prices. Several reserve thermal power units were taken into use. At the end of the year, prices declined due to low consumption caused by milder than normal weather.

The average price of electricity in the Nordic power exchange Nord Pool for the whole year was EUR 36.7 (EUR 26.9 in 2002) per megawatt-hour (MWh), about 36% higher than in 2002.

According to preliminary statistics, the Nordic countries consumed 378 TWh of electricity in 2003, which was 3% less than the previous year. Approximately half of the decrease in the consumption was due to the price elasticity of demand, caused by very high market prices in the beginning of the year. The other half was due to the warm weather during the second half of the year.

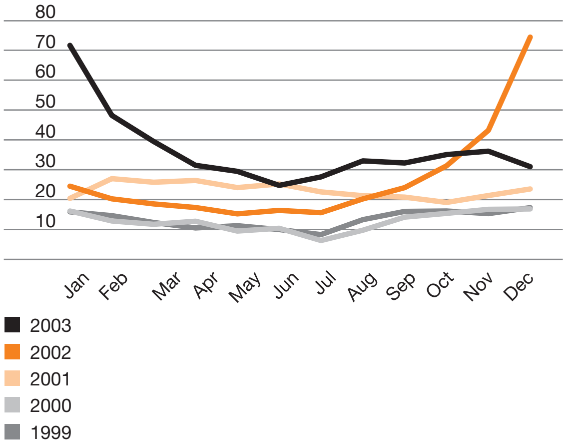
Approximately 168 TWh, or 44%, of electricity consumed in the Nordic countries was generated by hydropower, some 87 TWh, or 23%, by nuclear power, 101 TWh, or 27%, by thermal power and 5 TWh, or 1% by wind power. Net imports to Nordic countries

KEY FIGURES

EUR million	2003	2002
Net sales	3,418	3,644
- electricity sales	1,877	1,661
- heat sales	775	686
- other sales	766	1,297
Operating profit	780	617
-excluding non-recurring items	779	501
Net assets	8,869	8,748
Return on net assets, %	8.9	7.5
Investments	545	2,619
Average number of employees	6,772	7,127

MARKET PRICE OF ELECTRICITY, NORD POOL

EUR/MWh, monthly average system price



totalled 17 TWh, or 5% of the electricity consumed.

Strengthened market position

In 2003, Fortum continued to deliver effectively on its Nordic strategy. Fortum's position in the Nordic area was strengthened by the completion of the power asset swap with the German company E.ON AG. In Norway, Fortum acquired 21.4% shares of Hafslund ASA and increased its stake to 34.1% during the year. In Russia, Fortum increased its ownership in the energy company OAO Lenenergo to 15.9% of the share capital and to 18.6% of the voting rights. Non-core assets, such as the Edenderry power plant in Ireland and the Burghausen power plant in Germany, were divested.

Fortum's electricity sales in the Nordic countries totalled 57.1 (54.1) TWh and 2.4 (5.9) TWh in other countries. Of the total Nordic electricity consumption, Fortum's Nordic sales represented approximately 15% (14%). Fortum's net sales of electricity in the Nordic countries were EUR 1,800 (1,442) million and EUR 77 (219) million in other countries.

ELECTRICITY SALES BY AREA

TWh	2003	2002
Sweden *)	28.2	28.0
Finland	28.9	26.1
Other countries	2.4	5.9
Total	59.5	60.0

*) The effects of Birka Energi's change of ownership on electricity sales volumes were 2.4 TWh in 2002

The Nord Pool electricity spot price increased by 36% compared to the previous year. The corresponding price increase in electricity sold by Fortum was approximately 31%. Of Fortum's electricity sales, 74% (75%) was sold to business customers and electricity companies and 14% (15%) to households. Electricity exchange spot sales accounted for 12% (10%). Around one fourth of Fortum's electricity sales were spot price-related.

Efficient use of flexible capacity

Fortum's power generation portfolio is diversified and flexible. It consists of hydro, nuclear, coal, peat, biomass, natural gas, oil, waste and wind power.

Power generation in Fortum's wholly and partly owned power plants totalled 53.2 (52.2) TWh. In the Nordic countries, Fortum generated 51.2 (46.5) TWh of electricity, which represented approximately 14% (12%) of the region's total consumption. At the end of the year, Fortum's power generating capacity totalled 11,329 (11,511) MW, of which 11,186 (11,091) MW was in the Nordic countries and 143 (420) MW was outside the region.

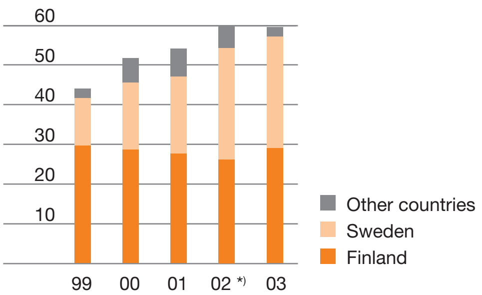
Due to the dry year and the rise in power prices during the winter of 2002–2003, Fortum took its reserve thermal power units into use and considerably increased condensing power generation during the year. Of Fortum's power generation in the Nordic countries, hydropower accounted for 16.9 (18.1) TWh, or 33% (39%), and nuclear power 23.8 (22.0) TWh, or 46% (47%). Thermal power generation's share of Fortum's Nordic power generation totalled 21% (14%).

The volume of Fortum's CO_2-free power generation has increased from 30 TWh to 41 TWh during the past five years. 78% of Fortum's power generation in 2003 was CO_2-free.

In December, Fortum opted to participate in the building of Teollisuuden Voima Oy's (TVO) new nuclear power unit. Fortum has a 26.6 % share in TVO and has made a 25.01% capacity reservation, equal to approximately 400 MW of the new nuclear

ELECTRICITY SALES BY AREA

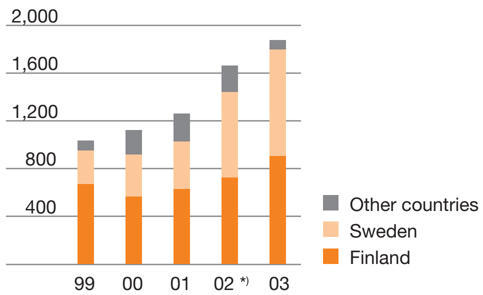
TWh



*) includes 100% of Birka Energi's figures as from March 2002, 50% prior to this

NET SALES OF ELECTRICITY BY AREA

EUR mill.



*) includes 100% of Birka Energi's figures as from March 2002, 50% prior to this

Further information at www.fortum.com/2003/phg

unit's output. When the total equity of Olkiluoto 3 unit is subscribed for, Fortum's ownership in TVO will be 25.8%.

Heat business expansion

Fortum provides its customers with district heat, process steam, cooling and related services.

In Sweden, Fortum owns the company AB Fortum Värme samägt med Stockholms Stad, in which the City of Stockholm has a 50% economic interest. The company is responsible for Fortum's heat business in Sweden, which mainly comprises the production and distribution of district heat in the Stockholm area and in central Sweden. Construction of a new 95 MW refuse boiler that burns waste fuel was started in 2002 and continued through 2003 in Högdalen in Sweden.

Fortum acquired 60% of shares in Tartu Energia, the Estonian heating company, and 73% of shares in the Polish district heating company DZT.

In 2003, Fortum's heat sales totalled 23.7 (22.5) TWh, with Sweden and Finland accounting for 9.5 (8.2) TWh and 10.3 (9.8) TWh respectively. In other countries total heat sales amounted to 3.9 (4.5) TWh. In the Nordic countries, industrial steam accounted for 5.5 (5.4) TWh and district heating for 14.4 (12.7) TWh while the sales of district cooling amounted to 0.4 (0.3) TWh.

HEAT SALES BY AREA

TWh	2003	2002
Sweden *)	9.5	8.2
Finland	10.3	9.8
Other countries	3.9	4.5
Total	23.7	22.5

*) The effects of Birka Energi's change of ownership on heat sales volumes were 1.4 TWh in 2002

Fortum's total heat generating capacity was 9,688 (9,175) MW, of which 8,015 (7,907) was in the Nordic countries. Fortum generated 20.1 (18.4) TWh of heat in its own and partly owned power plants in the Nordic countries. The quantity of biomass fuels used in heat production in the Nordic countries was 24% (24%).

In Sweden, Fortum has long experience in waste-to-energy, and also in Finland Fortum initiated several waste-to-energy projects in 2003. The aim is to replace fossil fuels and support the national waste utilisation targets. Fortum has developed a model of how the waste treatment and energy chains can be effectively linked. Fortum has also started discussions about the roles each player in the market could have in order to reach the most economic solution for the treatment of waste in Finland's municipalities.

Gas business focus on Nordic area

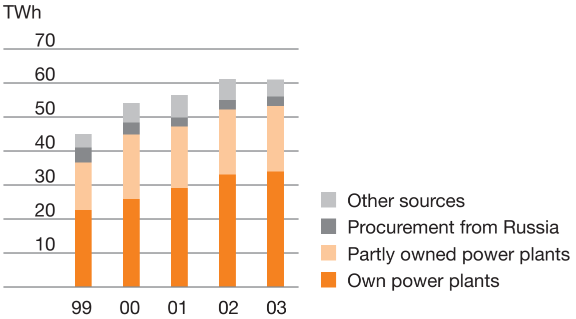
Fortum uses gas as a fuel for the production of electricity, heat and process steam in Finland and Estonia.

In line with its Nordic strategy, Fortum sold its gas retail operations in the UK to Quantum Energy Group Ltd in June and has closed down its gas trading operations in the UK. Fortum continues to be a shareholder in a number of gas companies in the Nordic area and is involved in various development projects in central Sweden and in the Stockholm area. It is also participating in the North Transgas project to develop a gas pipeline linking Russia to Western Europe.

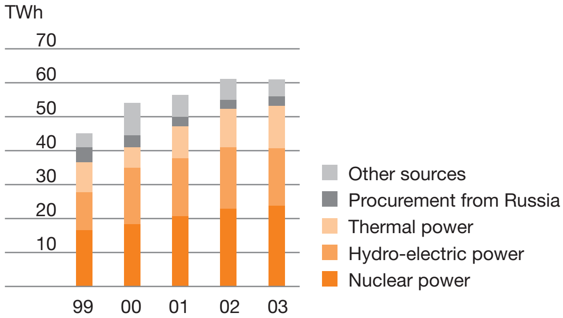
Emphasis on safety in Service

In the Nordic market, brisk demand for contract-based maintenance continued. Fortum remained focused on the Nordic area and divested its Edenderry service contract in Ireland. Despite the asset sales of the Burghausen power plant in Germany, Fortum

ELECTRICITY PROCUREMENT BY SOURCE



ELECTRICITY PROCUREMENT BY ENERGY TYPE



continues to operate and maintain the plant. In May 2003, Østfold Entreprenør AS in Norway was integrated into Fortum Service.

Research and development

Research and development focused on CO_2 emission-free power generation, as well as on efficient hydropower maintenance and refurbishment, and nuclear safety. One of the focus areas in the heat business is the development and use of waste and recycled fuels in energy production. This includes the categorisation of waste and recycled fuels, the modification of existing plants to accommodate the different recycled fuels as well as the commercial use of power plant ash and slag in construction materials. Investments in research and development totalled EUR 13 (11) million.

Outlook for 2004

At the end of 2003, Nordic water reservoirs were about 8 TWh above the corresponding level of 2002 and 16 TWh below the average. In the beginning of February 2004, the electricity forwards for the rest of 2004 were in the range of EUR 25–27 per MWh. In 2004, the key issues for Fortum are the preparations for the EU-wide emissions trading, further harmonisation of the Nordic electricity market and the overall development of the integrating European power market.

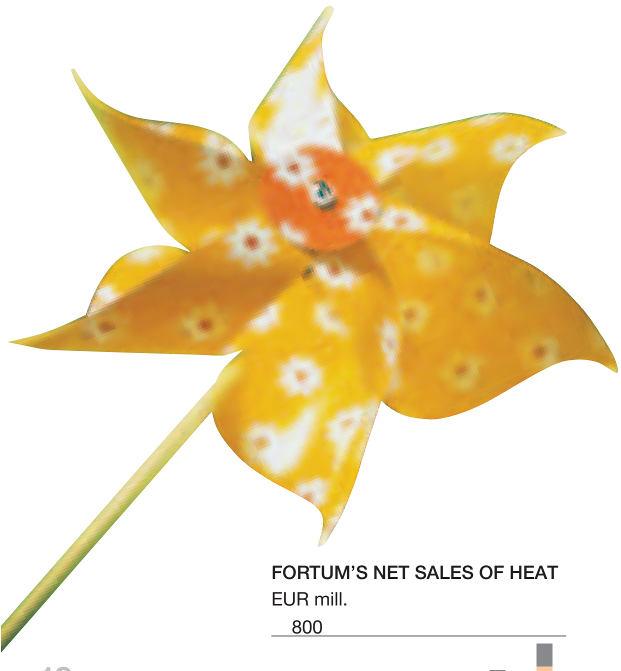
ELECTRICITY CONSUMPTION IN THE NORDIC COUNTRIES

The Nordic countries used 378 TWh of electricity, which was 3% less than the previous year.

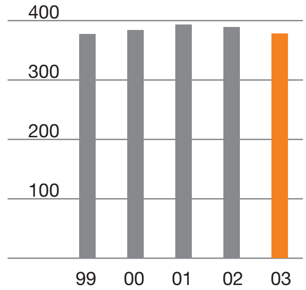
In Finland, the increase in electricity consumption was about 1%. Consumption decreased by 3% in Sweden, 6% in Norway and 2% in Denmark.

The total volume of electricity used in Finland was 85 TWh, 53% of which was attributable to industrial use. In Sweden, the equivalent figures were 145 TWh and 38%.

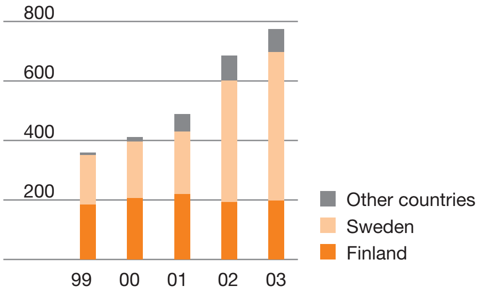
Hydropower accounted for 44% of the electricity consumed in the Nordic countries.



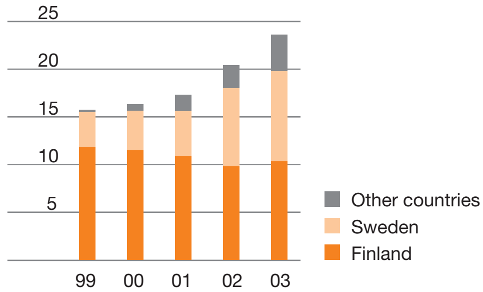
ELECTRICITY CONSUMPTION
IN THE NORDIC COUNTRIES
TWh



FORTUM'S NET SALES OF HEAT
EUR mill.



FORTUM'S DISTRICT HEAT AND STEAM SALES
TWh



Stronger position in Nordic market

- Fortum entered Norwegian market
- Shared position as market leader in Nordic area
- Operating profit excluding non-recurring items up by EUR 40 million due to high delivery volumes in distribution network and synergy benefits

Fortum's aim is to deliver a safe and secure supply of electricity to its customers throughout the Nordic area. The company owns and operates distribution and regional networks, and distributes electricity to a total of 1.4 (1.3) million customers. Fortum's market share of electricity distribution, based on volume transmitted in distribution networks was 14% (12%) in Finland, 14% (13%) in Sweden and 2% in Norway.

The focus for 2003 was on the improvements to customer service. In February, Fortum entered the Norwegian market following its acquisition of Østfold Energi Nett AS with some 93,000 customers.

In June, Fortum completed the divestment of the company Fortum Distribution Småland AB in Sweden. The transaction relating to the shares (49%) in the Norwegian company Fredrikstad Energi AS was completed in December.

Customer service improvement

A new local customer service function, Customer Service Technician, was built up in Sweden and Finland. The same concept was introduced in Norway at the beginning of 2004. A new Customer Service Unit was jointly established with Fortum Markets in Sweden, Finland and Norway. The new unit started up at the beginning of 2004.

In December, storms and snow caused some power failures in Sweden, Finland and Norway. On 5–6 December, around 60,000 customers in the south-west of Sweden and 9,000 customers in Norway were without electricity, and on 28 December, 60,000 households in Finland were cut off. The total cost of the interruptions was around EUR 7 million.

The volume of distribution and regional network transmissions totalled 21.9 (20.2) TWh and 21.1 (21.7) TWh respectively. Electricity transmissions via the regional distribution network to customers outside the

KEY FIGURES

EUR million	2003	2002
Net sales	688	640
- distribution network transmission	569	519
- regional network transmission	88	87
- other sales	31	34
Operating profit	247	279
- excluding non-recurring items	227	187
Net assets	3,129	3,199
Return on net assets, %	7.9	9.3
Investments	339	1,394
Average number of employees	1,005	965

NUMBER OF ELECTRICITY DISTRIBUTION CUSTOMERS BY AREA, ON 31 DECEMBER

	2003	2002
Sweden	855,000	890,000
Finland	400,000	390,000
Norway	93,000	-
Estonia	22,000	20,000
Total	1,370,000	1,300,000

VOLUME OF DISTRIBUTED ELECTRICITY IN DISTRIBUTION NETWORK

TWh	2003	2002
Sweden *)	14.2	13.4
Finland	6.2	5.4
Norway	1.3	-
Other countries	0.2	1.4
Total	21.9	20.2

*) The Birka Energi acquisition accounts for a 1.6 TWh increase in the volume transmitted via the distribution networks in 2002. Restated between distribution and regional network. The distribution and regional networks in Sweden have been reclassified resulting in a slight change in the distribution volumes.

Group totalled 15.8 (15.3) TWh in Sweden and 5.3 (6.3) TWh in Finland.

Regulatory focus on efficiency

Electricity distribution is accepted as a natural monopoly and therefore national authorities regulate transmission tariffs. The regulator defines a reasonable rate of return on capital invested based on calculation models that vary from country to country. This in turn affects the regulation of tariffs either before implementation (ex-ante), or after (ex-post) if the tariffs applied are considered to be unjustified.

In both Sweden and Finland, work is being done to harmonise the national legislation with the EU directive. The most significant amendments include accepting the tariff methodology before tariffs are applied (ex-ante).

Tariff regulation in Finland at present is ex-post. The Energy Market Authority's assessment is based on the Data Envelopment Analysis (DEA) model in which efficiency is evaluated by the relative statistical comparison of controllable costs, the amount and quality of electricity distributed, the network length and the number of customers.

Tariff regulation in Sweden is also ex-post, although the authorities take a different approach to defining a reasonable rate of return on capital invested. The aim is to objectively evaluate the efficiency of distribution companies and their networks by comparing price levels and efficiency in various operating environments with theoretical models. The new Swedish regulation model will be introduced in 2004.

In Norway, the authority regulates the net sales of a distribution company for five-year periods in advance of tariff implementation (ex-ante). The efficiency of distribution companies is evaluated using the DEA model. The regulator defines the minimum and maximum return on capital, which is calculated on the book value of network assets.

Regulation in Estonia works in line with the existing EU directives but aiming at as little interference as possible. Prices must cover expenses while at the same time allowing for legitimate profitability and avoiding cross-subsidisation of activities.

New legislation regarding compensation for electricity disturbances came into force in Finland on 1 September 2003. Compensation must be paid for interruptions lasting over 12 hours. The level of compensation depends on the number of interruptions and their severity. The level of compensation is not expected to have a very pronounced effect on the results. During violent storms, however, this compensation could reach the level of repair costs.

Plans to improve the quality of supply

Several severe blackouts over the last year in different parts of Europe and the USA have made both EU and national authorities look for ways to improve the quality of supply. This may result in new changes to the regulation regime in respect of investment and maintenance. The EU proposed a new directive on the security of the electricity supply in December 2003. The final result and the impact on Nordic regulation will be further analysed during 2004.

Outlook for 2004

In 2004, Fortum's electricity distribution business will focus on the further development of business-oriented leadership culture and will continue conducting top-level asset management and maintenance analysis. The new Customer Service Unit will enable Fortum to further improve the quality of its service to electricity and distribution customers. Also, in its future work with the regulation authorities, Fortum will continue to use its experience as a pan-Nordic electricity distribution company to highlight the Nordic perspective.

THE ELECTRICITY DISTRIBUTION BUSINESS CONSISTS OF:

- the distribution and regional transmission of electricity, network asset management in Finland, Sweden, Norway and Estonia
- the distribution network: 138,700 (138,700) km, 0.4–20 kV cables, overhead lines and 55,100 (54,300) transformers
- the regional network: 8,200 (8,800) km, 20–220 kV cables and overhead lines

A special feature of the Finnish electricity market is that one player is allowed a maximum 25% share of the electricity distributed in the 0.4 kV network across the country. At the end of 2003, Fortum's share stood at 15%.

Further information at www.fortum.com/2003/distribution

Nordic integration and operational improvements

- Second largest electricity sales company in Nordic area and largest heating oil supplier in Finland
- Synergy benefits through implementation of Nordic operational model
- Operating profit improved by EUR 54 million due to efficient processes, successful risk management and cost reductions

Markets specialises in the retail sale of electricity and oil products, mainly heating oil, as well as related services, to a total of 1.3 million private and business customers in Finland, Sweden and Norway. In 2003, electricity sales totalled 33.5 (33.2) TWh and sales of heating oil amounted to 1.2 (1.3) million tonnes.

The focus during 2003 was to complete transformation into a fully Nordic operation. Emphasis was placed on the introduction of common business concepts, integration under the Fortum brand and improvement of critical business processes. The governance of the electricity hedging process has been improved for a prudent management of the electricity sales margins. Significant cost reductions have been achieved by reducing overlaps in operations.

Volatile market

The year was characterised by volatile electricity prices which peaked during the first months. The price increases have made customers more active both in changing supplier and choosing different solutions to avoid price uncertainty. There is a growing interest in services and contracts that reduce price volatility.

The higher electricity prices and the cold winter in combination with political uncertainties in the Middle East contributed to the improved results from the sales of heating oil. A number of major new heating oil business customers were gained.

Improved efficiency and customer service

In 2003, Fortum's Nordic operation model for sales activities was fully implemented. Also the efficiency of the internal processes was further developed to enable the organisation to respond promptly to rapidly changing market conditions.

Availability and service levels in the contact centres were improved by capacity enhancements and by introducing skill teams providing the relevant competences for a range of customer inquiries.

KEY FIGURES

EUR million	2003	2002
Net sales	1,540	1,280
Operating profit	43	-11
- excluding non-recurring items	43	-12
Net assets	16	55
Return on net assets, %	72.0	-11.4
Investments	28	109
Average number of employees	468	639

In order to further improve customer relations, a new Customer Service Unit providing a uniform interface for all retail sales and distribution customers was formed together with Distribution.

A new customer-friendly invoice layout was successfully launched in Sweden.

As a result of implementing a quality and environmental management system for continuous improvements, Fortum Markets was the first Nordic electricity sales company to be awarded both ISO 9001 and ISO 14001 certificates.

In Norway, the Østfold Energi Kraftsalg AS electricity sales business was integrated into Fortum Markets.

Outlook for 2004

The competition in the Nordic electricity market is expected to further intensify. Fortum's aim is to become the energy supplier of choice and to further consolidate its position in the Nordic area. During 2003 the platform to reach this goal was founded. Fortum's strategy is now to focus on increasing customer orientation in all parts of the organisation as well as launching proactive offerings.

Growing demand for Fortum's clean traffic fuels

- The leading refiner and marketer of clean traffic fuels in Nordic area
- Full capability to produce clean, sulphur-free fuels
- RONA raised to 27% (16%)

Fortum is one of the largest oil refiners in the Nordic countries and the Baltic Rim, and one of the two biggest suppliers of oil products in the Nordic wholesale market. The company has two oil refineries in Finland and a network of service stations and other retail sales outlets both in Finland and in other countries in the Baltic Rim.

Fortum manufactures and sells gasolines, diesel fuels, light and heavy fuel oils, aviation fuels, base oils, lubricants, gasoline components, solvents and LPG. In addition to a retail network, Fortum's supply and distribution chain includes a tanker fleet for crude oil imports and product exports as well as oil terminals in Finland, Estonia, Latvia and St Petersburg in Russia.

Fortum focuses on the development, production and marketing of environmentally benign oil products, and, equally, on safe marine transport in the Baltic Sea, North Sea and Northern Atlantic. Fortum is in a key position to fully utilise the advantageous locations of its refineries along the Russian crude oil export route.

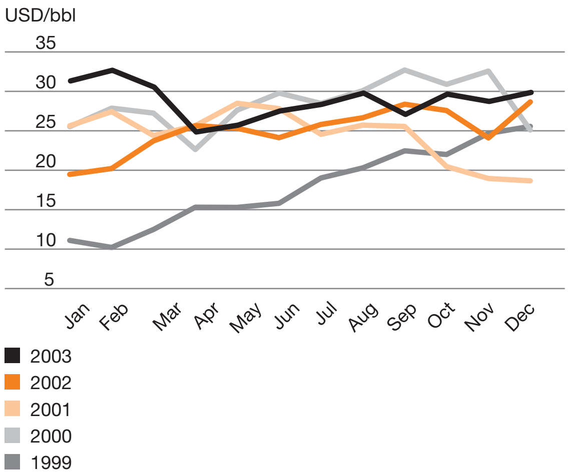
KEY FIGURES

EUR million	2003	2002
Net sales	7,192	7,083
Operating profit	396	253
- excluding non-recurring items	381	205
Net assets	1,402	1,510
Return on net assets, %	27.0	16.0
Investments	202	177
Average number of employees	4,277	4,297

Healthy refining margins

Refining margins in north-western Europe recovered appreciably compared to the previous year. The Brent Complex reference margin used by Fortum averaged USD 2.7 (1.0) per barrel. Early in the year, this margin rose and averaged USD 5/bbl in March, but declined in the spring to reach USD 2–3/bbl during the end of the year. Fortum's total refining margin remained at around USD 2/bbl higher than this reference margin.

BRENT CRUDE PRICE 1999–2003



Further information at www.fortum.com/2003/oilrefining

Refinery investment boosts sulphur-free production

Fortum's refinery investments have given the company the ability to switch completely to sulphur-free traffic fuel production. For years now, the company has manufactured and exported sulphur-free fuels (sulphur content below 10 milligrammes per kilo) to Sweden, Germany and other countries.

The refineries considerably increased their use of logistically competitive crude oil and feedstocks import from Russia and other countries in the former Soviet Union area. Total imports of crude oil from these countries were some 8.5 (6.9) million tonnes.

In September, Fortum decided to invest EUR 500 million in the Porvoo refinery to further enhance the refinery's competitiveness and financial performance. Preparatory work on this large-scale investment started in mid-September.

The investment is scheduled for completion by the end of 2006 and will serve to convert the crude now ending up as heavy fuel oil into sulphur-free diesel fuel. Production of sulphur-free diesel at the refinery will grow by about 1 million tonnes per year. Fortum currently refines some 4 million tonnes of diesel a year. The investment does not increase the refinery's total refining capacity.

Increasing demand for environmental products

Fortum's share of the wholesale market for major oil products in Finland was about 73% (75%) and its share of retail market was about 41% (39%). Exports of oil products refined by Fortum in Finland amounted to 5.5 (5.2) million tonnes, of which gasolines accounted for 2.8 (2.8) million tonnes and diesel fuels for 2.0 (1.9) million tonnes. The sales of low-sulphur and sulphur-free gasoline and diesel grew with one third.

Fortum's oil refineries in Porvoo and Naantali manufactured all the main oil products needed by industry, and the transport and energy sectors. The Porvoo refinery's primary products were environmentally benign traffic fuels. In addition to traffic fuels, the Naantali refinery increasingly focused on special products such as bitumens, solvents, gasoline for small engines and high-octane racing fuel.

Half of the gasoline was exported to European markets. Of this, 88% was low-sulphur (less than 50 mg/kg) or sulphur-free (less than 10 mg/kg). Germany continues to be the principal market for sulphur-free gasoline. The other half was exported to the USA and Canada. All exported diesel fuel was either low-sulphur or sulphur-free. The principal export markets for diesel fuel are Sweden, Germany and the UK.

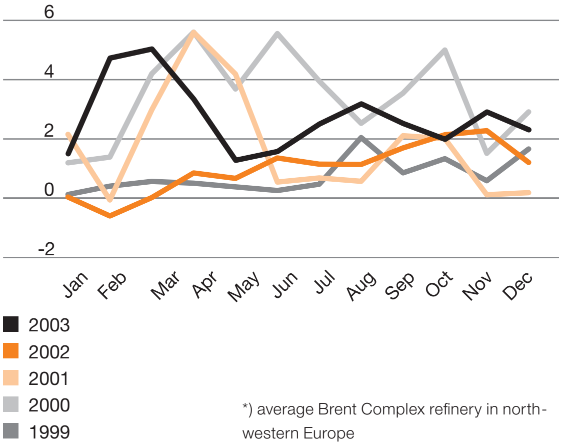
Direct and retail sales of oil products totalled 1,249 (1,253) million litres of gasoline and 1,183 (1,149) million litres of diesel in Finland, the St Petersburg region and the Baltic Rim countries.

Early 2003, the Fortum's oil retail outlets in Finland started selling gasoline with a sulphur content of less than 50 mg/kg, which is appreciably below the maximum 150 mg/kg stipulated by the EU.

Fortum and Kesko established a joint venture for building a nationwide retail chain selling fuel and everyday consumer goods. The concept is based on the present Neste Quick Shop and K-Pikkolo chains. The joint venture started operating in July 2003.

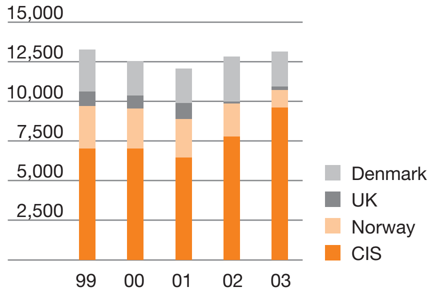
Fortum opened a total of 14 new oil retail outlets in the Baltic Rim countries and Russia during the year.

OIL REFINING REFERENCE MARGIN 1999–2003 *)
USD/bbl



*) average Brent Complex refinery in north-western Europe

SUPPLY OF CRUDE OIL AND FEEDSTOCKS TO THE REFINERIES 1,000 t



Further information at www.fortum.com/2003/oilrefining

Fortum knows its biofuels

Fortum will continue to manufacture biogasoline until the end of 2004 at least. Biogasoline production started in summer 2002. Further production and its extent will depend on future tax decisions.

In May, a Europe-wide patent was granted for Thermera, a bio-based heat transfer fluid with extremely low environmental impact, which Fortum launched on the Finnish market in 2000.

The product launch of Forestera, a liquefied wood fuel made from wood chips, was postponed due to economic reasons, although the field tests were successful. Forestera has been jointly developed by Fortum and Finnish Vapo Oy.

The flow improver agent (FIA) business was sold in January 2004. The product is based on Fortum's in-house R&D work. FIA reduces friction in pipelines, making possible up to 50% faster flow rates.

Components for clean traffic fuels

Fortum produces components for use in its own reformulated gasolines and for sale to other oil companies. MTBE (methyl tertiary butyl ether) and TAME (tertiary amyl methyl ether) are oxygenates that improve the combustion of gasoline and reduce harmful emissions. Iso-octane is a high-octane, hydrocarbon-based gasoline component used for gasolines with the most stringent environmental requirements.

In 2002, the Canadian MTBE plant, in which Fortum has a 50% holding, was converted to an iso-octane facility to meet the demand in California, USA, which has banned the use of MTBE from the beginning of 2004. All the iso-octane produced at the Edmonton plant is sold to the Californian market. Fortum's share of the plant's annual production is about 250,000 tonnes. The plant uses the NExOCTANE technology developed by Fortum.

Fortum produces MTBE in Finland and Portugal, and in a Saudi-Arabian joint venture.

Recognition of Fortum's oil technology

The developers of Fortum's NExOCTANE production process received the 2003 Finnish Engineering Award. The award-winning technology is used to produce iso-octane, a first-class hydrocarbon-based gasoline component.

The innovative technology is a continuance of the NExETHERS and NExTAME etherification technologies previously developed by Fortum. Fortum uses its own patented NExTAME technology at the Porvoo refinery in the manufacture of a low-emission etherified gasoline component.

Base oils for quality-conscious customers

Fortum is a European leader in the development, production and marketing of top-quality base oils. Since 1991, the company has produced the base oil polyalphaolefin (PAO) in Belgium. PAO is the most important component of high-quality synthetic lubricants. Annual production capacity is 50,000 tonnes. Fortum has a 30% share of the polyalphaolefin market in Europe.

Fortum has also manufactured EHVI (Enhanced High Viscosity Index) base oil since 1997, and is still the only company in Europe to do so. EHVI is similar to synthetic oil, and the Porvoo refinery's annual production capacity is 200,000 tonnes of base oils.

EHVI is sold to leading lubricant manufacturers and is also used in the manufacture of Fortum's own lubricants. The demand for EHVI products is growing

OIL PRODUCTS PRODUCED BY FORTUM
DELIVERIES BY REGION

1,000 t	2003	2002
Finland	7,889	7,845
Other Nordic countries	1,921	1,982
Baltic countries and Russia	62	41
USA and Canada	1,252	1,276
Other countries	2,267	1,896
Total	13,391	13,040

OIL PRODUCTS PRODUCED BY FORTUM
DELIVERIES BY PRODUCT GROUP

1,000 t	2003	2002
Gasoline	4,434	4,595
Diesel	3,886	3,619
Aviation fuel	611	586
Light fuel oil	1,474	1,503
Heavy fuel oil	1,314	1,233
Other	1,672	1,504
Total	13,391	13,040

Further information at www.fortum.com/2003/oilrefining

by 15% annually in Fortum's key market area in Europe. Demand in the rest of the world is also increasing as quality requirements in the car industry become more stringent.

Safety first in marine transport

Fortum uses double-hull or partly-double-hull tanker vessels for the marine transport of crude oil and oil products in the Baltic Sea, the North Sea and the North Atlantic. Most vessels also have an ice class required for year-round operation in the Baltic Sea. In 2003, Fortum's tanker shipments totalled 40 (37) million tonnes.

The harsh ice conditions in the Gulf of Finland in 2003 significantly increased the level of freight rates. In the second and third quarters, freight rates stayed at around the average level, but rose again sharply towards the end of the year. Fortum's fleet availability and utilisation rate remained at a good level throughout the year.

Fortum acquired two new vessels in 2003 and sold three. Five product tankers are under construction. Fortum's decision to withdraw from North Sea oil production resulted in a decision to divest the North Sea offshore buoy loading business as well.

FLEET IN JANUARY 2004

28 vessels, comprising
- 20 product tankers
- 6 crude carriers
- 2 barge/tug combinations

as well as 1 barge and 3 tugs

Six of the vessels are wholly owned by Fortum. The remaining 22 vessels are chartered on various bases. The total capacity of the fleet is about 1 million dead-weight tonnes.

Fortum's road transport of oil products is handled by 160 private hauliers, who operate their own trucks which use the Neste livery.

Start of oil production in Russia

SeverTEK, a joint venture equally owned by Fortum and Lukoil, commenced oil production in the South Shapkino oil field in north-west Russia in mid-July. At year end, the total daily production rates were some 24,000 barrels per day (approximately 1 million tonnes per year). The planned maximum production rate of 50,000 barrels per day (of which Fortum's share is 25,000 barrels per day) is expected to be reached towards the end of 2004. Fortum's share in the proven and commercial reserves of this oil field is estimated at about 82 million barrels.

Outlook for 2004

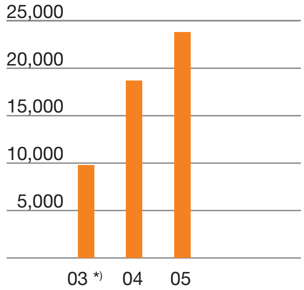
The demand for clean traffic fuels and their components is expected to increase. Fortum Shipping will continue to renew its fleet with five new product tankers.

The refining margins and shipping freights are priced in U.S. dollar and therefore the weakening of this currency will have an impact on the profitability of the Oil Refining and Marketing segment.

REFINERY PRODUCTION

1,000 t	2003	2002
Liquefied petroleum gases	338	276
Motor fuel	4,311	4,356
Diesel and light fuel oil	5,198	5,082
Heavy fuel oil and bitumen	1,679	1,728
Other products	1,013	1,060
Total output	12,539	12,502

SEVERTEK'S PRODUCTION FORECAST, FORTUM'S SHARE bbl/day, average



*) production started in July

Further information at www.fortum.com/2003/oilrefining

Long-term business success depends on the ability to turn the challenges of sustainable development into business opportunities.

To Fortum, sustainable development means striving for an economic, environmental and social balance in all of its activities by making a positive contribution to the societies in which it operates. Fortum's long-term goal is to be the leading Nordic energy company in terms of sustainability. It wants to be a forerunner in building a future for sustainable energy through open and active interaction with its customers and other stakeholders. Its ambition is to provide safe and environmentally benign energy products and services which contribute to a more sustainable use of resources. Fortum respects the culture and values of the individual and of groups, and promotes equality. To foster creativity and innovation, the well-being of employees is promoted through safe and stimulating working conditions.

Corporate citizenship

Fortum wants to be known as a customer-driven company with a strong commitment to sustainable development.

Heading for sustainability

> Fortum included in Dow Jones Sustainability Indexes
> Preparations made for emissions trading
> Unsatisfactory result in safety, new initiatives launched

The current focus areas on the road towards sustainability involve the management of greenhouse gases, favouring renewable energy sources, improving Fortum's efficiency in the use of natural resources, reducing the local and regional environmental impact of operations, as well as improving the health and safety of employees.

To ensure systematic development of environmental and safety management, all major production and logistics operations are covered by certified environmental management systems (ISO 14001).

In September, Fortum was selected for both the worldwide and pan-European Dow Jones Sustainability Indexes as the first Nordic company in the utilities sector.

Building readiness for emissions trading

The coming into force of the global climate protection framework, the Kyoto Protocol, is still waiting for ratification by Russia. In contrast, the climate-related measures taken by the EU have proceeded swiftly. The emissions trading directive was approved with record speed in July 2003.

Emissions trading will be a totally new aspect of the energy market. Fortum has developed its capabilities during the last years through the operation of its own Climate Fund. In 2003, competence building and development of the internal procedures needed for successful emissions trading operations were intensified.

Fortum continues to be supportive of the market-based climate instruments like emissions trading. One of the key issues in the national implementation of the EU emissions trading directive is the allocation of emission allowances. Fortum thinks that equal treatment of all industrial sectors is important in the allocation. With regard to the power sector, the national allocation plans should take fully into account both the unavoidable increases in fossil-based power production during the coming years and the increasingly tough international competition in the power market.

Fortum has a USD 6 million share in the World Bank's Prototype Carbon Fund (PCF). The PCF, founded in 2000, is a mutual fund of 17 companies and six governments with a total capital of USD 180 million. To date, the PCF has signed agreements for 14 projects totalling USD 45 million and expects to conclude all deals around in mid-2004. Fortum's share of the first verified emission reductions accumulated during 2003 was about 7,000 tonnes of CO_2.

New safety initiatives

Fortum's lost workday injury frequency (LWIF, number of injuries that result in more than one day lost per million hours worked) was 8.5 (8.8). Fortum did not reach its target of 6.4 set for 2003. In addition, two regrettable fatal accidents occurred involving one of Fortum's employees and one of its contractor's employees.

The ultimate goal in occupational safety is an injury frequency of zero. To work towards this goal, new challenging targets were set for LWIF; 6.0 for 2004, 5.0 for 2005 and 4.0 for 2006. To reach the targets, new safety procedures were introduced both at corporate and business unit level.

Well-prepared for the biofuels market

The EU's policy activities in the promotion of renewable energy sources continued. The directive on the promotion of biofuels or other renewable fuels for transport was approved and came into force in May

Further information at www.fortum.com/2003/ehs

2003. This directive sets national indicative targets for EU member states. The associated directive on taxation was finalised in 2003.

Fortum is well-prepared for the upcoming biofuels market in traffic fuels. Production of ethanol-based high-octane gasoline continued throughout 2003 and will be continued in 2004. In addition, Fortum's refineries are fully converted to production of sulphur-free traffic fuels.

Renewable energy

Renewable energy-related business activities were focused on the use of biomass and enhancement of hydropower. Fortum's business units are strengthening their cooperation and developing biofuel procurement concepts to secure a cost-competitive supply of biomass for the growing demand. Total consumption of biofuel increased by 9% as compared with the previous year.

The electricity certificate system in Sweden was introduced in May 2003. Trading volumes have so far been relatively low, but are expected to increase towards the end of the first period (beginning of April 2004). Fortum is one of the key players in the Swedish certificate market.

At the beginning of 2003, Fortum became a member of RECS International, the association of the European Renewable Energy Certificate System.

Poor availability of hydropower increased emissions

During 2003, the situation on the Nordic electricity market was exceptional. Poor availability of hydropower led to increased use of fossil fuels in power generation, which raised levels of emissions into the atmosphere. Fortum's CO_2 emissions (own operations, excluding minority shares) were 16.8 (14.0 in 2002) million tonnes and SO_2 and NO_x emissions were 39,000 (33,000) and 42,000 (37,000) tonnes respectively.

Use of best available techniques

In 2003, environment, health and safety (EHS) investments amounted to EUR 45 (34) million, and corresponding operating expenses totalled EUR 57 (53) million. The most significant investments during the year included the upgrading of the waste water treatment plants at the oil refineries. Preparations were made to upgrade the emission monitoring systems at the power plants to meet the new requirements coming into force in November 2004.

The standard of environmental protection at Fortum's plants complies with the requirements of the best available techniques (BAT) and no major investment needs are foreseen in the near future.

In 2003, Fortum paid a total of EUR 313 (280) million in environment-based taxes and fees in Finland and in Sweden.

EHS liabilities under control

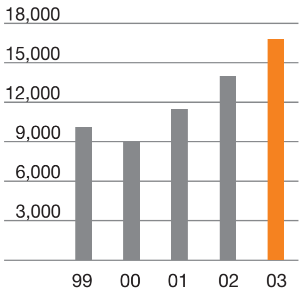
Fortum has evaluated the environmental liabilities relating to its past actions and made the necessary provisions, in line with its accounting principles, for any future remedial cost relating to environmental damage. The management is not aware of any cases that would have a material impact on Fortum's financial position.

In accordance with the Finnish Nuclear Energy Act, Fortum made provisions for future costs relating to nuclear waste management. Fortum's fund holding in the State Nuclear Waste Management Fund covers the costs in full.

The operation of Fortum's production facilities complied for the most part with valid environmental permits and other environmental regulations. Minor infringements of permits, which occurred at two sites, had no verified impact on the environment or on human health, and there were no financial consequences for the company.

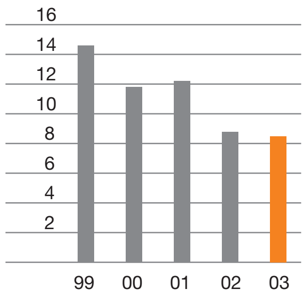
CARBON DIOXIDE EMISSIONS INTO THE AIR

1,000 t/year



LOST WORKDAY INJURIES

injuries/million hours worked



Further information at www.fortum.com/2003/ehs

Business-driven people create a high-performance culture

- Focus on overall performance improvement
- Strategy-based improvement of Fortum leadership
- Creation of pivotal corporate-wide people processes

Fortum strives to be a well-functioning and balanced working community where individuals are motivated to meet new challenges. In order to promote well-being and creativity, Fortum aims to offer all its employees a safe and inspiring working environment.

During 2003, Fortum's Human Resources (HR) management intensified its support for the alignment of the corporate and business units' strategic goals. Line management participated, to a significant degree, in setting common HR goals and developing new working practices.

NUMBER OF PERMANENT EMPLOYEES BY SEGMENT ON 31 DEC

	2003	2002
Power, Heat and Gas	6,535	6,778
Electricity Distribution	968	853
Markets	457	544
Oil Refining and Marketing	3,936	4,040
Other	753	903
Total	12,649	13,118

High-performance and development culture

Continuously improving performance level is the key goal for all Fortum employees. 2003 saw the creation of a new performance development process where results and development are reviewed regularly. Results are discussed in the winter and development-related discussions take place in the autumn. The aim is to make systematic performance development, involving cooperation between the subordinate and the supervisor, a natural part of the work.

Fortum Leader Profile, created to improve the quality of leadership within the company, is based on Fortum leader criteria and values. The target profile and the related Fortum 360° feedback system will be the key compass in development for Fortum managers.

The management training programmes started in 2002 – Fortum Challenger for middle management and Fortum Forward for senior management – were implemented across the company in 2003. More than 200 executives and experts participated in these programmes during the year. In addition, the Fortum Manager training programme intended for new managers was launched in early 2003. All programmes are strictly business-driven, support the internalising

of Fortum values and aim at improving the quality of management.

Harmonised and effective people processes

The descriptions of the central corporate-wide personnel processes were developed during 2003. The objective of the work was to harmonise Fortum's working practices in the major sub-areas of HR management, to highlight the role of managers in everyday HR work and to rationalise operations. One concrete outcome from the work was the web-based hands-on manual for managers in three languages.

A corporate-wide job satisfaction survey was conducted in the autumn of 2003. The annual job satisfaction survey is part of the organisational development process that aims at the continued systematic improvement of Fortum employees' job satisfaction and motivation levels.

Implementation of new incentive system

2003 saw the introduction of the new result and performance-based pay system. It sets out to better integrate the impact of the unit result into individual performance. In conjunction with this, a new share-based incentive scheme concerning some 190 key employees was introduced to replace new option schemes. The system is described on page 88.

In the spring of 2003, a total of EUR 6.4 million, based on the 2002 results, was paid into the personnel fund. The fund has 6,769 members.

Active people development

People development at Fortum is based on business-driven individual development plans. The focus of development is on the business units and workplaces. People development investments during 2003 totalled EUR 10.0 (8.6) million. A Fortum employee spent an average of 3.1 (2.7) days in training.

In 2003, internal recruitment had 295 (200) vacancies and there were about 180 (110) transfers between units. The central goal is to introduce job rotation as an integral part of competence improvement. To promote this, special job rotation principles were drawn up.

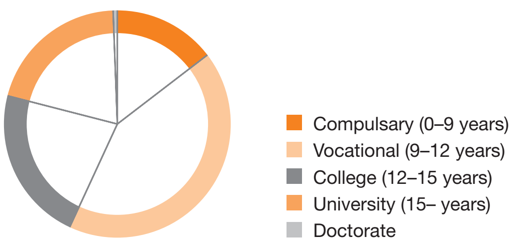
Through the recruitment pages on the internet, a total of 10,400 job applications were received in Finland and Sweden; out of these about 6,600 concerned summer internships. During the year, Fortum participated in 15 recruitment events. Securing a workforce for the future is turning out to be a major challenge. Therefore, increasing attention has been paid to such issues as age management and cooperation with educational institutions.

Lower staff numbers due to changes in corporate structure

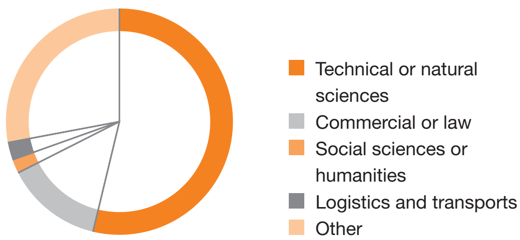
In 2003, Fortum employed an average of 13,343 (14,053) persons. At the end of the year, the number of personnel was 13,046 (13,670), out of which 12,649 (13,118) were permanently employed. The reduction is mainly attributable to the combination of the businesses of Birka Energi and Fortum, as well as to the formation of the new associated company Enprima at the beginning of 2003. By contrast, company acquisitions in Norway and Poland increased the number of personnel by several hundred people.

Women accounted for 23% (23%) of the total number of employees and 19% of managers in corporate and business unit positions. The average age of Fortum employees was 45 (45) years.

EDUCATIONAL LEVEL 31 DEC 2003



EDUCATIONAL FIELD 31 DEC 2003



Further information at www.fortum.com/2003/hr

Open and active interaction with stakeholders

- Fortum won award for the best environmental and social reporter in Finland
- Information to customers about efficient use of energy
- Active dialogue on nuclear power

Regular studies of customer satisfaction and attitudes to energy are among the key feedback channels in the continuous development of operations, products and services.

96% (94%) of those who took part in the Energy Attitudes 2003 study in Finland had heard of Fortum very often or fairly often and 40% (41%) regarded Fortum as one of the most professional in the energy field.

Information about efficient use of resources

In 2003, Fortum carried out several energy audits at the premises of its business customers identifying a substantial savings potential. Also the new version of “e-statistik”, the web-based tool for energy and environmental follow-up, was launched and favourably received by the market in Sweden.

Fortum provides the general public with information on the efficient use of resources in various information centres. Fortum inaugurated a new information centre at its Högdalen power plant in Stockholm and arranged a number of exhibitions on efficient use of energy including one in GlashusEtt in Stockholm.

Active dialogue encouraged

Fortum is committed to maintaining good relations with its neighbouring communities. Formal and informal groups exist to promote mutual cooperation in several locations. Fortum’s policy is to be proactive in its communication, which is based on openness and honesty.

Fortum regularly monitors the views of the local residents in the areas around its refineries. According to a study carried out in 2003, the majority of those living in close proximity to the refineries, the regional decision-makers and media representatives, are satisfied with the amount of information they receive, albeit the overall level of satisfaction was slightly lower than the previous year. In 2003, dialogue with local residents was focused on the investment project at the Porvoo refinery.

Fortum’s participation in the new nuclear power project in Finland inspired various forms of dialogue, for example with Greenpeace, including meetings, telephone calls and correspondence by letter and e-mail. Demonstrations at Fortum’s offices in the Nordic countries were part of this dialogue.

Support to research, education, arts and sport

In spring 2004, the Fortum Foundation distributed a total of EUR 330,000 (300,000 in 2003) in grants to support research and development work relating to its business. Fortum continued working in partnership with several schools and teaching organisations during the year.

In Finland, Fortum spent a total of EUR 300,000 (300,000) on various charitable causes in 2003. These included projects relating to children and youth, and to the arts and culture, as well as sports and anti-drug campaigns. Fortum is the main sponsor of Operation Mermaid, WWF Finland’s campaign for the protection of the Baltic Sea. In 2003, it supported the training and equipping of WWF’s voluntary oil spill cleanup groups. The three biggest single sponsorship projects were the Ice-hockey World Championships, Neste Rally Finland, and the Folkoperan in Stockholm.

In 2003, Fortum won an award for the best overall reporter in the field of environmental and social responsibility reporting in Finland. A separate report “Fortum in Society 2003” will be published in spring 2004. For more detailed information on Fortum’s management of EHS issues and its local community activities, please visit www.fortum.com/environment.

Risk management

The objective of risk management in Fortum is to support the achievement of agreed targets while avoiding unpleasant operational and financial surprises.

Risk management policy

Fortum's Board of Directors approves the Corporate Financial Risk Policy, which sets the objectives, principles, processes and responsibilities for financial risk management within the Group. The policy sets guidelines for defining, quantifying, monitoring and reporting market risks and other financial risks. These risks include electricity price and volumetric risks, oil price and refining margin risks, liquidity and refinancing risks, currency and interest rate risks, counterparty risks, as well as operational risks.

The management of operational risks is governed by policies, procedures and instructions. These risks include nuclear risks, risks at production facilities, environmental and safety risks, IT and security risks, and political and regulatory risks.

Risk management organisation

Generally, risks are managed at source, i.e. within the business units where the risks occur. This applies to commodity risk management and operational risks. The exception is Group Treasury, which is responsible for managing the Group's currency, interest rate and refinancing risks as well as for establishing Group-wide insurance schemes for covering certain operational risks.

The Chief Financial Officer is responsible for financial risk management at the corporate level. Financial risk control is organised within the Corporate Finance unit. Risk control functions at the business unit level are responsible for reporting their risks to the Corporate Risk Control and Corporate Credit Control functions, where Group-wide consolidation and analysis is performed.

Risk management process

Risk management is a continuous process that contributes to the enhancement of risk management practices within Fortum. The business units are responsible for identifying, managing and reporting their risks. Consolidation and analysis at the corporate level monitors the effects on the Group as a whole as well as the efficiency of the process and suggests improvements.

Market risks

Market risk management is a core element of Fortum's business operations. The main principle is that risks are quantified as accurately as possible and monitored against approved limits in relation to projected earnings and/or cash flow. A number of different methods, such as Value-at-Risk and Profit-at-Risk, are used throughout the Group to support this principle. In addition, stress-testing is carried out on a continuous basis in order to assess the effects of extreme price movements on Fortum's earnings.

The main market and financially-related risks affecting Fortum's earnings are:

- electricity price and production and sales volumes
- crude oil price and refining margins
- liquidity and refinancing risks
- currency and interest rate levels

Electricity price and volumetric risks

The main short-term factor influencing electricity prices and volumes is the weather and its effect on the hydrological balance in the Nordic market.

Fortum manages risks in assets for electricity generation separately from customer sales. Price risks in electricity generation are managed through electricity derivatives and sales contracts in order to hedge the cash flows generated by production assets. These contracts are used to reduce the effect of electricity price volatility on Fortum's earnings and to secure certain targets. Strategies for achieving these targets are continuously evaluated as market prices or hydrological situations change.

Fortum Markets manages both the price- and temperature-related risks in its sales business through the prudent pricing of end products combined with an active portfolio management which is steered by the accepted risk policy. Cash flows generated from customer sales contracts are subject to uncertainty due to the fact that the consumption and price levels are not always known. The objective is to hedge the contracts as accurately as possible in order to minimise the uncertainty in profit margins.

The effects of potential changes in electricity prices and volumes on Fortum's earnings are monitored on a continuous basis. Given the hedge ratios on 31 December 2003, an EUR 1/MWh change in the market price of electricity would affect Fortum's 2004 pre-tax earnings by approximately EUR 25 million assuming that there will be no significant change in production mix.

Oil price and refining margin risks

Main fundamentals affecting oil prices are demand-supply balance, inventory levels and economic growth. OPEC's ability to control crude oil supply is the most important factor for maintaining demand-supply balance in oil market.

The stock of crude oil and oil products consists of compulsory and operational storage volumes. Changes in the market price of oil affect the value of the stock. Compulsory storage volume covers 70–80% of the total stock. Only operational stock volumes that create a cash flow effect are hedged. A change of USD 1/bbl in the price of the crude oil and oil products stock that is not covered by hedging would affect Fortum's pre-tax earnings for 2004 by approximately EUR 10 million.

The oil refining business is exposed to changes in refining margins, which affect cash flow generation. Given the hedge ratio at the end of 2003, a change of USD 0.1/bbl in the company's total refining margin would affect Fortum's pre-tax earnings by approximately EUR 10 million.

Liquidity and refinancing risks

Fortum ensures that it has access to credit facilities to cover forecast financing requirements at all times, and also to ensure it has sufficient reserves to meet unexpected increases in financing needs. The funding arrangements must be diversified and flexible to allow for increases and decreases of the debt portfolio if so required.

Fortum's goal is to be an attractive borrower in the bank and debt capital markets, with the aim of procuring financing at the best possible terms and conditions compared to similarly rated companies.

In order to allow maximum flexibility over the Group's assets, financing in Fortum is primarily raised unsecured and is concentrated in the parent company Fortum Corporation.

Currency and interest rate risks

Fortum has cash flows and investments in currencies other than euros. Changes in exchange rates therefore affect Fortum's earnings. The largest exposures are in USD, NOK and SEK. USD exposures arise mainly from the oil refining and shipping businesses since prices for oil products and freights are set in USD. NOK exposures arise from electricity trading, as financial contracts on Nord Pool, the Nordic power exchange, are quoted in NOK. SEK exposures arise largely from assets in Sweden. Fortum's target for currency risk management is to minimise fluctuations in earnings and cash flow due to changes in currency rates.

Fortum's interest-bearing debt as per 31 December 2003 was EUR 6,065 million. Fortum's debt portfolio consists of loans and bond issues with differing maturity profiles. Fortum can affect the duration by entering into interest rate contracts. Strategies for the optimal structure of the debt portfolio are continually evaluated in order to achieve the Group's targets. Given the debt portfolio at the end of 2003, a 1% change in interest rates would affect Fortum's 2004 pre-tax earnings by approximately EUR 20 million.

Counterparty risks

Counterparty risks arise when entering into contracts and occur in all normal business operations where Fortum is expecting payment for products sold or services rendered. It is therefore important for Fortum to have control at all times over current exposures and to know the counterparties that are dealt with.

Counterparty risks are quantified as the expected loss to Fortum given a default situation. Limits are set at the Group level and delegated to the business units. Corporate Credit Control monitors and reports counterparty exposures according to the approved limits. Fortum's aim is to minimise counterparty risks, and continuous efforts are in place to mitigate these risks through the use of netting agreements, clearing functions and, where possible, guarantees and collaterals.

Operational risks

Large-scale energy business involves many types of operational risks. Fortum makes a consistent effort to be fully aware of these risks and to manage them proactively through systematic approaches and procedures.

Fortum's objective is to minimise these risks by clearly documented and automated processes and ensuring a strict distinction between decision-making and controlling functions.

In order to mitigate operational risks, Fortum has established world-wide insurance programmes for risks related to property damages and business interruption, liability exposures, cargo transport and business travel. Fortum Insurance Ltd, a captive company established in 1988, participates in Fortum's property and business interruption programmes, in which all industrial plants are covered on a replacement cost basis. The competitiveness of insurance costs is secured through economies of scale and direct access to the international insurance market.

Sudden and unexpected environmental damages are covered world-wide by Group liability insurance. Fortum also participates in IOPC, the International Oil Pollution Compensation Fund on oil spills.

Nuclear risks

Fortum owns the Loviisa nuclear power plant and has minority interests in one Finnish and two Swedish companies with nuclear plants. In Finland and Sweden, third-party liability relating to nuclear accidents is strictly the plant operator's responsibility. As the operator of Loviisa power plant, Fortum has a statutory insurance policy of 175 SDR *) (some EUR 210 million) per nuclear incident, which is the upper liability limit for Fortum under the provisions of the Finnish Nuclear Liability Act.

In accordance with the Finnish Nuclear Energy Act, Fortum has accounted and made fund contributions for the costs that will arise from nuclear waste management. Each year Fortum's fund holding in the Finnish State Nuclear Waste Management Fund covers in full the future cost of handling and disposing of accumulated nuclear waste and the decommissioning of the Loviisa power plant.

Risks at production facilities

As part of the annual business planning process, maintenance and turnaround programmes are approved for each business unit. Audits and continuous training of employees emphasise the importance of proactive measures.

The Fortum concept of operation and maintenance has been implemented in the power plants and a high availability has been achieved. The concept includes condition monitoring and mitigation of risks. Risk analyses are integrated in the investment planning and implementation processes.

Assessment and improvement of nuclear safety at Loviisa power plant is a continuous process, which is performed under the supervision of the Radiation and Nuclear Safety Authority of Finland (STUK). The modifications related to the extensive programme of severe accident management were completed in 2003.

Dams have been constructed for the water regulation in rivers with hydro power plants. The long-term programme for the improvement of the surveillance of the conditions of the dams and to secure the discharge capacity in extreme flooding situations continued in 2003.

In distribution business, storms and other unexpected events may cause electricity outages which typically are short. However, it is not possible to totally prevent outages, but distribution business has a procedure with the aim to minimize the length and consequences of outages in exceptional circumstances. Outages cause costs for repairs and customer compensation. The same compensation principles apply for all distribution companies in each country. Other risks at distribution's production facilities are relatively low. The sub-stations are regularly inspected based on legislation and good business practice.

The refineries conduct risk-based inspections for planning of operational reliability and perform extensive risk analyses of investment projects. Comprehensive procedures and alarm systems related to safety and environmental damages are in place. Captive fire brigades are immediately available at the refineries for emergency situations.

In order to minimise risks and ensure the safe transport of crude oil and petroleum products, Fortum uses only double-hull or partly-double-hull tankers. Most of the tankers also have the ice classification needed for year-round operations in the Baltic Sea. Regular inspections by clients combined with Fortum's vetting policy and tanker inspections further promote safe marine operations. Furthermore, the ongoing programme for renewing the fleet is decreasing the average age of the fleet.

In the oil retail business, equipment at service stations is provided with the best available techniques for protecting soil and groundwater. Comprehensive

*) SDR = Special Drawing Right, an artificial currency unit defined by the International Monetary Fund as a basket of key international currencies

guidelines, training and alarm systems have been established to prevent operational and safety risks such as equipment failures, fuel mixes, fires or malicious damage to assets.

Environmental, health and safety risks

Environmental and safety risks are regularly evaluated through internal and external audits and risk assessments. The importance of corrective and preventive action is further emphasised by launching focused development projects and training programmes.

Environmental, health and safety risks attached to transactions, i.e. acquisitions and divestments, are systematically evaluated and liabilities are defined in contracts.

Climate change is set to become the biggest environmental challenge for energy companies in the future. Developing EU-wide and national climate strategies implies stricter climate control. Emissions trading in the EU will be the key short-term control instrument. According to the EU directive on emissions trading, all EU countries must initiate CO_2 trading from beginning of 2005. Approximately 80% of Fortum's power production is based on carbon-free energy sources.

In order to raise the level of know-how and hedge against the climate risks, Fortum has invested in the Prototype Carbon Fund (PCF) of the World Bank.

IT and information security risks

Group common IT and information security risks are managed centrally within the Corporate IT Services unit. Corporate policies define guidelines and set procedures for minimising the risk of losses or costs caused by breakdowns in IT-related processes or breaches in security. The main objective is to mitigate IT-related risks and to increase reliability and security by consolidating IT infrastructure and common applications. During the year, business continuity plans were developed and the architecture of critical operative systems were revised. Furthermore, an information security auditing program was conducted, incident management and security awareness programmes were continued, and a new Fortum Emergency Response Team (FERT) was established.

Political and regulatory risks

Development of the political and regulatory environment has a major impact on the energy industry and on the conditions of its business operations. To manage these risks and proactively participate in the development of the political and regulatory framework, Fortum maintains an active and on-going dialogue with the bodies involved in the development and enforcement of laws and regulations. Core methods include close cooperation with key Nordic and European industrial organisations that have memberships in national, Nordic and European trade and industry organisations.

Fortum's business operations in Russia are rather limited. However, the ongoing restructuring of the energy industry in Russia and the political energy dialogue process between the EU and Russia may have an impact on the Nordic energy market and on Fortum. To manage the related risks, Fortum has intensified the follow-up and assessment of these developments.

Corporate governance

Fortum applies principles of good corporate governance that strive to establish and maintain transparent governance at all levels of the organisation.

More transparency

Fortum is managed from its head office in Finland. Fortum adheres to the Finnish Companies Act and the guidelines on the administration of publicly listed companies, issued by the Central Chamber of Commerce of Finland, the Confederation of Finnish Industry and Employers, and the Helsinki Stock Exchanges.

Fortum prepares annual financial and interim financial accounts conforming to Finnish legislation. They are published in Finnish, Swedish and English. The International Financial Reporting Standards (IFRS) will be adopted as of 2005.

Insider guidelines

Fortum also observes the Guidelines for Insiders issued by the Helsinki Stock Exchanges. Fortum's own internal insider guidelines are regularly updated and made available to all permanent insiders. The company arranges training on insider rules.

Permanent insiders are members of the Supervisory Board, members of the Board of Directors, the President and CEO, auditors and deputy auditors, as well as employees of audit organisations who have the main responsibility for the audit of the company, members of the Corporate Executive Committee, certain specified executives, secretaries to the above persons, and other persons who, by virtue of the exercise of their duties, regularly receive information on the company, which is likely to have material effect on the value of the shares and related securities of the company.

Fortum maintains an insider list which is kept in the insider register system of the Finnish Central Securities Depository. The list of insiders is publicly available and continuously updated on Fortum's website.

The permanent insiders shall time the trading of shares and related securities issued by the company so that the trading does not undermine confidence in the securities markets. It is recommended that the permanent insiders acquire shares and related securities issued by the company as long-term investments. The permanent insiders may not trade in shares and related securities issued by the company within 21 days prior to the publication of the interim reports and financial statements of the company.

The company supervises compliance with insider rules by asking the permanent insiders to check the accuracy of the information given by them each year. In addition, at least once a year, the company checks the trading of permanent insiders based on the information held in the register of the Finnish Central Securities Depository Ltd.

The company may, on a case-by-case basis, supervise the trading of shares and related securities of its permanent insiders more accurately, for example, if a permanent insider trades in large volumes of shares and related securities or the trading of shares and related securities is continuous.

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

Governing bodies

The decision-making bodies running the Group's administration and operations are the Annual General Meeting, Supervisory Board, Board of Directors with its two Committees and the President and Chief Executive Officer assisted by the Corporate Executive Committee. The Board of Directors supervises the performance of the company, its management and organisation on behalf of the shareholders. The Supervisory Board, the Board of Directors and the Corporate Executive Committee are separate bodies, and no-one serves as a member of all three of them.

Governing bodies	Assisting and supporting bodies
Annual General Meeting	
Supervisory Board	
Board of Directors	Audit Committee
	Nomination and Compensation Committee
President & CEO	Corporate Executive Committee
Auditors	

Day-to-day operational responsibility at Group level rests with the President and CEO assisted by the Corporate Executive Committee and at Business Unit level with its President assisted by a management team. (See organisation structure on page 4.)

Further information at www.fortum.com/2003/governance

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

Amendments to the Articles of Association

On 18 December 2003, the Extraordinary General Meeting of Shareholders approved amendments to the Articles of Association. According to the amendments, the Annual General Meeting elects the Board of Directors for one year. Furthermore, the Board of Directors convenes the General Meeting of Shareholders and appoints the President and CEO of the company.

General Meeting of Shareholders

A notice convening the General Meeting of Shareholders is issued by the Board of Directors. The notice is delivered no more than two months and no less than 17 days before the General Meeting of Shareholders by publishing the notice in two newspapers chosen by the Board of Directors. The Annual General Meeting is held once a year, at the latest in June. An Extraordinary General Meeting of Shareholders shall be held whenever the Board of Directors finds cause for such a meeting or when provisions of the law rule that such a meeting must be held.

The shareholders who are registered with the register of shareholders of the company, which is maintained by the Finnish Central Securities Depository Ltd, are entitled to attend the General Meeting of Shareholders. Shareholders who hold their shares under the name of a nominee can be temporarily registered with the register of shareholders of the company to allow attendance at the General Meeting of Shareholders.

To be entitled to take part in the General Meeting of Shareholders, the shareholder shall register with the company at the latest by the day which is mentioned in the notice convening the meeting and which may be no more than ten days before the meeting.

If a shareholder wishes to bring up a matter for consideration by the General Meeting of Shareholders, he/she shall present the matter in writing to the Board of Directors early enough for the matter to be included in the notice convening the meeting.

The duties of the Annual General Meeting are, for example, to approve the parent company and consolidated income statement and balance sheet annually, agree the amount of dividends to be paid, agree on the number of members on the Supervisory Board and the Board of Directors and on the number of auditors, appoint the members of the Supervisory Board and the Board of Directors and elect the auditors, and decide on emoluments for the members of the Supervisory Board and the Board of Directors and remuneration for the auditors.

The dividend will be paid to shareholders who, on the record date for dividend payment, are registered with the register of shareholders of the company, which is maintained by the Finnish Central Securities Depository Ltd.

Supervisory Board

The Supervisory Board is responsible for overseeing that the shareholders' interests are safeguarded. The main tasks of the Supervisory Board are to supervise the administration of the company, to submit its statement on the annual accounts and the audit report to the Annual General Meeting, to discuss proposals on matters that involve a substantial downsizing or expansion of the business or a material modification to the organisation.

The members of the Supervisory Board, its Chairman and Deputy Chairman are elected at the Annual General Meeting for a one-year term of office. A person who has reached the age of 65 years may not be elected as a member of the Supervisory Board.

The Supervisory Board comprises a minimum of ten and a maximum of 20 members; the current number is 10. The Supervisory Board meetings are also attended by four employee representatives who are not members of the Supervisory Board. More than half of its members must be present to constitute a quorum. In 2003, the Supervisory Board met six times. Average attendance at these meetings was 90%.

In the 2003 Annual General Meeting, the following persons were elected to the Supervisory Board for a one-year term of office: Members of Parliament Leena Luhtanen (b. 1941), Chairman of the Supervisory Board (resigned in April, 2003), Ben Zyskowicz (b. 1954), Deputy Chairman of the

Supervisory Board, Satu Hassi (b. 1951), Klaus Hellberg (b. 1945), Rakel Hiltunen (b. 1940), Mikko Immonen (b. 1950), Tanja Karpela (b. 1970, resigned in April 2003), Kalevi Lamminen (b. 1935) and Matti Vanhanen (b. 1955, resigned in April 2003); Counsellor of State Harri Holkeri (b. 1937); Director General Jorma Huuhtanen (b. 1945); Industrial Counsellor Kimmo Kalela (b. 1941) and Chairman of the Town Executive Board Juha Mikkilä (b. 1959). The employee representatives were Tapio Lamminen (workers), Satu Laiterä (managers and professionals), Matti Neiglick (workers) and Edvard Trebs (clerical staff).

Board of Directors

The Board of Directors is responsible for the administration of the Group and for ensuring that the business complies with the relevant rules and regulations, Fortum's Articles of Association, and the instructions given by the Annual General Meeting and the Supervisory Board.

The Board of Directors is responsible for the company's strategic development and for supervising and steering the business. It also decides on the Group's key operating principles; confirms the company's annual operating plan, annual financial statements and interim reports; decides on major investments; confirms the company's ethical values and operating principles and oversees their implementation; appoints the President and CEO of the company; appoints deputies and the immediate subordinates to the President and CEO and decides on their remuneration; confirms the Corporate Executive Committee and the Group's organisational and operating structure at senior management level; and defines the company's dividend policy.

The Board of Directors comprises five to seven members who are elected at the Annual General Meeting of Shareholders. Their term of office expires at the end of the first Annual General Meeting following the election.

The current number of Board members is six. More than half of the members must be present to constitute a quorum. A person aged 65 or over cannot be elected to the Board of Directors. In 2003, the Board of Directors met 14 times, of which six were teleconferences. Average director attendance at all Board and committee meetings was 96%. The two single most important issues during the year were decisions on spinning off the oil business and participation in the fifth Finnish nuclear power unit.

The members of the Board of Directors are all non-executive and independent with the exception of Mr. Vuoria who was the Executive Chairman of the Board until the end of December 2003, and Mr. Virtanen who represents the Finnish State, the majority shareholder. "Independent" means that the members of the Board have no material relationships with Fortum apart from Board membership or that the members are independent of a significant shareholder of the company (see page 43).

The President and CEO, the Chief Financial Officer and the General Counsel regularly attend Board meetings. Other Corporate Executive Committee members attend as required to provide information to the Board or upon invitation by the Board or the President and CEO.

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

The Board Committees

The Board of Directors appoints an Audit Committee, and a Nomination and Compensation Committee, each having three members. A quorum is two members. The members of these committees are all non-executives. Members will be appointed for a one-year term of office.

The Audit Committee will assist the Board of Directors in fulfilling its supervisory responsibilities. The Committee will oversee the financial reporting process, the systems of accounting and financial controls, the management of financial risks, and monitor the independence and performance of the external auditors.

In 2003, the Audit Committee was chaired by Birgitta Kantola and the members were Hans von Uthmann and Erkki Virtanen. In 2003, the Audit Committee met three times. The main items during the year included a review of the Corporate Financial Risk Policy Guidelines, the External Auditors selection process and the Audit Committee Charter. In 2004, the Audit Committee is chaired by Birgitta Kantola and the members are Peter Fagernäs and Erkki Virtanen.

The Nomination and Compensation Committee discusses, assesses and makes proposals on the Group's and Group management's pay structures, bonus and incentive systems, and contributes to nomination issues. In 2003, the Nomination and Compensation Committee was chaired by Heikki Pentti and the members were Lasse Kurkilahti and Antti Lagerroos. The Nomination and Compensation Committee met once. The main items during the year included the new long-term incentive programme for key employees and the yearly performance assessment-based compensation and bonus payment recommendations. In 2004, the Nomination and

Compensation Committee is chaired by Heikki Pentti and the members are Lasse Kurkilahti and Antti Lagerroos.

Succession Planning and Management Development

At least one Nomination and Compensation Committee meeting per year addresses succession planning, together with the President and CEO's as well as other Group management's performance and compensation.

The evaluation of the performance of the President and CEO is based upon objective criteria including the performance of the company and the President and CEO's achievement of goals previously approved by the Committee. The evaluation is used by the Committee to determine the level of the President and CEO's compensation to be recommended for approval by the Board of Directors.

President and CEO

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

Corporate Executive Committee

The Corporate Executive Committee consists of seven members (see pages 44–45). The Corporate Executive Committee's tasks and responsibilities include the preparation of strategic guidelines, the review of annual business plans, follow-up of results, investment planning and follow-up, planning and control of mergers, acquisitions and divestments, the review of key day-to-day operations and operational decisions.

Remuneration policy

The Group's remuneration policy is designed to provide competitive rewards for its senior executives and other management, taking into account the company's performance, the markets in which the Group operates, and external market data from independent sources, in particular, salary levels for similar positions in comparable companies. The remuneration package consists of base salary, including fringe benefits, and an annual individual performance bonus. In addition, long-term benefits such as share options or shares according to a new performance share arrangement can be granted. The remuneration package is determined by the Board of Directors.

Annual bonus system

An annual performance bonus system designed to support the achievement of Fortum's short-term goals is employed throughout the Group. Every Fortum employee is covered by some kind of bonus system. The criteria used in determining the size of the bonus for senior management are confirmed annually by the Board of Directors on the recommendation of the Nomination and Compensation Committee. The criteria for recognising employees' progress in reaching their personal goals are mutually agreed by the employee and his/her superior in an annual performance discussion. The person to whom the superior reports approves the criteria.

Also the President and CEO as well as the Group management are paid performance bonuses in addition to their salary and fringe benefits, the size of which is dependent on the Group's financial performance and success in reaching individual goals. The target bonus is 25% and maximum bonus is 50% of the person's annual salary. For executives with business unit responsibilities, the scheme is structured to reflect the performance of their business unit as well as that of the Group.

COMPENSATION FOR SUPERVISORY BOARD AND BOARD OF DIRECTORS PAID BY FORTUM

EUR	Total compensation 2003	Total compensation 2002
Chairman of the Supervisory Board	4,400.00 *)	10,794.92
Deputy Chairman of the Supervisory Board	8,200.00	8,050.06
Members of the Supervisory Board	67.300,00	77,366.89
Deputy Chairman of the Board	36,004.00	35,504.61
Other members of the Board of Directors	129,417.06	126,009.54

*) 4 months

SHARES AND SHARE OPTIONS HELD BY THE MEMBERS OF THE SUPERVISORY BOARD AND THE BOARD OF DIRECTORS ON 31 DECEMBER 2003

	Shares	Options 1999
Members of the Supervisory Board		
Kalela, Kimmo	3,200	-
Mikkilä, Juha	2,963	300 *)
Members of the Board of Directors		
Pentti, Heikki	546	-
Vuoria, Matti	39,420	-

*) Bond loan with warrants - bought from the market

The performance bonuses of the Corporate Executive Committee were 0.09% of the total salaries and remunerations paid in the Group.

Long-term incentives

The management share option scheme (1999), a bond loan with attached warrants for employees (1999) and a share option scheme for key employees (2001 and 2002), all support the achievement of Fortum´s long-term goals.

In 2003, Fortum launched a new Performance Share Arrangement for key personnel in the Group to replace other possible long-term incentive schemes for senior management. The potential reward under the Performance Share Arrangement will be based on the performance of the Group, its business units and the individual manager as well as appreciation of Fortum shares. Initially, the new arrangement involves some 190 key employees.

More details in the official financial statements on pages 86–88.

Pension

Fortum's Finnish executives participate in the Finnish TEL pension system which provides for a retirement benefit based on years of service and earnings according to the prescribed statutory system. Under the Finnish TEL pension system, base pay, incentives and other taxable fringe benefits are included in the definition of earnings, although gains realised from stock options are not. The Finnish TEL pension scheme provides for early retirement benefits at age 60 and full retirement benefits at age 65. The current TEL provisions cap the total pension benefit at 60% of the pensionable earnings amount.

For the President and the CEO and the members of the Corporate Executive Committee, the retirement age is 60 and the pension paid is 66% or 60% of the remuneration.

Notice

In the event that Fortum decides to give notice to the President and CEO, he is entitled to compensation equalling 24 months' salary.

Compensation for Supervisory Board service

Each Supervisory Board member receives a fixed fee per year and a meeting fee. The employee representatives receive only a meeting fee. All members are entitled to travel expense compensation against receipt.

Compensation for Board service

Each Board member receives a fixed fee per year. The total amount allocated for the remuneration of the Board members is approved by the Supervisory Board. No Board meeting fees were paid in 2003. For each Committee meeting attended, a fee of EUR 1,000 was paid to the Chairman, and EUR 700 for each member. Non-executive Board members are not offered stock options, warrants or participation in other incentive schemes.

There is no pension plan for non-executive directors.

Fortum Personnel Fund

The Fortum Personnel Fund (for Finnish employees only) has been in operation since 2000. Persons included in the Group's long-term incentive schemes are not eligible to be members of this fund. The Board of Directors determines the criteria for the fund's annual profit sharing bonuses.

The profit-sharing rewards received by the fund are distributed between the members as shares in an equal proportion of euros.

COMPENSATION FOR EXECUTIVE CHAIRMAN OF THE BOARD, THE PRESIDENT AND CEO AND THE CORPORATE EXECUTIVE COMMITTEE PAID BY FORTUM

EUR	Salaries and fringe benefits 2003	Salaries and fringe benefits 2002	Performance-related bonuses 2003	Performance-related bonuses 2002	Total 2003	Total 2002
Executive Chairman of the Board	355,920.00	335,699.06	91,298.34	79,069.47	447,218.34	414,768.53
President and CEO	673,728.24	626,325.64	179,130.08	155,276.23	852,858.32	781,601.87
Other members of the Executive Committee	1,514,772.65	1,242,544.16	303,659.97	265,622.27	1,818,432.62	1,508,166.43

Further information at www.fortum.com/2003/governance

Pension foundations

Fortum has two pension foundations in Finland: Fortum Pension Foundation and Imatran Voima Pension Fund. In respect of supplementary pensions, they have been closed in 1994 and 1991 respectively.

Assessment of the Board of Directors

An annual self-assessment procedure has been formalised to improve the performance of the Board of Directors. The process evaluates whether each Board member participates actively in the Board discussions and contributes with independent judgement, and whether the environment supports open discussion at Board meetings. The Board continuously assesses, formally once a year, the performance of each director.

Risk management

The objective of risk management within Fortum is to support the achievement of agreed targets while avoiding unpleasant operational and financial surprises.

The Board of Directors approves the Group's financial risk policy.

More details on risk management can be found on pages 32–35.

External and internal auditing

The internal auditing function, which reports to the Audit Committee and the Chief Financial Officer, ensures that the company and the Group operate in compliance with the relevant rules and regulations as well as with the Group's operating principles. Internal auditing also ensures that Fortum's risk management policies are followed.

The company has no less than one and no more than three regular auditors and no more than one deputy auditor, who shall all be auditors or auditing corporations approved by the Central Chamber of Commerce.

The term of office of auditors expires at the end of the first Annual General Meeting of shareholders following the election. A person who has reached the age of 65 years may not be elected auditor.

PricewaterhouseCoopers Oy was named as Fortum's independent auditors effective 27 March 2003 with Pekka Kaasalainen, Authorised Public Accountant, having the principal responsibility in 2003.

The fees invoiced and expected to be invoiced by the independent auditors for professional services rendered for the audit of Fortum's 2003 annual financial statements and other services through 31 December 2003 were as follows:

EUR 1,000	
Audit fees	1,413
IAS assignments	1,686
Tax assignments	313
Other	522
Total	3,934

SHARE OPTIONS, CORPORATE EXECUTIVE COMMITTEE AND EXECUTIVE CHAIRMAN OF THE BOARD

	1999 Received	Remaining 31 Dec 2002	Remaining 31 Dec 2003	2001A+B Received	Remaining 31 Dec 2003	2002A Received 2002	2002B Received 2003	Remaining A+B 31 Dec 2003
Mikael Lilius	350	350	-	400,000	400,000	340,000	340,000	680,000
Mikael Frisk	175	175	-	200,000	200,000	150,000	150,000	300,000
Tapio Kuula	250	250	125	200,000	200,000	200,000	200,000	400,000
Juha Laaksonen	125	125	125	200,000	200,000	250,000	175,000	425,000
Christian Lundberg	-	-	-	-	-	150,000	175,000	325,000
Risto Rinne	175	125	-	125,000	125,000	90,000	90,000	180,000
Veli-Matti Ropponen	250	250	50	200,000	200,000	200,000	200,000	400,000
Carola Teir-Lehtinen	175	175	75	200,000	200,000	150,000	150,000	300,000
Matti Vuoria	350	-	-	400,000 *)	-	340,000 *)	340,000 *)	- *)

*) Mr Vuoria returned the options on 31 December 2003 upon termination of his employment with Fortum.

Further information at www.fortum.com/2003/governance

Board of Directors on 31 December 2003

Matti Vuoria
Master of Laws, born 1951, Executive Chairman. Mr Vuoria is a Director of a number of companies, including Orion Corporation and The European Renaissance Fund Limited. He is also Vice Chairman of Danisco A/S and Chairman of Nokian Tyres plc and Solidium Oy. He has been member of the Board of Directors since 1998, and was a non-independent member. His term of office as Chairman expired on 31 December 2003.

Heikki Pentti
BSc (Econ) MBA, born 1946, Deputy Chairman. Mr Pentti is Chairman of Lemminkäinen Corporation. He is also a Director of Myllykoski Corporation. He has been member of the Board of Directors since 1998. Independent member.

Birgitta Kantola
Master of Laws, born 1948. Former Executive Vice President (Finance) of Nordic Investment Bank (1991–1995) and Vice President and CFO of International Finance Corporation, Washington D.C. (1995–2000). Currently she is a Director of Vasakronan AB, Akademiska Hus AB, Nordea AB and Varma Mutual Pension Insurance Company. She has been member of the Board of Directors since 2001. Independent member.

Lasse Kurkilahti
BSc (Econ), born 1948. President and CEO of Kemira Oyj. Former President and CEO of Elcoteq Network Corporation (2002–2004), President of Raisio Group (2000–2001) and President of Nokian Tyres plc (1988–2000). He is also Chairman of the Boards of Fintra and Fountain Park Oy and a Director of Lassila & Tikanoja plc. He has been member of the Board of Directors since 2002. Independent member.

Antti Lagerroos
Licentiate in Laws, born 1945. Mr Lagerroos is President and CEO of Finnlines Plc, as well as a member of the Board of Directors in the same company. He is Chairman of Wärtsilä Corporation and a member of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company. He has been member of the Board of Directors since 2002. Independent member.

Erkki Virtanen
MSc (Social Sciences), born 1950. Mr Virtanen is Permanent Secretary at the Ministry of Trade and Industry and Deputy Chairman of Sitra, the Finnish National Fund for Research and Development. He has been member of the Board of Directors since 1999. Non-independent member.

Hans von Uthmann
born 1958. Mr. von Uthmann, Board member since 2002, resigned from his position at the Board of Directors of Fortum Corporation on 5 November 2003.

Peter Fagernäs
born 1952, was elected Chairman of the Board as of 1 January 2004. Mr Fagernäs is Managing Director of Hermitage & Co. Oy and a member of Board of Directors in Finnlines Plc.

For the period 1 January 2004 to 25 March 2004 the following persons were elected to the Board of Directors: Mr Heikki Pentti, Deputy Chairman; Mrs Birgitta Kantola; Mr Erkki Virtanen; Mr Antti Lagerroos, and Mr Lasse Kurkilahti.

Matti Vuoria, Lasse Kurkilahti, Birgitta Kantola, Heikki Pentti, Erkki Virtanen, Antti Lagerroos

Group management

Corporate Executive Committee on 31 Dec 2003

Mikael Lilius
BSc (Econ), born 1949, President and Chief Executive Officer.
Employed by Fortum since 2000.
Shareholding: 60,050
External Board memberships: Ahlstrom Corporation, Hafslund ASA, Huhtamäki Oyj, OAO Lenenergo, OM HEX AB

Mikael Frisk
MSc (Econ), born 1961, Senior Vice President, Corporate Human Resources.
Employed by Fortum since 2001.
Shareholding: -

Tapio Kuula
MSc (Eng), MSc (Econ), born 1957, President, Power and Heat sector.
Employed by Fortum since 1996.
Shareholding: 5,050
External Board memberships: Fingrid Oyj, Kemijoki Oy, OAO Lenenergo, Teollisuuden Voima Oy

Juha Laaksonen
BSc (Econ), born 1952, Chief Financial Officer.
Employed by Fortum since 1979.
Shareholding: -
External Board memberships: Teollisuuden Voima Oy

Christian Lundberg
born 1956, President, Fortum Markets
Employed by Fortum since 2003.
Shareholding: -

Carola Teir-Lehtinen
MSc (Chem), born 1952, Senior Vice President, Corporate Communications.
Employed by Fortum since 1986.
Shareholding: 1,970
External Board memberships:
Aktia Savings Bank plc

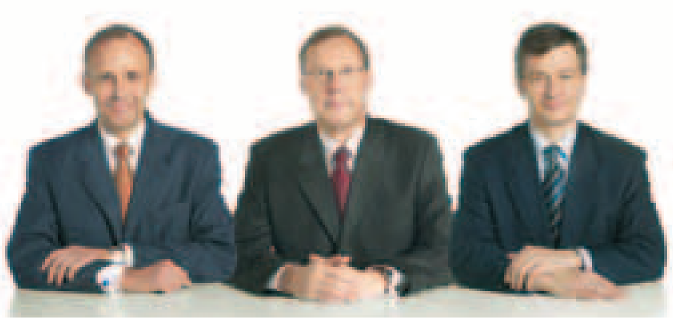
Mikael Lilius, Mikael Frisk, Carola Teir-Lehtinen, Christian Lundberg, Tapio Kuula, Juha Laaksonen

Veli-Matti Ropponen
MSc (Eng), BSc (Econ), born 1949, President,
Oil sector until 14 January 2004.
Employed by Fortum since 1973.
Shareholding: 3,701
External Board memberships: VR Yhtymä Oy

Risto Rinne
MSc (Eng), born 1949, President,
Oil sector as from 15 January 2004.
Employed by Fortum since 1975.
Shareholding: -

Secretary to the Board of Directors and
the Corporate Executive Committee:

Harri Pynnä
Master of Laws, born 1956, Senior Vice President,
Corporate Legal Affairs


Veli-Matti Ropponen until 14 January 2004 · Risto Rinne as of 15 January 2004 · Harri Pynnä

Other management on 15 February 2004

Power and Heat sector

Tapio Kuula	President
Anders Lehman	Distribution
Pekka Päätiläinen	Generation
Risto Riekko	Heat
Timo Karttinen	Portfolio Management and Trading
Kim Kronstedt	Service
Åke Pettersson	Värme

Oil sector

Risto Rinne	President
Risto Rinne	Oil Refining
Matti Peitso	Oil Retail
Risto Näsi	Shipping

Other

Christian Lundberg	President, Markets

Corporate Staff

Carola Teir-Lehtinen	Communications
Arja Koski	Environment, Health and Safety
Jaakko Tusa	EU and Russian Affairs
Juha Laaksonen	Finance
Mikael Frisk	Human Resources
Harri Pynnä	Legal Affairs

For more information about line responsibilities and reporting structures, please visit www.fortum.com/About Fortum/Corporate info.

Board of Directors' report

2003 was a successful year for Fortum. The company's financial performance continued to improve: both the operating results and cash flow from operating activities were clearly strengthened. The balance sheet and financing structure were significantly clarified, following an extensive refinancing programme. Net debt was reduced even though the redemption of the Fortum Capital Ltd preference shares worth EUR 1.2 billion previously accounted for as minority interest was financed with debt.

One of the key financial targets, ROE 12%, was exceeded for the first time.

In September, Fortum decided to commence preparations to separate its oil business into a new company and subsequently to list the company on the Helsinki Exchanges. Fortum also decided to invest approximately EUR 500 million in an upgrade of the Porvoo refinery in order to take advantage of well-established market trends and thereby further improve its competitiveness and profitability. These strategic decisions will enable Fortum to further increase its Nordic utility focus and to continue its active participation in the restructuring of the Nordic power and heat markets.

Fortum's market position was strengthened in its core business area, the Nordic countries and the rest of the Baltic Rim. Important strategic steps were taken in Norway and in north-western Russia when concluding an agreement with E.ON AG on a swap of power assets. In addition, Fortum acquired further shares in Hafslund ASA on the market, thereby increasing its shareholding interest in the company to 34.1%. In December, a decision was taken to participate in the new fifth nuclear power unit in Finland with a 25% share.

The key market drivers – the market price of electricity and the international oil refining margin – were significantly higher than during the previous year. The year was characterised by a deficit in water reservoirs and low hydropower generation resulting in a higher than normal need for thermal power generation. Nordic electricity consumption fell somewhat, mainly due to the milder than normal weather and the price elasticity of demand. However, Fortum was able to increase its market share of sales volumes to 15% of total Nordic consumption. The Brent Complex reference margin was more than double that of the previous year. Fortum's sales of oil products increased slightly due to increased exports.

The various performance improvement measures contributed to the positive trend in the results. The integration of Birka Energi progressed very well. The synergy benefits achieved during 2003 amounted to approximately EUR 130 million. Thus the target set for 2004, EUR 100 million, was exceeded ahead of schedule.

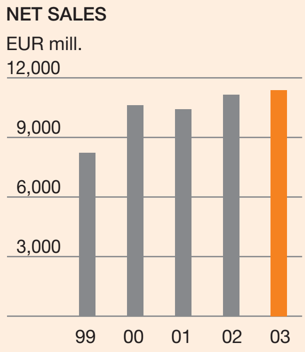
Net sales and results

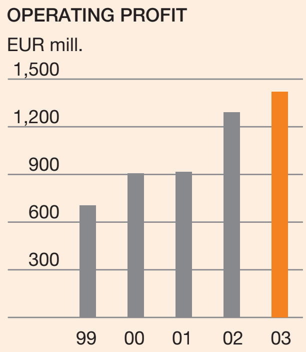
Group net sales stood at EUR 11,392 million (EUR 11,148 million in 2002).

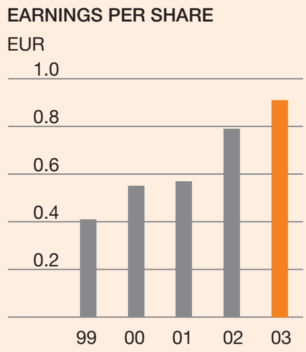
NET SALES BY SEGMENT

EUR million	2003	2002
Power, Heat and Gas	3,418	3,644
Distribution	688	640
Markets	1,540	1,280
Oil Refining and Marketing	7,192	7,083
Other operations	84	64
Internal invoicing	-1,530	-1,668
Total	11,392	11,043
Discontinuing operations *)	-	105
Group	11,392	11,148

*) internal sales excluded







Group operating profit totalled EUR 1,420 (1,289) million. Operating profit excluding non-recurring items stood at EUR 1,360 (974) million, an increase of EUR 386 million over the 2002 figures. Taking into consideration the impact of discontinuing operations, the rise in operating profit was EUR 547 million. The net amount of non-recurring items was EUR 60 (315) million. Most of the non-recurring items were gains on sales of fixed assets.

Total electricity sales volumes remained at the previous year's level, whereas heat volumes increased slightly. There was a marked improvement in the results for the Power, Heat and Gas segment due to higher electricity prices and improved efficiency of operations. Excluding non-recurring items, the improvement was even bigger.

Distribution's results were somewhat lower than the previous year due to substantial gains on sales in 2002. Operating profit excluding non-recurring items was up on the previous year's figures.

The results for Markets improved significantly compared to last year. The main enablers were better risk management, improved business processes and cost reductions.

The oil refining margins were markedly higher than in 2002, which gave a major boost to Oil Refining and Marketing's results. Shipping enjoyed high freight rates, especially for crude oil. The fleet utilisation rate continued to be high as a result of renewed tonnage and specialist knowledge of arctic conditions. The Oil Retail business also performed well.

OPERATING PROFIT BY SEGMENT

EUR million	2003	2002
Power, Heat and Gas	780	617
Distribution	247	279
Markets	43	-11
Oil Refining and Marketing	396	253
Other operations	-46	-64
Total	1,420	1,074
Discontinuing operations	-	215
Group	1,420	1,289

Profit before taxes was EUR 1,184 (1,008) million.

The Group's net financial expenses were EUR 236 (281) million. The positive development is a result of strong cash flow, less debt, the extensive refinancing programme launched in early 2003 and successful interest risk management during the year.

Minority interests accounted for EUR 90 (73) million of the results for the period. These minority interests were mainly attributable to the preference shares issued by Fortum Capital Ltd in 2000 that were redeemed at year end, and to Fortum Värme Holding, in which the City of Stockholm has a 50% economic interest.

Taxes for the period totalled EUR 325 (269) million. The tax rate according to the income statement was 27.4% (26.7%).

Net profit for the period was EUR 769 (666) million. Earnings per share were EUR 0.91 (0.79). Return on capital employed was 11.4% (11.1%) and return on shareholders' equity was 12.3% (10.5%).

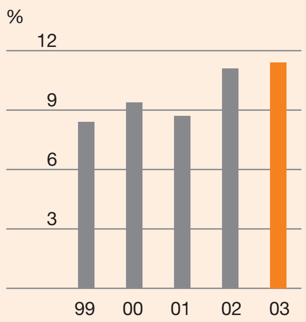
As from 1 March 2002, the former Birka Energi has been 100% consolidated into Fortum's figures. Until then, it had been consolidated using the proportionate method on the basis of 50% ownership.

Segment reviews

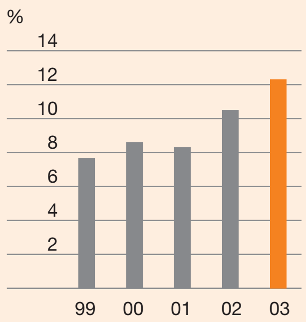
POWER, HEAT AND GAS

The year was characterised by a deficit in water reservoirs and low hydropower generation resulting in a higher than normal need for thermal power generation. At the beginning of the year, the need for expensive peak load capacity was reflected in high electricity prices. At the end of the year, prices declined due to low consumption caused by milder than normal weather.

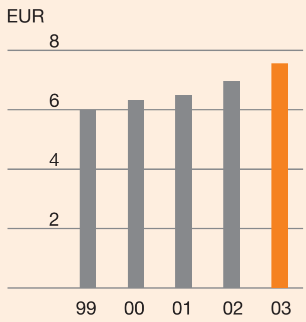
RETURN ON CAPITAL EMPLOYED



RETURN ON SHAREHOLDERS' EQUITY



SHAREHOLDERS' EQUITY PER SHARE



According to preliminary statistics, electricity consumption in the Nordic countries decreased by 3% to 378 TWh. Approximately half of the decrease in the consumption was due to the price elasticity of demand, caused by very high market prices in the beginning of the year. The other half was due to the warm weather during the second half of the year.

In 2003, the average price of electricity in Nord Pool was EUR 36.7 (EUR 26.9 in 2002) per MWh, about 36% higher than in 2002. The corresponding price increase in electricity sold by Fortum was 31%.

Fortum's electricity sales in the Nordic countries totalled 57.1 (54.1) TWh and 2.4 (5.9) TWh in other countries. Fortum's Nordic sales represented approximately 15% (14%) of total Nordic electricity consumption.

Power generation in Fortum's wholly and partly owned power plants totalled 53.2 (52.2) TWh. In the Nordic countries, Fortum generated 51.2 (46.5) TWh of electricity, which represented approximately 14% (12%) of the region's total consumption. At year end, Fortum's electricity generating capacity in the Nordic countries was 11,186 (11,091) MW, while its total capacity was 11,329 (11,511) MW.

Fortum's total heat generating capacity was 9,688 (9,175) MW, of which 8,015 (7,907) MW was in the Nordic countries. Fortum generated 19.4 (17.8) TWh of heat in its own and partly owned power plants.

DISTRIBUTION

Fortum entered the Norwegian market in the spring of 2003 following its acquisition of Østfold Energi Nett AS with some 93,000 customers.

In December, storms and snow caused some power failures in Sweden, Finland and Norway, affecting around 60,000 customers in the south-west of Sweden, 60,000 customers in Finland and 9,000 customers in Norway. The total cost of the interruptions was around EUR 7 million.

In 2003, the volume of distribution and regional network transmissions totalled 21.9 (20.2) TWh and 21.1 (21.7) TWh respectively. Electricity transmissions via the regional distribution network to customers outside the Group totalled 15.8 (15.3) TWh in Sweden and 5.3 (6.3) TWh in Finland.

MARKETS

In 2003, electricity sales totalled 33.5 (33.2) TWh and sales of heating oil amounted to 1.2 (1.3) million tonnes. The Markets business unit buys its electricity and oil products on market terms.

In Norway, the electricity sales business of Østfold Energi Kraftsalg AS was integrated into Markets. At year end, Fortum had over 83,000 Norwegian electricity customers.

One focus during 2003 was on improvements to customer service and on quality assurance. As a result, both ISO 9001 and ISO 14001 certificates were awarded to Markets' Nordic organisation.

Together with better cost control, the business processes improvement programme launched in the spring made a major contribution to the turnaround in the unit's results.

OIL REFINING AND MARKETING

In 2003, refining margins in north-western Europe recovered appreciably compared to the previous year. The reference margin used by Fortum averaged USD 2.7 (1.0) per barrel. Fortum's refining margin remained at around USD 2/bbl higher than this reference margin.

Crude oil prices showed an upward trend in 2003, climbing to a peak of USD 34/bbl early in the year. Prices were more moderate towards the end of the year but nevertheless remained at USD 28–30/bbl. As a result, inventory gains were EUR 13 (57) million.

In September, Fortum decided to invest approximately EUR 500 million in the Porvoo refinery to further enhance the refinery's competitiveness and financial performance. The investment is scheduled for completion by the end of 2006 and will serve to convert the crude now ending up as heavy fuel oil into sulphur-free diesel fuel. Production of sulphur-free diesel at the refinery will grow by about one million tonnes per year. Fortum currently refines some 4 million tonnes of diesel a year. The investment does not increase the refinery's total refining capacity. Fortum's both refineries are already fully converted to the production of sulphur-free traffic fuels.

SeverTEK, a joint venture equally owned by Fortum and Lukoil, commenced oil production in the South Shapkino oil field in north-west Russia in mid-July. At year end, the total daily production rates were some 24,000 barrels per day (approx. 1 million tonnes per year). The planned maximum production rate of 50,000 barrels per day (of which Fortum's share is 25,000 barrels per day) is expected to be reached towards the end of 2004. Fortum's share in the proven and commercial reserves of this oil field is estimated at about 82 million barrels.

The harsh ice conditions in the Gulf of Finland in 2003 significantly increased the level of freight rates. In the second and third quarters, freight rates stayed at around the average level, but rose again sharply towards the end of the year. Fortum's fleet availability and utilisation rate remained at a good level throughout the year.

Exports of oil products refined by Fortum in Finland amounted to 5.5 (5.2) million tonnes, of which gasolines accounted for 2.8 million tonnes and diesel fuels for 2 million tonnes.

Business development and restructuring

In January 2003, Fortum and E.ON AG agreed on a swap of power assets. Fortum acquired assets in Norway and north-western Russia and sold some non-core assets in Ireland, Germany and southern Sweden. Transactions relating to this agreement were completed by the end of June.

The disposal of the Norwegian E&P assets was completed in March. In June, Fortum divested its retail gas sales operations and later in the year closed down its gas trading operations in the UK.

In September, Fortum announced that it will commence preparations to separate its oil business into a new company and to have the new company listed on the Helsinki Exchanges. The new company will comprise all of Fortum's existing oil business with its refining, marketing, shipping and oil production activities.

This strategic decision will enable Fortum to further increase its Nordic utility focus and to continue to participate actively in the restructuring of the Nordic power and heat markets. It will also improve the competitive position and commercial prospects of the oil business and create two leading Nordic companies with strong competitive positions in their respective markets.

Investments and divestments

Fortum acquired 21.4% of the shares in Hafslund ASA, the second biggest electricity company in Norway with 600,000 electricity sales customers, 550,000 distribution customers and about 3 TWh of hydropower production. In addition, Fortum acquired all the shares in Østfold Energi Nett AS, Østfold Energi Kraftsalg AS and Østfold Energi Entreprenor AS with a total of 83,000 electricity sales and 93,000 distribution customers, and 49% of Fredrikstads Energi AS with 77,000 customers. After some further acquisitions from the market, Fortum owned 34.1% of the share capital in Hafslund at the end of the year. The total acquisition cost of the Hafslund shares was approximately EUR 280 million.

Fortum acquired a further 9.5% of the shares in OAO Lenenergo, the largest utility company in north-west Russia with some 1.3 million electricity customers and a production capacity of 14 TWh of electricity and 26.3 TWh of heat. Fortum owned 15.9% of the share capital and 18.6% of the voting rights at the end of 2003.

Fortum sold its power plants in Burghausen, Germany and Edenderry, Ireland to E.ON AG. E.ON also acquired the shares and business of an electricity distribution company in southern Sweden with some 43,000 customers.

Fortum acquired 60% of shares in Tartu Energia, the Estonian heating company, and 73% of shares in the Polish district heating company DZT.

The modernisation and expansion of a CHP plant in the Stockholm area continued through 2003. The investment will create additional capacity and shift the emphasis of the fuel mix towards recycled fuels (mainly municipal waste). Annually, the new boiler will replace 70,000 tonnes of fuel oil with recycled fuel.

The tanker fleet renewal continued, and new retail outlets were opened in the Baltic States, Poland and in Russia.

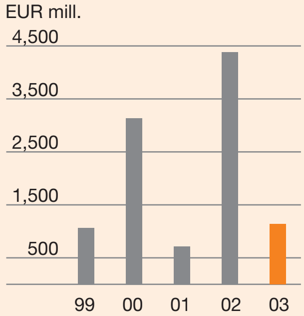
Investments in fixed assets during the year totalled EUR 1,136 (4,381) million. Investments excluding acquisitions were EUR 550 (649) million.

The listing of the oil businesses will facilitate a EUR 500 million investment in additional sulphur-free diesel production capacity at the Porvoo refinery. While the total production capacity will remain unchanged, the refinery will be able to significantly increase the production of high-margin products by utilising more Russian crudes, for example, which are competitively available as Porvoo is adjacent to established Russian crude oil export routes to the Western markets. The annual production of sulphur-free diesel at the refinery will grow by about one million tonnes and will be mainly replacing heavy fuel oil production. Fortum expects to increase its refining margin by at least USD 1/bbl and thus achieve an attractive return on investment.

The high expected return from the upgrade investment is driven by the Porvoo refinery's ability to produce more high-margin, environmentally benign products from less expensive crude oil. The demand for these products is rapidly growing in Fortum's key markets. The investment is expected to be completed by the end of 2006.

INVESTMENTS

EUR mill.



Fortum will participate in the new fifth nuclear power plant unit in Finland with a share of approximately 25%. Thus Fortum's investment as an equity share will be EUR 180 million during 2004–2009, entitling it to approximately 400 MW of the plant's capacity. Fortum will also give a shareholders' loan of EUR 45 million.

Fortum has a call option during the first quarter of 2005 to purchase all of the shares of E.ON Finland Oyj (formerly Espoon Sähkö Oyj) owned by E.ON at the time of the exercise of the call option.

Financing

Fortum's net debt decreased by EUR 222 million during 2003 even though the EUR 1.2 billion preference shares issued by Fortum Capital Limited accounted for as a minority interest in the Group's financial statements were refinanced by debt. At year end, net debt stood at EUR 5.626 million (EUR 5.848 million in 2002) and the gearing ratio was 85% (80%). A comparable gearing number, in which the Fortum Capital Ltd preference shares have been taken into account as debt, would have been 115% at the end of 2002, as disclosed in the Interim Report for January-September 2003.

The Group's net financing expenses for 2003 were EUR 236 (281) million.

During 2003, Fortum successfully completed several significant financing transactions in accordance with its refinancing plan aimed at clarifying the Group's financing structure and decreasing its long-term cost of funding. In February, Fortum Corporation established a SEK 7 billion Swedish Medium Term Note Programme and in June issued SEK 1.5 billion of bonds under the programme. In July, Fortum Corporation established a EUR 4 billion Euro Medium Term Note (EMTN) Programme and made a EUR 1 billion debt issue under the programme in November. The funds raised by the issue were used in December to redeem the above-mentioned preference shares. Also in November, Fortum Corporation successfully completed an offer made to holders of approximately EUR 1.3 billion of bonds issued by Fortum Power and Heat AB to exchange their bonds for new bonds issued under the Fortum Corporation EMTN Programme.

Group liquidity remained good. At year end, cash and marketable securities totalled EUR 439 (592) million. The Group also had a total of approximately EUR 1,600 million available under undrawn credit facilities. In addition to the unused overdraft facilities, this included EUR 400 million of bilateral short term credit facilities renewed in December and EUR 1 billion which was undrawn under Fortum Corporation's EUR 1.2 billion syndicated bank facility signed in April.

Fortum Corporation's credit ratings at year end were at the same level as at year end 2002. Standard & Poor's long term credit rating for Fortum Corporation was BBB+ (stable) and Moody's Baa2 (positive outlook).

At year end, the average interest rate of loans after hedging was 4.2%.

Research and development

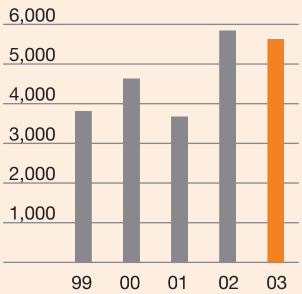
Investment in research and development totalled EUR 35 (38) million. R&D includes the planning, construction and operation of pilot plants as well as the test marketing of new products during the experimental production stage. The existing R&D portfolio remained in line with the new Group strategy. During 2002, a corporate-level process was initiated in order to identify new growth and renewal initiatives and related competences. The work continued during 2003.

Environmental issues

The coming into force of the emissions trading directive in the EU will introduce a totally new and important dimension into the energy business. Fortum continues to be supportive of the market-based climate instruments like emissions trading instead of rigid command and control schemes. The allocation of emission allowances is one of the key issues in the national implementation of the directive. Fortum believes that the equal treatment of all industrial sectors is important in the allocation. With regard to the power sector, the national allocation plans should take fully into account both the unavoidable increases in fossil-based power production during the coming years and the increasingly tough international competition in the power market.

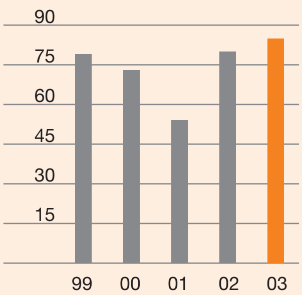
INTEREST-BEARING NET DEBT

EUR mill.



GEARING

%



In 2003, Fortum focused on competence building and the development of new internal procedures needed for successful emissions trading. Since 2000, Fortum has developed its capabilities through its participation in the World Bank's Prototype Carbon Fund (PCF). In 2003, PCF delivered the first verified emission reductions. Fortum's share was about 7,000 tons of CO_2.

During the year, poor availability of hydropower led to increased use of fossil fuels in power generation, which raised levels of emissions into the atmosphere.

Fortum is strengthening its position as a leading producer of clean traffic fuels. A decision was made on a major upgrade of the Porvoo refinery to further increase the production capacity of low-sulphur diesel fuel. Ethanol-based high octane gasoline was produced throughout the year and production will continue in 2004.

Fortum's lost workday injury frequency decreased from 8.8 to 8.5. However, the company failed in reaching the target of 6.4 set for 2003. New challenging targets were set, 6.0 for 2004, 5.0 for 2005 and 4.0 for 2006, and a number of new safety procedures were launched to reach the targets.

In 2003, Fortum became the first Nordic power company to be included in the worldwide and pan-European Dow Jones Sustainability Indexes in the Utilities sector.

Fortum's environmental and social performance is described in more detail in the "Fortum and Society 2003" report. The report is subject to assurance by an independent party.

Shares and share capital

A total of 270.3 million Fortum shares were traded for a total of EUR 1,876 million during 2003. The highest quotation was EUR 8.75 (12 December), the lowest EUR 5.66 (20 May), and the average quotation EUR 6.94. The closing quotation on 30 December was EUR 8.18.

A total of 5.4 million warrants relating to Fortum Corporation's 1999 bond loan to employees were traded for a total of EUR 16.6 million. The average quotation was EUR 3.08 and the closing quotation on 30 December was EUR 4.13. A total of 159,520 shares were subscribed for and entered into the trade register in 2003. In addition, a total of 16,004 shares were subscribed for but not entered into the trade register before the year end.

A total of 10,131 warrants relating to Fortum Corporation's 1999 share option programme for key employees were traded for a total of EUR 16.5 million. The average quotation was EUR 1,629 and the closing quotation on 30 December was EUR 2,650. A total of 2,913,000 shares were subscribed for and entered into the trade register in 2003. In addition, a total of 965,000 shares were subscribed for but not entered into the trade register before the year end.

After these subscriptions, Fortum Corporation's share capital is EUR 2,886,030,415 and the total number of registered shares is 848,832,475. Fortum Corporation's share capital increased by a total of EUR 10,446,568.

At year end, the Finnish State's holding in Fortum was 60.5%. The proportion of international shareholders stood at 22.2%.

Currently the Board of Directors has no unused authorisations from the General Meeting of shareholders to issue convertible loans or bonds with warrants, issue new shares or acquire the company's own shares.

Long-term incentive schemes

In addition to the above arrangements, Fortum currently has two share option programmes for key employees, issued in 2001 and 2002 respectively. At the end of 2003, both option schemes covered some 350 persons. The proportion of shares subscribed for under these share option schemes is a maximum of 4.5% of Fortum's present share capital and voting rights.

In 2003, Fortum launched a new Performance Share Arrangement for key employees. The potential reward will be based on the performance of the Group, its business units and the individual manager as well as appreciation of the Fortum share. In the first stage the new arrangement concerns some 190 managers.

Fortum estimates that 0.1% to 0.3% of the outstanding Fortum shares that is 1,000,000 to 2,500,000 shares, will be allocated under each individual plan starting 2008. The shares will be bought on the market and thus there will be no dilution effect. This arrangement is intended to replace other possible long-term incentive schemes for senior management.

Group personnel

In 2003, the Fortum Group employed an average of 13,343 (14,053) people. The reduction is mainly attributable to combining of the businesses of Birka Energi and Fortum as well as to the formation of the new associated company Enprima at the beginning of 2003. At year end, the number of employees totalled 13,046 (13,670), of which 12,649 (13,118) were permanent employees. The number of employees in the parent company, Fortum Corporation, at year end totalled 581 (310).

Corporate governance and Group management

Fortum applies principles of good corporate governance that strive to establish and maintain transparent governance at all levels of the organisation.

Fortum adheres to the Finnish Companies Act and the guidelines on the administration of publicly listed companies issued by the Central Chamber of Commerce of Finland, the Confederation of Finnish Industry and Employers, and the Helsinki Exchanges.

In the 2003 Annual General Meeting, the following persons were elected to the Supervisory Board for a one-year term of office: Leena Luhtanen, Chairman of the Supervisory Board (resigned in April 2003), Ben Zyskowicz, Deputy Chairman of the Supervisory Board, Satu Hassi, Klaus Hellberg, Rakel Hiltunen, Harri Holkeri, Jorma Huuhtanen, Mikko Immonen, Kimmo Kalela, Tanja Karpela (resigned in April 2003), Kalevi Lamminen, Juha Mikkilä and Matti Vanhanen (resigned in April 2003).

On 18 December 2003, the Extraordinary Shareholders' Meeting approved amendments to the Articles of Association. According to the amendments, the Annual General Meeting elects the Board of Directors for one year. Furthermore, the Board of Directors calls the Annual Shareholders' Meeting and appoints the President and CEO of the company.

In 2003, the members of the Board of Directors were Matti Vuoria (Chairman), Heikki Pentti (Deputy Chairman), Birgitta Kantola, Lasse Kurkilahti, Antti Lagerroos, Hans von Uthmann (resigned in November 2003) and Erkki Virtanen.

For the period 1 January 2004 to 25 March 2004, the following persons were elected to the Board of Directors: Peter Fagernäs (Chairman of the Board), Heikki Pentti (Deputy Chairman), Birgitta Kantola, Erkki Virtanen, Antti Lagerroos, and Lasse Kurkilahti.

Mr Risto Rinne was appointed President, Oil Sector and member of the Corporate Executive Committee as of 15 January 2004.

Events after the period under review

Early February, Fortum made an agreement on the purchase of additional shares of OAO Lenenergo, by which Fortum's ownership of the share capital and the voting rights would increase by 5.1% to 21.0%, and by 2.1% to 20.7% respectively. The transaction is subject to the approval by Russian competition authorities, as Fortum's ownership in Lenenergo would exceed 20%.

According to its strategy, Fortum has taken further steps in divesting non-core businesses: the Flow Improver Agent (FIA), a specialty chemicals business, was sold to M-I Finland Oy, an affiliate of M-I LLC, headquartered in Texas, USA and a contract was signed to divest the engineering business in Hungary, ETV-Eröterv, to the management group of the company.

Outlook

The key market drivers influencing Fortum's performance are the market price of electricity and the international oil refining margin. Other important market drivers are the price of crude oil, the exchange rates of the US dollar and the Swedish krona. During 2005, emissions trading may become a new key market driver.

During the past five years, the volume of Fortum's CO_2-free power generation has increased from 30 TWh to 41 TWh. Its share was 78% of Fortum's power generation in 2003. With this production portfolio, Fortum is in a good position considering the possible impacts of emissions trading.

According to general market information, electricity consumption in the Nordic countries is predicted to increase by about 1% a year over the next few years. During 2003, the average spot price for electricity was EUR 36.7 per megawatt-hour on the Nordic electricity market, or 36% higher than the corresponding figure in 2002. At the beginning of February, the deficit in water reservoirs was 15 TWh. In January 2004, the spot price was at the level of EUR 29 per megawatt-hour. The electricity forwards for February–May 2004 were in the range of EUR 27–28 per MWh, and for the rest of 2004 in the range of EUR 26–27 per MWh. For the next 12 months Fortum's hedging level for electricity sales is approximately 60%.

The annual synergy benefits generated by the creation of a pan-Nordic power and heat business totalled some EUR 130 million already in 2003. Additional performance improvement potential has been identified in the whole Group and the work to capture it has started.

The continuous operations of the power and heat businesses usually result in a significantly better performance in the first and last quarter of the year than in the second and third quarter.

The oil refining reference margin in north-western Europe (Brent Complex) was considerably higher than in 2002 averaging USD 2.7/bbl (USD 1.0/bbl in 2002). In January 2004, the refining reference margin averaged USD 3.1/bbl. For several years, the international refining reference margin has averaged USD 1.5–2.0/bbl. Fortum's premium margin is expected to remain at the strong levels of previous years. No major maintenance shutdowns are planned at the refineries during 2004.

The average price for Brent crude oil was USD 28.8/bbl in 2003. In January 2004, the price averaged USD 31.2/bbl while the International Petroleum Exchange's Brent futures for the balance of the year 2004 was USD 28.3/bbl at the end of January. The price of crude oil has an impact on the results of Oil Refining and Marketing through inventory gains and losses.

SeverTEK, a joint venture equally owned by Lukoil and Fortum, started oil production at the South Shapkino oil field in north-western Russia in 2003. Production will gradually be increased and full capacity, 50,000 bbl/d (Fortum´s share 25,000 bbl/d), is estimated to be reached by the end of 2004. Fortum's 50% share of SeverTEK's results are consolidated using the equity method.

The refining margins and shipping freights are exposed to the USD exchange rate volatility and therefore a weakened US dollar will have a negative impact on the profitability of the oil business. However, this impact is mitigated because of the forward hedging policy of the estimated US dollar sales margins.

In 2003, the average euro exchange rates against the US dollar and the Swedish crona were 1.135 and 9.143 respectively. At the end of December, the exchange rates were 1.263 and 9.080 respectively.

Preparations for listing the oil businesses were started, aiming at readiness towards the end of the year. The timing of the planned initial public offering will depend on market conditions, however.

During 2003, many strategic measures were brought to conclusion and the company's financial performance was most satisfactory. Fortum has the prerequisites to excel and efforts will be focused on improving its future performance in all key areas. Considering the current market outlook, the company's hedging positions and the continuing efficiency improvements, Fortum is well-positioned for another good year.

Consolidated income statement

EUR million	Note	2003	2002
Net sales	2,3,4	11,392	11,148
Share of profits of associated companies	5	41	31
Other operating income	6	151	370
Operating expenses			
Change in product inventories		8	-23
Materials and services		-8,054	-7,968
Personnel expenses		-654	-757
Depreciation, amortisation and write-downs	7	-538	-694
Other operating expenses	8	-926	-818
Operating profit		1,420	1,289
Financial income and expenses	9	-236	-281
Profit before taxes		1,184	1,008
Income taxes	10,21	-325	-269
Minority interests		-90	-73
Net profit for the period		769	666
Earnings per share			
Basic earnings per share, EUR		0.91	0.79
Diluted earnings per share, EUR		0.90	0.78

Consolidated balance sheet

EUR million	Note	2003	2002
ASSETS			
Fixed assets and other long-term investments	12,13,14		
Intangible assets		146	166
Tangible assets		11,632	12,712
Other long-term investments		2,394	1,991
		14,172	14,869
Current assets			
Inventories	15	551	504
Trade receivables		951	1,289
Short-term receivables	16,17	449	706
Investments	18	-	1
Cash and cash equivalents		439	591
		2,390	3,091
		16,562	17,960
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholders' equity	19		
Share capital		2,886	2,876
Share premium		41	62
Reserve fund		-	149
Retained earnings		2,710	2,143
Net profit for the period		769	666
		6,406	5,896
Minority interests		232	1,432
Provisions for liabilities and charges	20	207	233
Deferred tax liabilities	21	1,843	1,866
Liabilities	22,23		
Long-term liabilities			
Interest-bearing		4,840	4,306
Interest-free		346	293
		5,186	4,599
Short-term liabilities			
Interest-bearing		1,225	2,134
Interest-free		1,463	1,800
		2,688	3,934
		16,562	17,960

Consolidated cash flow statement

EUR million	2003	2002
Operating activities		
Profit before taxes	1,184	1,008
Depreciation, amortisation and write-downs	538	694
Other non-cash flow income and expenses	-38	-49
Financial income and expenses	236	281
Divesting activities, net	-53	-289
Operating profit before change in working capital	1,867	1,645
Change in working capital		
Decrease (+)/increase (-) in interest-free trade and other short-term receivables	502	-225
Decrease (+)/increase (-) in inventories	-53	104
Decrease (-)/increase (+) in interest-free liabilities	-339	209
Change in working capital	110	88
Funds generated from operations	1,977	1,733
Interest and other financial expenses paid, net	-220	-381
Dividends received	37	26
Interest and other financial income	66	72
Income taxes paid	-376	-194
Realised foreign exchange gains and losses	93	95
Financial items and taxes total	-400	-382
Net cash from operating activities	1,577	1,351
Investing activities		
Capital expenditures	-550	-649
Proceeds from sales of fixed assets	142	120
Acquisition of shares in subsidiaries net of cash acquired	-193	-1,762
Investments in shares in associated companies	-350	-8
Investments in other shares	-27	-1
Proceeds from sales of shares in subsidiaries net of cash disposed	1,213	734
Proceeds from sales of shares in associated companies	5	148
Proceeds from sales of other shares	9	7
Change in other investments, increase (-), decrease (+)	-67	33
Cash flow from investing activities	182	-1,378
Cash flow before financing activities	1,759	-27
Financing activities		
Payment of (-)/proceeds from (+) short-term borrowings	-233	605
Proceeds from long-term liabilities	1,622	804
Payments of long-term liabilities	-1,788	-1,200
Dividends paid	-264	-220
Proceeds from issuance of common stock	22	1
Capital investment by minority shareholders, increase (+), decrease (-)	-	111
Other financial activities *)	-1,267	-82
Cash flow from financing activities	-1,908	19
Net increase (+)/decrease (-) in cash and marketable securities	-149	-8
Cash and marketable securities at the beginning of the period	592	602
Foreign exchange adjustment	-4	-2
	588	600
Cash and marketable securities at the end of the period	439	592
Net increase (+)/decrease (-) in cash and marketable securities	-149	-8

*) In 2003 included the redemption of Fortum Capital Ltd 1,200 million euros.

Notes to the financial statements

1. Accounting policies and principles

Fortum's financial statements are prepared in accordance with Finnish GAAP.

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% of the voting rights except for certain housing companies which are immaterial for giving 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 Fortum Power and Heat and Fortum Oil and Gas has been eliminated against the share capital of the companies. The difference has been entered as a decrease in shareholders' equity. The financial statements of Fortum Power and Heat and Fortum Oil and Gas have been consolidated according to the acquisition cost method. In eliminating mutual share-holdings, the balance sheet entry for the acquisition costs of the subsidiaries' shares has been reduced by the value of Fortum's holding in the company at the acquisition date including the value of untaxed reserves less deferred tax liabilities. 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. The rest of the difference is entered as goodwill on consolidation. Items allocated to fixed assets are depreciated according to the depreciation plan of the underlying asset. Goodwill on consolidation is amortised over its estimated lifetime subject to a maximum of 20 years.

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. Dividends received are deducted from the balance sheet value of the shares.

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 physical deliveries and the net result of derivative contracts. The net sales of the gas trading operation is the net figure from buying and selling.

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

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the income statement. Net conversion differences relating to financing have been entered under financial income or expenses.

The Income statements of companies outside Finland have been translated into euros using an annual average exchange rate based on month-end exchange rates, while the balance sheets have been translated employing the exchange rate on the balance sheet date. The resulting translation differences have been netted against the translation differences arising from the contracts hedging net investments in foreign subsidiaries and entered under non-restricted equity.

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. 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.

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

Fortum trades in commodity derivatives. The contracts are marked to market at the balance sheet date and any losses on contracts entered into for other than hedging purposes are entered as an expense in the income statement. Gains or losses on derivatives used for hedging purposes are recognised as income or expense once the underlying income or an expense occurs.

The difference between the premium paid or received on financial and commodity options and the closing price of the option on the balance sheet date is entered in the income statement. However, revenue is only recognised up to the amount of expense charged for the underlying transaction. Option premiums are treated as advances paid or received until the options mature or lapse.

SALES AND PROCUREMENT CONTRACTS

Possible losses on sales and procurement contracts have been estimated and expensed when the purchase price is higher than the estimated sales price.

FIXED ASSETS AND DEPRECIATION

The balance sheet value of fixed assets consists of historical costs less depreciation and other deductions, plus any revaluation permitted by local regulations. The differences between fair values and book values at the time of the acquisition and the related deferred tax liabilities have been allocated to fixed assets. Some foreign companies have also included capitalised interest charges in addition to the historical cost of the fixed assets.

Fixed assets are depreciated using straight-line depreciation based on the expected useful life of the asset. Depreciation on oil, gas and peat reserves and production equipment is calculated using the unit-of-production method.

The depreciation is based on the following expected useful lives

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	3–20 years
Other long-term investments	5–10 years

Oil and gas reserves are valued by 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 interest-bearing liabilities in the balance sheet. Lease payments are entered as depreciation on fixed assets and interest expenses on debt and instalments of the liability. In some cases, Fortum acts as a lessor. In those cases, the asset is being recognised as an interest-bearing receivable in the balance sheet.

INVESTMENTS

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

INVENTORIES

Inventories have been valued according to 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.

NET ASSETS

Net assets of the business segments include fixed assets, shares and working capital allocated to the business segments. Fixed assets also include deferred tax liabilities arising from the consolidated acquisition cost.

MARKETABLE SECURITIES

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

OIL EXPLORATION EXPENDITURES

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

RESEARCH AND DEVELOPMENT

Research and development expenditures are 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. Compulsory provision is made for expected losses from long-term projects, as well as for costs arising during the warranty period.

PENSION EXPENSES

Pension expenses have been recognised in accordance with local regulations in each country. The compulsory liabilities deficit of the Fortum Pension Foundation, as well as the liabilities relating to pensions granted by Fortum itself, have been included in pension costs and entered as a provision in the balance sheet.

DEFERRED TAX LIABILITIES

In the consolidated accounts, appropriations have been divided into shareholders' equity and deferred tax liabilities. Deferred tax liabilities and assets have also been calculated on the basis of other timing differences. Deferred tax liabilities are also recorded relating to the fair valuation of fixed assets at acquisition.

PROVISIONS

Foreseeable future expenses and losses that have no corresponding revenue to 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 pension liabilities.

THE IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS/IAS)

Fortum will present the first IFRS/IAS financial statements with comparatives for the year 2005. The first IFRS/IAS interim report will be presented as of March 2005. IFRS comparative figures will be released before the January–March 2005 interim report date.

Currently, Fortum's conversion project is at the stage where most of the significant changes in the accounting principles have been identified and preparation of the opening IFRS balance sheet as of 1 January 2004 is in progress.

MOST SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

- Business combinations: Fortum will apply the IFRS 1 "First-time Adoption of International Financial Reporting Standards" business combination exemption, which exempts the first-time adopter from the obligation of applying IFRS rules retrospectively to business combinations that have taken place prior to the transition date of 1 January 2004.
- Financial instruments: According to IAS 39 all derivatives have to be carried at fair value in the balance sheet. The fair value changes on derivatives have to be recognised in income except for derivatives that qualify as hedges in accordance with IAS 39 to eliminate or reduce income statement volatility. Fortum will apply hedge accounting to its material hedging strategies.
- Leases: certain lease agreements in which Fortum acts as a lessee, e.g. oil tankers will be treated as finance leases under IFRS. Also, certain arrangements in which Fortum acts as a lessor will qualify as finance leases under IFRS.

- **Revenue recognition:** based on local requirements in Finland, distribution network connection fees on distribution network have been treated as long-term liabilities. By contrast, in Sweden and other countries, connection fee revenue has been recognised as revenue immediately. Under IFRS, revenue from connection fees should be deferred and recognised as revenue over the expected customer relationship period.
- **Pensions:** Fortum has significant defined benefit pension plans in Finland and in Sweden. Actuarial calculations and extensive disclosures are required to fulfill IFRS requirements.
- **Nuclear-related obligations:** as a nuclear generator Fortum has special legal obligations to treat and store nuclear waste as well as decommission generating facilities. Evaluation of the IFRS effects is in progress.
- **Other asset retirement obligations:** evaluation of IFRS effects is in progress.
- **Major overhaul costs:** under IFRS, future expected overhauls (e.g. major overhauls of oil refineries) can no longer be provided for as has been done in the current accounting practice. Instead, expenses incurred as a resulf of the overhauls will be capitalised and depreciated as a separate component over the period between the overhauls.

EXCHANGE RATES 1999–2003

The table below shows the most important exchange rates used in the financial statements during the years 1999–2003:

EXCHANGE RATES AT THE BALANCE SHEET DATE

	1999	2000	2001	2002	2003
USD	1.0046	0.9305	0.8813	1.0487	1.2630
GBP	0.6217	0.6241	0.6085	0.6505	0.7048
SEK	8.5625	8.8313	9.3012	9.1528	9.0800
NOK	8.0765	8.2335	7.9515	7.2756	8.4141

AVERAGE EXCHANGE RATES OVER THE PERIOD

	1999	2000	2001	2002	2003
USD	1.0653	0.9236	0.8939	0.9420	1.1346
GBP	0.6589	0.6087	0.6196	0.6279	0.6901
SEK	8.8281	8.4805	9.2451	9.1442	9.1430
NOK	8.3344	8.1051	8.0532	7.5144	7.9801

2. Information by segment

2003 EUR million	Net sales	Operating profit	Depreciation, amortisation and write-downs	Non-recurring items	Investments	Average number of employees
Power, Heat and Gas	3,418	780	231	1	545	6,772
Distribution	688	247	143	20	339	1,005
Markets	1,540	43	16	-	28	468
Oil Refining and Marketing	7,192	396	131	15	202	4,277
Other operations	84	-46	17	24	22	821
Eliminations	-1,530	-	-	-	-	
Total	11,392	1,420	538	60	1,136	13,343
Discontinuing operations	-	-	-	-	-	-
Total	11,392	1,420	538	60	1,136	13,343

2002 EUR million	Net sales	Operating profit	Depreciation, amortisation and write-downs	Non-recurring items	Investments	Average number of employees
Power, Heat and Gas	3,644	617	236	116	2,619	7,127
Distribution	640	279	147	92	1,394	965
Markets	1,280	-11	25	1	109	639
Oil Refining and Marketing	7,083	253	152	48	177	4,297
Other operations	64	-64	22	4	7	967
Eliminations	-1,668	-	-	-	-	-
Total	11,043	1,074	582	261	4,306	13,995
Discontinuing operations	105	215	112	54	75	58
Total	11,148	1,289	694	315	4,381	14,053

EUR million	2003 Net assets	Return on net assets (%)	2002 Net assets	Return on net assets (%)
Power, Heat and Gas	8,869	8.9	8,748	7.5
Distribution	3,129	7.9	3,199	9.3
Markets	16	72.0	55	-11.4
Oil Refining and Marketing	1,402	27.0	1,510	16.0
Other operations	95	-	30	-
Total	13,511		13,542	
Discontinuing operations	-		927	
Total	13,511		14,469	

Notes to the income statement

EUR million	2003	2002

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

Net sales from contracts in progress entered as income according to the percentage of completion		
for the period	4	81
for previous periods	-	196
Total	4	277

4. Net sales by market area

Finland	4,222	4,035
Sweden	2,650	2,172
Other Nordic countries	418	296
Other European countries	1,619	2,004
USA and Canada	1,460	1,542
Other international sales	1,023	1,099
Total	11,392	11,148

5. Share of profits (losses) of associated companies

Nynäs Petroleum Group	10	4
Gasum Group	14	13
Fingrid Oyj	8	7
Other associated companies	9	7
Total	41	31

Undepreciated consolidation differences in connection with associated companies amounted to EUR 425 (430) million.

6. Other operating income

Rental income	14	18
Gains on sales of fixed assets	75	339
Other	62	13
Total	151	370

7. Depreciation, amortisation and write-downs

Depreciation and amortisation according to the plan	524	668
Write-downs on fixed assets	14	26
Total	538	694

Notes to the income statement

EUR million	2003	2002
8. Other operating expenses		
Change in product inventories	-8	23
Materials and external services		
Materials and supplies		
Purchases	7,872	7,763
Change in inventories	-16	74
External services	198	130
Personnel expenses		
Wages, salaries and remunerations	468	614
Other indirect employee costs		
Pension costs	81	95
Other indirect employee costs	105	48
Other operating expenses	926	819
Total	9,626	9,566

Salaries and remunerations of managing directors and the members of the Boards

Managing directors and members of the Board	8	12

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.

Collaterals and other undertakings on Boards' and managing directors' behalf

There are no collaterals or other undertakings given on behalf of the Boards or managing directors.

Loans receivable from the members of the Boards or the managing directors

Five loans for EUR 203,000 have been issued to Group management. All loans are constant payment loans. First loan for EUR 136,000 is with interest rate of 3,5%. This loan will be amortised twice a month and it is due in year 2010. The other 4 loans are with zero interest rate and they will be amortised once a month. First of them is for EUR 29,000. Last amortisation will be in year 2007. Second loan is for EUR 23,000 and it is due in year 2007. Third loan is for EUR 8,000 and it is due in year 2006. Fourth loan is for EUR 8,000 and it is due in 2004.

9. Financial income and expenses

	2003	2002
Income from associated companies	-	1
Income from other long-term investments		
Dividend income	9	4
Interest income	-	16
Other interest income	76	63
Other financial income	4	2
Exhange rate differences	1	1
Write-downs on other long-term investments	-	-3
Interest expenses	-320	-357
Other financial expenses	-6	-8
Total	-236	-281

EUR million	2003	2002

10. Income taxes

Taxes on regular business operations	325	269
Total	325	269
Taxes for the period	329	218
Taxes for previous periods	14	7
Change in deferred taxes	-18	44
Total	325	269

11. Audit fees

Audit fees	1	2
Consultancy fees		
IAS assingments	2	-
Other assignments	1	1
Total fees	4	3

Notes to the balance sheet

12. Fixed assets and other long-term investments

Intangible assets EUR million	Goodwill	Goodwill on consolidation	Negative goodwill on consolidation	Other long-term expenditure	Total
Acquisition cost as of 1 January 2003	123	138	-4	247	504
Exchange rate differences and other adjustments	4	-9	-	-	-5
Increases	23	7	-1	23	52
Decreases	33	40	-	67	140
Transfer between categories	18	-16	-	7	9
Acquisition cost as of 31 December 2003	135	80	-5	210	420
Accumulated depreciation, amortisation and write-downs as of 1 January 2003	98	60	-3	183	338
Exchange rate differences and other adjustments	2	-13	-	3	-8
Accumulated depreciation, amortisation and write-downs of decrease and transfers	-20	-21	-	-53	-94
Depreciation and amortisation for the period	10	15	-2	13	36
Write-downs for the period	-	-	-	2	2
Accumulated depreciation, amortisation and write-downs as of 31 December 2003	90	41	-5	148	274
Balance sheet value as of 31 December 2003	45	39	-	62	146
Balance sheet value as of 31 December 2002	25	78	-1	64	166

Notes to the balance sheet

Tangible assets

EUR million	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Acquisition cost as of 1 January 2003	3,128	2,939	12,022	590	401	19,080
Exchange rate differences and other adjustments	3	1	-200	-32	-3	-231
Increases	12	97	459	4	239	811
Decreases	47	139	1,390	301	86	1,963
Transfer between categories	-	36	77	4	-126	-9
Acquisition cost as of 31 December 2003	3,096	2,934	10,968	265	425	17,688
Accumulated depreciation, amortisation and write-downs as of 1 January 2003	61	1,240	4,828	316	-	6,445
Exchange rate differences and other adjustments	-	-10	-74	-7	-	-91
Accumulated depreciation, amortisation and write-downs of decreases and transfers	-60	-31	-465	-166	-	-722
Depreciation and amortisation for the period	-	102	376	10	-	488
Write-downs for the period	1	8	1	2	-	12
Accumulated depreciation, amortisation and write-downs as of 31 December 2003	2	1,309	4,666	155	-	6,132
Revaluations	13	61	2	-	-	76
Balance sheet value as of 31 December 2003	3,107	1,686	6,304	110	425	11,632
Balance sheet value as of 31 December 2002	3,080	1,761	7,196	274	401	12,712

Other long-term investments

EUR million	Shares in associated companies	Receivables from associated companies	Other shares and holdings	Other receivables	Total
Acquisition cost as of 1 January 2003	1,147	475	124	126	1,872
Exchange rate differences and other adjustments	44	5	-4	-2	43
Increases	479	226	28	9	742
Decreases	455	181	21	26	683
Acquisition cost as of 31 December 2003	1,215	525	127	107	1,974
Accumulated write-downs as of 1 January 2003	4	-	3	-	7
Accumulated write-downs as of 31 December 2003	4	-	3	-	7
Retained earnings in associated companies	337	-	-	-	337
Balance sheet value as of 31 December 2003	1,548	525	124	107	2,304
Balance sheet value as of 31 December 2002	1,209	507	121	126	1,963

The acquisition cost of fixed assets of the companies acquired during the financial year is transferred to the Group's acquisition cost and accumulated depreciation to the Group's accumulated depreciation.

Other shares include EUR 52 (27) million of quoted shares, the market value of which was EUR 89 (19) million. Associated companies do not include any shares of listed companies.

EUR million	2003	2002

13. Capitalised interest expenses

Buildings and structures	-	3
Machinery and equipment	13	75
Advances paid and construction in progress	1	2
Total	14	80

Capitalised interest expenses were EUR 0 (2) million.

14. Revaluations

EUR million	Revaluations as of 1 January	Increases	Decreases	Revaluations as of 31 December
Land areas	13	-	-	13
Buildings	62	-	-1	61
Machinery and equipment	2	-	-	2
	77	-	-1	76

Revaluations are based on current replacement cost.

EUR million	2003	2002

15. Inventories

Raw materials and supplies	336	271
Work in progress	83	77
Products/finished goods	114	123
Other inventories	11	27
Advanced paid	7	6
Total	551	504

Difference between replacement value and book value of inventories is EUR 26 (35) million.

16. Short-term receivables

Trade receivables	936	1,281
Receivables from associated companies		
Trade receivables	15	8
Other receivables	7	5
Accrued income and prepaid expenses	13	8
Total	35	21
Loans receivable	-	4
Other receivables	299	219
Accrued income and prepaid expenses	130	470
Total	1,400	1,995

Short-term accrued income and prepaid expense

Accrued interests	18	16
Accrued taxes	38	10
Other	87	452
Total	143	478

Notes to the balance sheet

EUR million	2003	2002

17. 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	-	-
Prepayments and accrued income	4	263
Deductions in inventories and financial assets	4	263
Advance payments received	-	272
Accruals	-	-
Deductions in liabilities	-	272

18. Investments

The book value of the financial investments was EUR 0 (1) million and the market value was EUR 0 (1) million.

19. Changes in shareholders' equity

Share capital as of 1 January	2,876	2,875
Options registered	10	1
Share capital as of 31 December	2,886	2,876
Share issue as of 1 January	-	-
Options exercised	5	-
Share issue as of 31 December	5	-
Share premium as of 1 January	62	61
Transfer to non-restricted equity	-33	-
Options registered	7	1
Share premium as of 31 December	36	62
Reserve fund as of 1 January	149	46
Transfer to unrestricted equity	-149	103
Reserve fund as of 31 December	-	149
Retained earnings as of 1 January	2,810	2,503
Dividends paid	-262	-220
Transfer from resticted equity	182	-103
Translation differences and other changes	-20	-36
Net profit for the period	769	666
Retained earnings as of 31 December	3,479	2,810
Distributable funds as of 31 December	3,479	2,810

20. Provisions for liabilities and charges

Provisions for pensions	124	119 *)
Other provisions		
Maintenance and upgrade shutdown	37	24
Provisions for Exploration & Production	-	16
EHS provision	7	8
Other provisions	39	66
Total	207	233

* The comparision year has been unified to apply with Fortum accounting principles.

EUR million	2003	2002

21. Deferred taxes

Change in deferred taxes		
Appropriations	145	134
Consolidation entries	-67	-64
Separate financial statements of subsidiaries	-96	-26
Total	-18	44

Deferred tax assets		
Consolidation entries	15	15
Separate financial statements of subsidiaries	15	13
Total	30	28

Deferred tax liabilities		
Appropriations	1,131	1,001
Consolidation entries	652	869
Separate financial statements of subsidiaries	60	-4
Total	1,843	1,866

22. Liabilities

Long-term liabilities		
Bonds	2,786	1,935
Loans from financial institutions	1,089	1,174
Pension loans	91	97
Advances received	-	2
Other long-term liabilities to associated companies	181	147
Other long-term liabilities	1,039	1,244
Total	5,186	4,599
of which interest-bearing	4,840	4,306

Short-term liabilities		
Bonds	308	269
Loans from financial institutions	12	1,107
Pension loans	-	8
Advances received	-	46
Trade payables	449	689
Liabilities to associated companies		
Advances received	-	1
Trade payables	37	25
Other short-term liabilities	15	32
Accruals and deferred income	4	5
Total	56	63
Other short-term liabilities	1,376	1,261
Accruals and deferred income	487	491
Total	2,688	3,934
of which interest-bearing	1,225	2,134

Interest-bearing and interest-free liabilities		
Interest-bearing liabilities	6,065	6,440
Interest-free liabilities	1,809	2,093
Total	7 874	8 533

Notes to the balance sheet

EUR million	2003	2002
Maturity of long-term liabilities		
Year		
2004	1,225	
2005	360	
2006	1,051	
2007	581	
2008	790	
2009 and later	2,058	
Total	6,065	
Liabilities due after five years		
Bonds	1,046	590
Loans from financial institutions	265	249
Pension loans	91	197
Other long-term liabilities	656	926
Total	2,058	1,962
Short-term accruals and deferred income		
Accrued interests	215	118
Accrued taxes	27	12
Wages, salaries and other indirect employee costs	105	135
Other short-term accruals and deferred income	144	231
Total	491	496

23. Bonds, debentures and other notes

Issuing year	Maturity year	2003	2002
Fortum Oyj			
1999 EUR loan	2006	499	-
2000 EUR loan	2005	250	-
2001 EUR loan	2008	498	-
2000 EUR loan	2007	10	-
2000 EUR loan	2008	20	-
2000 SEK loan	2008	22	-
2003 SEK loan	2006	165	-
2003 EUR loan	2010	498	-
2003 EUR loan	2013	498	-
Fortum Power and Heat Oy			
1991 USD loan	2002–2011	49	55
1991 USD loan	2011	31	30
1992 USD loan	2005	38	38
1993 USD loan	2007	48	47
Fortum Power and Heat AB			
1999 SEK loan	2004	6	5
1999 SEK loan	2004	76	75
1999 SEK loan	2003	-	16
1999 SEK loan	2004	9	9
1999 SEK loan	2004	32	33
1999 SEK loan	2005	6	5
1999 SEK loan	2004	39	39
1999 SEK loan	2004	33	32
1999 SEK loan	2004	11	11
1999 SEK loan	2004	11	11
1999 SEK loan	2004	4	5
1999 SEK loan	2004	11	11
1999 EUR loan	2006	-	495
2000 EUR loan	2005	-	247
2000 EUR loan	2008	-	20
2000 EUR loan	2007	-	10
2000 SEK loan	2003	-	11
2000 SEK loan	2003	-	44
2000 SEK loan	2004	11	11
2000 SEK loan	2006	44	44
2000 SEK loan	2003	-	11
2000 SEK loan	2004	11	11
2000 SEK loan	2003	-	5
2000 SEK loan	2008	-	22
2000 SEK loan	2003	-	11
2000 SEK loan	2003	-	22
2000 SEK loan	2003	-	11
2000 SEK loan	2003	-	5
2000 SEK loan	2003	-	11
2000 SEK loan	2003	-	22
2000 SEK loan	2003	-	5
2000 SEK loan	2003	-	5
2000 SEK loan	2003	-	5
2000 SEK loan	2004	11	11
2000 USD loan	2003	-	10
2001 SEK loan	2008	-	492
Fortum Generation AB			
1993 SEK loan	2003	-	33
AB Aroskraft			
1994 SEK loan	2004	2	4
Mellansvensk Kraftgrupp AB			
1998 SEK loan	2003	-	6
1998 SEK loan	2003	-	11
1998 SEK loan	2003	-	11
1998 SEK loan	2005	6	5
1998 SEK loan	2005	25	25
1998 SEK loan	2006	3	4
2001 SEK loan	2003	-	13
2001 SEK loan	2004	33	33
2001 SEK loan	2006	2	2
2002 SEK loan	2006	2	2
2002 SEK loan	2006	22	22
Fortum Finance B.V.			
1992	1999–2007	58	70
Total		3,094	2,204

Notes, contingent liabilities

24. Contingent liabilities

Collaterals and other undertakings on own behalf EUR million	2003 Debt	Value of collateral	2002 Debt	Value of collateral
Own debt secured by pledged assets				
Loans from financial institutions	232	82	323	430
Pension loans	5	7	8	9
Trade payables	-	1	-	56
Other liabilities	420	59	620	58
Total	657	149	951	553
Own debt secured by real estate mortgages				
Loans from financial institutions	1	5	4	151
Pension loans	42	42	42	42
Trade payables	-	27	-	27
Other liabilities	-	17	-	17
Total	43	91	46	237
Own debt secured by company mortgages				
Loans from financial institutions	-	-	8	32
Own debt secured by other mortgages				
Loans from financial institutions	-	-	3	26
Collaterals for other own commitments				
Pledges		-		7
Real estate mortgages		55		55
Company mortgages		-		1
Total		55		63
Collaterals given on behalf of associated companies				
Pledges		9		9
Real estate mortgages		3		-
Total		12		9
Collaterals total		307		920
Liability for nuclear waste disposal		570		545
Share of reserves in the Nuclear Waste Disposal Fund		-560		-535
Liabilities in the balance sheet		10 *)		10 *)

*) Mortgaged bearer papers as security

Other contingent liabilities	2003	2002
Operating leasing liabilities		
Due within a year	75	58
Due after a year	103	91
Total	178	149
Sale and leaseback	8	15
Other contingent liabilities given on own behalf	101	474
Other undertakings given on behalf of associated companies		
Guarantees	562	345
Other contingent liabilities	182	184
Total	744	529
Other contingent liabilities given on behalf of others		
Guarantees	15	4
Other contingent liabilties	7	4
Total	22	8
Other contingent liabilities total	1 053	1 175

In addition to other contingent liabilities, a guarantee has been given on behalf of Gasum Oy, which covers 75% of the natural gas commitments arising from the natural gas supply agreement between Gasum and OOO Gazexport.

Notes, derivatives

Interest and currency derivatives EUR million	2003 Contract or notional value	Fair value	Not re-cognised as an income	2002 Contract or notional value	Fair value	Not re-cognised as an income
Forward rate contracts	330	-	-	2,950	-2	-2
Interest rate swaps	4,253	-97	-69	6,898	21	34
Forward foreign exchange contracts [1]	8,396	129	49	5,626	63	30
Currency swaps	333	-3	-1	2,334	227	60
Purchased currency options	-	-	-	248	9	11
Written currency options	-	-	-	66	1	1

1) Includes contracts used for equity hedging.

Oil futures and forward instruments EUR million	2003 Volume 1000 bbl	Fair value	Not re-cognised as an income	2002 Volume 1000 bbl	Fair value	Not re-cognised as an income
Sales contracts	22,304	-11	-11	10,697	-11	-11
Purchase contracts	37,239	14	14	12,170	13	13
Purchased options	150	-	-	-	-	-
Written options	600	-	-	-	-	-

Electricity derivatives EUR million	2003 Volume TWh	Fair value	Not re-cognised as an income	2002 Volume TWh	Fair value	Not re-cognised as an income
Sales contracts	58	-100	-65	94	-2,065	-1,406
Purchase contracts	50	136	101	78	1,709	1,051
Purchased options	-	-	-	2	1	-1
Written options	-	-	-	6	3	6

Natural gas derivatives EUR million	2003 Volume Mill.th.	Fair value	Not re-cognised as an income	2002 Volume Mill.th.	Fair value	Not re-cognised as an income
Sales contracts	8	-	-	4,072	127	127
Purchase contracts	8	-	-	3,773	-115	-115
Purchased options	-	-	-	1,287	-7	-7
Written options	-	-	-	1,335	-	-

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. The amounts also include unsettled closed positions. Derivative contracts are mainly used to manage the Group’s currency, interest rate and price risk.

25. Financial risk management

Fortum's Board of Directors approves the Corporate Financial Risk Policy, which sets the objectives, principles, processes and responsibilities for financial risk management within the Group. The policy sets guidelines for defining, quantifying, monitoring and reporting market risks and other financial risks. These risks include electricity price and volumetric risks, oil price and refining margin risks, liquidity and refinancing risks, currency and interest rate risks, and counterparty risks.

Generally, risks are managed at source, i.e. within the business units where the risks occur. The exception is Group Treasury, which is responsible for managing the Group's currency, interest rate and refinancing risk.

The Chief Financial Officer is responsible for financial risk management at the corporate level. Financial risk control is organised within the Corporate Finance unit. Risk control functions at the business unit level are responsible for reporting their risks to the Corporate Risk Control and Corporate Credit Control functions, where Group-wide consolidation and analysis is performed.

Risk management is a core element of Fortum's business operations. The main principle is that risks are quantified as accurately as possible and monitored against approved limits in relation to projected earnings and/or cash flow. A number of different methods, such as Value-at-Risk and Profit-at-Risk, are used throughout the Group to support this principle. In addition, stress-testing is carried out on a continuous basis in order to assess the effects of extreme price movements on Fortum's earnings.

ELECTRICITY PRICE AND VOLUMETRIC RISK

Fortum manages risks in assets for electricity generation separately from customer sales. Price risks in electricity generation are managed through electricity derivatives and sales contracts in order to hedge the cash flows generated by production assets. These contracts are used to reduce the effect of electricity price volatility on Fortum's earnings and to secure certain targets. Strategies for achieving these targets are continuously evaluated as market prices or hydrological situations change.

Fortum Markets manages both the price- and temperature-related risks in its sales business through the prudent pricing of end products combined with an active portfolio management which is steered by the accepted risk policy. Cash flows generated from customer sales contracts are subject to uncertainty due to the fact that the consumption and price levels are not always known. The objective is to hedge the contracts as accurately as possible in order to minimise the uncertainty in profit margins.

The effects of potential changes in electricity prices and volumes on Fortum's earnings are monitored on a continuous basis.

OIL PRICE AND REFINING MARGIN RISKS

The stock of crude oil and oil products consists of compulsory and operational storage volumes. Changes in the market price of oil affect the value of the stock. Compulsory storage volume covers 70–80% of the total stock. Only operational stock volumes that create a cash flow effect are hedged.

The oil refining business is exposed to changes in refining margins, which affect cash flow generation.

LIQUIDITY AND REFINANCING RISKS

Fortum ensures that it has access to credit facilities to cover forecasted financing requirements at all times, and also that it has sufficient reserves to meet unexpected increases in financing needs. The funding arrangements must be diversified and flexible to allow for increases and decreases of the debt portfolio.

Fortum's goal is to be an attractive borrower in the bank and debt capital markets, with the aim of procuring financing at the best possible terms and conditions compared to companies having similar credit ratings.

In order to allow maximum flexibility over the Group's assets, financing in Fortum is primarily raised unsecured and is concentrated in the parent company Fortum Corporation.

Table 1:

FUNDING SOURCES AS OF 31 DECEMBER 2003

EUR million	Parent company	Group companies	Total Group
Bonds issued under EMTN programme	2,294	-	2,294
Other long-term bonds	165	635	800
Loans from financial institutions	560	309	869
Other long-term interest-bearing debt	749	452	1,201
Total long-term interest-bearing debt	3,768	1,396	5,164
Commercial paper	868	-	868
Other short-term interest-bearing debt	10	23	33
Total short-term interest-bearing debt	878	23	901
Total interest-bearing debt	4,646	1,419	6,065

Table 2:

LOAN MATURITIES AND INSTALLMENTS PER YEAR

	EUR million
2004	1,225
2005	360
2006	1,051
2007	581
2008	790
2009 and later	2,058
Total	6,065

Table 3:

MAJOR CREDIT LINES AND DEBT PROGRAMMES AS OF 31 DECEMBER 2003

EUR million	Total facility	Drawn amount	Undrawn amount
Committed credit lines			
Fortum Corporation, EUR 1,200 million syndicated credit facility	1,200	200	1,000
Fortum Corporation, bilateral 364-days facilities	400	-	400
Fortum Corporation, bilateral overdraft facilities	210	9	201
Total committed credit lines	1,810	209	1,601
Debt programmes			
Fortum Corporation, CP programme EUR 500 million	500	436	64
Fortum Corporation, CP programme SEK 5,000 million	551	432	119
Fortum Corporation, MTN Programme SEK 7,000 million	771	165	606
Fortum Corporation, EMTN Programme EUR 4,000 million	4,000	2,294	1,706
Total debt programmes	5,822	3,327	2,495

CURRENCY AND INTEREST RATE RISKS

Fortum has cash flows and investments in currencies other than euros. Changes in exchange rates therefore affect Fortum's earnings. The largest exposures are in USD, NOK and SEK. USD exposures arise mainly from the oil refining and shipping businesses since prices for oil products and freights are set in USD. NOK exposures arise from electricity trading, as financial contracts on Nord Pool (the Nordic power exchange) are quoted in NOK. SEK exposures arise largely from assets in Sweden. Fortum's target for currency risk management is to minimise fluctuations in earnings and cash flow due to changes in currency rates.

Business-based foreign exchange exposures (Transaction exposures, table 4) are normally hedged for periods up to 12–18 months. In addition investments in foreign subsidiaries (Translation exposures, table 5) are hedged according to the approved Treasury policy.

Table 4:

GROUP TREASURY'S TRANSACTION EXPOSURE AS OF 31 DECEMBER 2003

Currency EUR million	Net position	Hedge	Open
SEK	4,885	4,885	-
USD	429	430	1
NOK	584	583	1
Other	122	122	-
Total	6,020	6,020	-

Table 5:

GROUP TREASURY'S TRANSLATION EXPOSURE AS OF 31 DECEMBER 2003

Currency EUR million	Investment	Hedge	Open	Hedge %
SEK	1,307	1,022	285	78
USD	11	11	-	100
GBP	57	17	40	31
CAD	82	56	26	68
Other	112	15	97	14
Total	1,569	1,121	448	71

Fortum's interest bearing debt as per 31 December 2003 was EUR 6,065 million. Fortum's debt portfolio consists of loans and bond issues with differing maturity profiles. Fortum can affect the duration by entering into interest rate contracts. Strategies for the optimal structure of the debt portfolio are continually evaluated in order to achieve the Goup's targets. The modified duration of the Fortum loans and swap portfolio was 1.7 years.

Interest rate risk is divided into market risk and flow risk. Market risk refers to the effect of a one percentage point change in interest rates on the present value of the net interest-bearing debt. The market risk as per 31 December 2003 was EUR 133 million. The flow risk was EUR 20 million measured by calculating the effect of an interest rate increase of one percentage point on the net interest expense over the next 12 months.

COUNTERPARTY RISKS

Counterparty risks arise when entering into contracts and occur in all normal business operations where Fortum is expecting payment for products sold or services rendered. Especially important are the counterparty risks that arise in conjunction with hedging market risks since the exposures are often volatile. This has become evident in recent years and energy companies have become more prudent when extending lines of credit. It is therefore important for Fortum to have control at all times over current exposures and to know the counterparties that we are dealing with.

Counterparty risks are quantified as the expected loss to Fortum given a default situation. Limits are set at the Group level and delegated to the business units. Corporate Credit Control monitors and reports counterpart exposures according to the approved limits. Fortum's aim is to minimise counterparty risks, and continuous efforts are in place to mitigate these risks through the use of netting agreements, clearing functions and, where possible, guarantees and collaterals.

26. Legal action and official proceedings

Fortum's subsidiary Neste Canada, Inc. is the plaintiff and the defendant of a counterclaim in a case concerning environmental clean-up costs. The costs relate to a factory, which was part of a chemical business acquired for Neste Chemicals in 1992 and then subsequently sold. The case is being defended by Reichhold Ltd. The court proceedings, which have been in progress since 1997 at the Toronto Provincial Court, have reached the pre-trial mediation stage. According to the company's senior management, the court ruling will not have any material impact on Fortum's results or financial position.

Fortum has a wide-ranging international operations and in addition to the above-mentioned cases it is both defendant and plaintiff in several legal proceedings relating to its business, most of which will have a relatively minor impact. According to the company's senior management, the results of these proceedings, either when taken individually or together, cannot have any material adverse effect on Fortum's results or financial position.

Group shares and holdings

	Domicile	No. of shares	Group holding %		Nominal value Curr. 1,000	Book value 31.12.2003 EUR 1,000
Group shares (book value over EUR 2 million)						
Power, Heat and Gas						
AB Aroskraft	Sweden	37,125	82.5	SEK	3,713	2,865
AB Fortum Värme Holding samägt med Stockholms stad	Sweden	9,010	50.1	SEK	901	110,132
AB Fortum Värme samägt med Stockholms stad	Sweden	12,199,970	50.1	SEK	1,219,997	1,261,608
AB Hälsingekraft	Sweden	149,000	100.0	SEK	149,000	57,343
AB Ryssa Elverk	Sweden	630,000	100.0	SEK	31,500	49,632
Arvika Energi AB	Sweden	8,600	100.0	SEK	8,600	5,482
AS Tartu Energia	Estonia	60,240	60.0	EEK	60,240	5,098
AS Tartu Keskkatlamaja	Estonia	150,000	60.0	EEK	150,000	4,876
Avestaforsen AB	Sweden	656,000	100.0	SEK	65,600	48,763
Baerum Fjernvarme AS	Norway	70,000	100.0	NOK	70,000	19,435
Brännälven Kraft AB	Sweden	26,805	35.4	SEK	6,701	26,762
Bullerforsens Kraft AB	Sweden	264,000	88.0	SEK	26,400	91,186
ETV Eröterv Rt.	Hungary	62,886	97.3	HUF	628,860	3,226
Fortum DZT S.A.	Poland	-	72.8	PLZ	-	6,293
Fortum Energiantuotanto Oy	Finland	27,035	100.0	EUR	2,704	13,486
Fortum Energy Securities AB	Sweden	53,168	100.0	SEK	53,168	3,852
Fortum Generation AB	Sweden	88,311,286	100.0	SEK	441,556	1 661,404
Fortum Holding B.V.	The Netherlands	200,000	100.0	EUR	20,000	60,897
Fortum Kraft AB	Sweden	100,000	100.0	SEK	100,000	198,297
Fortum Lämpö Oy	Finland	2,000	100.0	EUR	1,682	8,399
Fortum Power and Heat AB	Sweden	20,000,000	100.0	SEK	2,000,000	2,992,558
Fortum Power and Heat AS	Norway	70,000	100.0	NOK	7,000	18,718
Fortum Power Holding B.V.	The Netherlands	240	100.0	EUR	24,000	49,725
Fortum Sendi Prima Sdn Bhd	Malaysia	2	100.0	MYR	-	2,100
Fortum Service AB	Sweden	100,100	100.0	SEK	10,010	17,643
Fortum Service AS (formerly Ostfold Energi Entreprenör AS)	Norway	5,000	100.0	NOK	5,000	2,971
Fortum Service Deutschland GmbH	Germany	1	100.0	EUR	25	41,391
Fortum Service Oy	Finland	5,000	100.0	EUR	8,409	8,409
Fortum Service Öst AB	Sweden	10,000	100.0	SEK	10,000	6,938
Fortum Sverige AB	Sweden	50,000	100.0	SEK	50,000	1,173,687
Fortum Teknik & Miljö AB	Sweden	3,076	100.0	SEK	3,076	2,175
Fortum Termest AS	Estonia	1,293,082	99.7	EEK	129,308	19,213
Fortum Värme Fastigheter AB	Sweden	1,000	50.1	SEK	100	2,013
Fortum Värme Nynäshamn AB	Sweden	2,000	100.0	SEK	2,000	2,093
Fryksdalens Kraft AB	Sweden	70,000	100.0	SEK	7,000	23,348
Hudiksvalls Energiverk AB	Sweden	2,000	100.0	SEK	2,000	16,658
IVO Energy Limited	Great Britain	47,382,000	100.0	GBP	47,382	34,056
Klarälvens Kraft AB	Sweden	100,000	100.0	SEK	10,000	137,781
Koillis-Pohjan Energiantuotanto Oy	Finland	19,000	100.0	EUR	1,900	7,234
Kopparkraft AB	Sweden	6,899,670	100.0	SEK	689,967	389,236
Kopparkraft Intressenter AB	Sweden	1,000,000	100.0	SEK	100,000	250,367
Kotkan Putkityö Oy	Finland	100	100.0	EUR	17	2,102
Ljunga Kraft AB	Sweden	10,177,625	100.0	SEK	284,974	186,473

	Domicile	No. of shares	Group holding %		Nominal value Curr. 1,000	Book value 31.12.2003 EUR 1,000
Ljusnans Kraft AB	Sweden	5,000	100.0	SEK	500	272,588
Mellansvensk Kraftgrupp AB	Sweden	66,513	87.0	SEK	66,513	39,531
Naps System Oy	Finland	11,363	61.0	EUR	1,136	4,279
Nybroviken Kraft AB	Sweden	100,000	52.9	SEK	10,000	25,172
Parteboda Kraft AB	Sweden	1,000	52.9	SEK	100	35,347
Spjutmo Kraft AB	Sweden	100,000	100.0	SEK	10,000	25,441
Stockholm Energi Vattenkraft AB	Sweden	1,000	100.0	SEK	100	524,045
Uddeholm Kraft AB	Sweden	5,953,332	100.0	SEK	595,333	79,082
Voxnan Kraft AB	Sweden	1,000	52.9	SEK	100	141,982
Värmlandsenergi AB	Sweden	53,613,270	100.0	SEK	536,133	71,902
Värmlandskraft OKG-delägarna AB	Sweden	308	73.3	SEK	308	10,028
Älvkraft i Värmland AB	Sweden	3,146,960	100.0	SEK	314,696	98,672
Älvkraft i Värmland Intressenter AB	Sweden	500,000	100.0	SEK	50,000	89,674
Distribution						
Ekerö Energi AB	Sweden	19,574	80.8	SEK	1,272	25,416
Fortum Distribution AB	Sweden	30	100.0	SEK	300	792,952
Fortum Distribution AS						
(formerly Ostfold Energi Nett AS)	Norway	20,000	100.0	NOK	100,000	81,905
Fortum Distribution Ryssa AB	Sweden	1,000	100.0	SEK	100	22,798
Fortum Distribution Yngeredsfors AB	Sweden	800,000	100.0	SEK	80,000	214,052
Fortum Elekter AS	Estonia	1,572,323	99.3	EEK	157,232	9,586
Fortum Sähkönsiirto Oy	Finland	439,765	100.0	EUR	43,977	227,303
Koillis-Pohjan Sähkönsiirto Oy	Finland	8,000	100.0	EUR	800	26,688
Oy Tersil AB	Finland	15,000	100.0	EUR	252	2,750
Oy Tertrade AB	Finland	15,000	100.0	EUR	252	2,425
Markets						
Fortum Markets AB	Sweden	250,000	100.0	SEK	250,000	141,949
Fortum Markets Oy	Finland	22,800	100.0	EUR	22,800	90,828
Oil Refining and Marketing						
Best Chain Oy	Finland	112,800	100.0	EUR	11,280	45,413
Fortum Gas Ltd	Great Britain	3,030,000	100.0	GBP	3,030	4,299
Fortum Oil and Gas AB	Sweden	2,000,000	100.0	SEK	200,000	23,972
Fortum Oil N.V.	Belgium	60,389	100.0	EUR	14,970	13,641
Fortum Polska sp.z.o.o.	Poland	40,000	100.0	PLZ	20,000	21,163
Neste Eesti AS	Estonia	10,000	100.0	EEK	10,000	5,926
Neste Markkinointi Oy	Finland	210,560	100.0	EUR	21,056	47,567
Neste MTBE S.A.	Portugal	60,000	100.0	EUR	600,000	2,096
Neste Oil Holding (U.S.A.) Inc.	USA	1,000	100.0	USD	1	18,428
Neste Oil Services Inc.	USA	1,000	100.0	USD	1	33,795
Neste St. Petersburg OOO	Russia	10	100.0	RUR	1,052,821	58,427
SIA Neste Latvija	Latvia	180	100.0	LVL	11,318	33,730
Tehokaasu Oy	Finland	7,200	100.0	EUR	3,027	3,900
UAB Neste Lietuva	Lithuania	709,830	100.0	LTL	70,983	29,000

	Domicile	No. of shares	Group holding %		Nominal value Curr. 1,000	Book value 31.12.2003 EUR 1,000
Other operations						
Fortum Assets Oy	Finland	400,000	100.0	EUR	6,728	22,979
Fortum Energy Ltd	Great Britain	5,362,000	100.0	GBP	5,362	8,961
Fortum Finance B.V.	The Netherlands	237,001	100.0	EUR	107,546	134,209
Fortum Investments Ltd	Ireland	3,091,001	100.0	USD	3,091	78,425
Fortum Project Finance S.A.	Luxemburg	154,000	100.0	EUR	38,177	167,518
Kiinteistö Oy IVOn Vanhakaupunki	Finland	1,600	100.0	EUR	2,691	10,764
Group companies consolidated using the pooling-of-interest method						
Fortum Oil and Gas Oy	Finland	98,523,082	100.0	EUR	165,704	2,625,705
Fortum Power and Heat Oy	Finland	91,197,542	100.0	EUR	153,383	2,898,575
Associated companies (book value over EUR 2 million)						
Power, Heat and Gas						
Biomasse-Heizkraftwerk Herbrechtingen GmbH	Germany	-	33.33	EUR	50,000	2,789
Blåsjön Kraft AB	Sweden	6,000	38.23	SEK	6,000	16,109
Drammen Fjernvarme KS	Norway	-	50.00	NOK	17,550,000	2,086
Enprima Oy	Finland	400,000	40.00	EUR	201	3,070
Finnglass Oy	Finland	470	37.00	EUR	395	2,523
Forsmarks Kraftgrupp AB	Sweden	76,500	22.17	SEK	76,500	16,380
Gasum Oy	Finland	13,250,000	25.00	EUR	44,520	44,570
Hafslund ASA	Norway	66,559,449	34.10	NOK	66,559	261,812
Hofors Energi AB	Sweden	2,000	24.45	SEK	2,000	2,062
Horrmundsvalla Kraft AB	Sweden	1,000	50.00	SEK	1,000	4,075
Karlshamn Kraft AB	Sweden	45,000	30.00	SEK	4,500	2,460
Kemijoki Oy	Finland	427,424	17.50	EUR	7,189	293,774
Nova Naturgas AB	Sweden	510,201	20.40	SEK	24,490	23,377
Oskarshamn Kraftgrupp AB	Sweden	409,500	43.36	SEK	40,950	94,272
Panjin Liaohe Fortum Thermal Power Company Co.	China	1	50.00	EUR	-	11,652
Riihimäen Kaukolämpö Oy	Finland	50	50.00	EUR	67	3,556
Stensjön Kraft AB	Sweden	220,000	26.45	SEK	11,000	47,247
Teollisuuden Voima Oy [1]	Finland	193,742,067	26.55	EUR	193,742	128,731
Tåsans Kraft AB	Sweden	960	40.00	SEK	960	8,943
Ångefallen Kraft AB	Sweden	5,000	50.00	SEK	500	8,603

1) Fortum's ownership in Olkiluoto 1 and 2 nuclear power plants (Teollisuuden Voima Oy's A-shares) and Meri-Pori coal fired power plant (Teollisuuden Voima Oy's C-shares) will remain at 26.6%. Fortum will participate in Olkiluoto 3 nuclear power plant with a share of 25.0% (Teollisuuden Voima Oy's B-shares). At the end of the year 2003 Fortum's ownership in Teollisuuden Voima Oy was 26.6%. When the total equity of Olkiluoto 3 is subscribed Fortum's ownership in Teollisuuden Voima will be 25.8%.

	Domicile	No. of shares	Group holding %		Nominal value Curr. 1,000	Book value 31.12.2003 EUR 1,000
Distribution						
Fingrid Oyj	Finland	834	25.08	EUR	14,027	28,054
Fredrikstad Energi AS	Norway	7,554	49.00	NOK	755	25,318
Fredrikstad Energi Nett AS	Norway	393,856	66.85	NOK	393,856	30,078
Härjeåns Kraft AB	Sweden	31,643	46.30	SEK	3,164	7,266
Karlskoga Energi & Miljö AB	Sweden	26,950	49.00	SEK	26,950	37,775
Keuruun Sähkö Oy	Finland	1,754	35.08	EUR	88	2,458
Sallilan Sähkölaitos Oy	Finland	27,250	46.02	EUR	229	8,174
Trogstad Elverk AS	Norway	4,096	49.00	NOK	410	4,397

	Domicile	No. of shares	Group holding %		Nominal value Curr. 1,000	Book value 31.12.2003 EUR 1,000
Markets						
Energiapolar Oy	Finland	349,259	30.78	EUR	349	2,188
Ishavskraft AS	Norway	7,105	49.00	NOK	7,105	6,926
Oil Refining and Marketing						
AB Nynäs Petroleum	Sweden	33,765	50.00	SEK	33,765	43,685
CanTerm Canadian Terminals Inc.	Canada	50	50.00	CAD	10,000	6,160
Pikoil Oy	Finland	200	50.00	EUR	2,000	2,000
SeverTEK ZAO	Russia	50,000	50.00	USD	10,000	8,668
Other operations						
Enermet Group Oy	Finland	268,349	26.71	EUR	4,513	4,513
Other shares and holdings (book value over EUR 2 million)						
Power, Heat and Gas						
OAO Lenenergo	Russia	142,723,603	15.9	RUR	54,345,000	48,187
Eesti Gaas AS	Estonia	1,212,632	17.7	EEK	27,506	5,246
Lapin Sähkövoima Oy	Finland	183,534	13.0	EUR	31,000	11,004
Nokian Lämpövoima Oy	Finland	19,900	19.9	EUR	33	4,373
Distribution						
Imatran Seudun Sähkö Oy	Finland	69,834	16.1	EUR	117	2,527
Vakka-Suomen Voima Oy	Finland	14,210	-	EUR	36	2,324
Oil Refining and Marketing						
Saudi European Petrochemical Company Ibn Zahr	Saudi Arabia	98,832	10.0	SAR	98,832	14,851
Other operations						
Enertech Capital Fund II	USA	-	-	EUR	-	2,148
Sea Containers Ltd	Bermuda	160,759	-	EUR	-	2,323
Utility Competetive Advantage Fund L.L.C.	USA	-	11.1	USD	-	3,340

Complete list of shares and holdings is included in Fortum Corporation's statutory financial statements.

Key financial indicators 1999–2003

		1999	2000	2001	2002	2003
Income statement						
Net sales	EUR mill.	8,232	10,614	10,410	11,148	11,392
- change	%	-3.1	28.9	-1.9	7.1	2.2
Share of profits of associated companies	EUR mill.	36	46	36	31	41
Other operating income	EUR mill.	187	140	203	370	151
Depreciation, amortisation and write-downs	EUR mill.	-523	-571	-623	-694	-538
Other operating expences	EUR mill.	-7,227	-9,323	-9,112	-9,566	-9,626
Operating profit	EUR mill.	705	906	914	1,289	1,420
- of net sales	%	8.6	8.5	8.8	11.6	12.5
Financial income and expenses	EUR mill.	-211	-273	-212	-281	-236
Profit before extraordinary items	EUR mill.	494	633	702	1,008	1,184
- of net sales	%	6.0	6.0	6.7	9.0	10.4
Extraordinary items	EUR mill.	460	-10	-	-	-
Profit before taxes	EUR mill.	954	623	702	1,008	1,184
- of net sales	%	11.6	5.9	6.7	9.0	10.4
Income taxes	EUR mill.	-229	-154	-160	-269	-325
Minority interest	EUR mill.	-22	-46	-83	-73	-90
Net profit for the period	EUR mill.	703	423	459	666	769
Balance sheet						
Fixed assets and other long-term investments	EUR mill.	9,724	11,712	11,328	14,869	14,172
Current assets						
Inventories	EUR mill.	661	746	598	504	551
Receivables	EUR mill.	1,379	1,933	1,766	1,995	1,400
Cash and marketable securities	EUR mill.	775	437	602	591	439
Shareholders' equity	EUR mill.	4,705	5,022	5,485	5,896	6,406
Minority interest	EUR mill.	126	1,281	1,270	1,432	232
Provisions for liabilities and charges	EUR mill.	83	197	144	233	207
Deferred tax liabilities	EUR mill.	1,128	1,177	1,122	1,866	1,843
Interest-bearing liabilities	EUR mill.	4,593	5,063	4,276	6,440	6,065
Interest-free liabilities	EUR mill.	1,904	2,088	1,997	2,093	1,809
Total assets	EUR mill.	12,539	14,828	14,294	17,960	16,562
Profitability						
Return on shareholders' equity	%	7.7	8.6	8.3	10.5	12.3
Return on capital employed	%	8.4	9.4	8.7	11.1	11.4
Financing and financial position						
Interest-bearing net debt	EUR mill.	3,818	4,626	3,674	5,848	5,626
- of the net sales	%	46.4	43.6	35.3	52.4	49.4
Gearing [1]	%	79	73	54	80	85
Equity-to-assets ratio	%	39	43	48	41	40
Net cash from operating activities	EUR mill.	524	424	1,145	1,351	1,577
Cash flow before financing activities	EUR mill.	497	-685	844	-27	1,759
Dividends	EUR mill.	141	194	220	262	357 [2]

1) Gearing is defined as interest-bearing net debt over shareholders' equity plus minority interest. From 2000 till 2002 minority interest includes the preference shares amounting to EUR 1.2 billion, carrying fixed income dividend of 6.7 percent, issued by Fortum Capital Ltd.

2) Board of Directors' proposal

›

		1999	2000	2001	2002	2003
Net interest expenses	EUR mill.	209	243	215	277	33
Interest coverage		3.4	3.7	4.3	4.7	5.8
Other indicators						
Capital employed	EUR mill.	9,425	11,365	11,032	13,765	12,704
Investments	EUR mill.	1,059	3,131	713	4,381	1,136
- of net sales	%	12.9	29.5	6.8	39.3	10.0
Research and development expenditure	EUR mill.	72	58	53	33	35
- of net sales	%	0.9	0.5	0.5	0.3	0.3
Average number of employees		17,461	16,220	14,803	14,053	13,343

Calculations of the key financial indicators are presented on page 80.

QUARTERLY NET SALES BY SEGMENTS

EUR million	2003	Q4/03	Q3/03	Q2/03	Q1/03	2002	Q4/02	Q3/02	Q2/02	Q1/02
Power, Heat and Gas	3,418	860	626	718	1,214	3,644	1,234	694	783	933
Distribution	688	186	143	160	199	640	184	138	156	162
Markets	1,540	408	329	327	476	1,280	418	286	270	306
Oil Refining and Marketing	7,192	1,757	1,717	1,643	2,075	7,083	1,968	1,794	1,790	1,531
Other Operations	84	23	22	19	20	64	19	15	16	14
Eliminations	-1,530	-397	-310	-432	-391	-1,668	-567	-344	-356	-401
Total	11,392	2,837	2,527	2,435	3,593	11,043	3,256	2,583	2,659	2,545
Discontinuing operations	-	-	-	-	-	105	34	22	23	26
Total	11,392	2,837	2,527	2,435	3,593	11,148	3,290	2,605	2,682	2,571

QUARTERLY OPERATING PROFIT BY SEGMENTS

EUR million	2003	Q4/03	Q3/03	Q2/03	Q1/03	2002	Q4/02	Q3/02	Q2/02	Q1/02
Power, Heat and Gas	780	274	77	136	293	617	284	28	156	149
Distribution	247	58	47	61	81	279	61	34	72	113
Markets	43	21	14	15	-7	-11	-19	2	4	2
Oil Refining and Marketing	396	78	118	75	125	253	42	76	79	57
Other Operations	-46	-11	-16	-2	-17	-64	-27	-17	-10	-12
Eliminations	-	-	-1	-	-	-	-1	1	1	-1
Total	1,420	420	239	285	475	1,074	340	124	302	308
Discontinuing operations	-	-	-	-	-	215	51	25	120	19
Total	1,420	420	239	285	475	1,289	391	149	422	327

Calculation of key figures

CALCULATION OF KEY FINANCIAL INDICATORS

Return on shareholders' equity, %	=	100x	Profit before taxes – taxes / (Shareholders' equity + minority interests) average
Return on capital employed, %	=	100x	Profit before taxes + interest and other financial expenses / Capital employed average
Return on net assets, %	=	100x	Operating profit / Net assets average
Capital employed	=		Total assets – interest-free liabilities – deferred tax liabilities – provisions for liabilities and charges
Segments net assets	=		Fixed assets of the segment + inventories + trade receivables – trade payables – non-interest bearing net debt excluding finance and tax related items
Interest-bearing net debt	=		Interest- bearing net debt – cash and marketable securities
Gearing %	=	100x	Interest-bearing net debt / Shareholders' equity + minority interests
Equity-to assets ratio %	=	100x	Shareholders' equity + minority interests / Total assets – advances received
Interest coverage	=		Operating profit / Net interest expenses

CALCULATION OF KEY SHARE RATIOS

Earnings per share (EPS)	=		Profit before taxes – taxes on regular business operations – minority interests / Adjusted average number of shares during the period
Cash flow per share	=		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	=		Dividends for the financial period / Adjusted average number of shares at the end of the period
Dividend per earnings (%)	=	100x	Dividend per share / Earnings per share
Dividend yield (%)	=	100x	Dividend per share / Share price at the end of the period
Price per earnings ratio	=		Share price at the end of the period / Earnings per share
Average share price	=		Amount traded in euros during the period / Adjusted number of shares traded during the period
Market capitalisation	=		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

EUR million	Note	1.1.-31.12. 2003	1.1.-31.12. 2002
Net sales	1	69	17
Other operating income	2	5	1
Depreciation, amortisation and write-downs	3	-7	-2
Other operating expenses	4	-119	-65
Operating profit/loss		-52	-49
Financial income and expenses	5	6	95
Profit/loss before extraordinary items		-46	46
Group contributions		1,098	662
Profit before appropriations and taxes		1,052	708
Appropriations	6	1	-
Income taxes	7	-310	-206
Net profit for the period		743	502

Balance sheet

EUR million	Note	31.12. 2003	31.12. 2002
ASSETS			
Fixed assets and other long-term investments	8		
Intangible assets		6	5
Tangible assets		16	2
Other long-term investments		10,797	8,015
		10,819	8,022
Current assets			
Short-term receivables	9	1,263	892
Cash and cash equivalents		240	360
		1,503	1,252
		12,322	9,274
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	11	2,886	2,876
Share issue		5	-
Share premium		2,785	2,778
Retained earnings		638	398
Net profit for the period		743	502
		7,057	6,554
Accumulated appropriations			
Accumulated depreciation above the plan		-	1
Provisions for liabilities and charges		1	-
Long-term liabilities	12		
Interest-bearing		3,765	562
Interest-free		1	-
		3,766	562
Short-term liabilities	12		
Interest-bearing		1,274	958
Interest-free		224	1,199
		1,498	2,157
		12,322	9,274

Cash flow statement

EUR million	1.1.-31.12. 2003	1.1.-31.12. 2002
Operating activities		
Profit/loss before extraordinary items	-46	47
Depreciation, amortisation and write-downs	7	2
Financial income and expenses	-6	-95
Divesting activities, net	2	-1
Operating profit/loss before change in working capital	-43	-47
Change in working capital		
Decrease (+)/ increase (-) in interest-free trade and other short-term receivables	-10	9
Decrease (-)/ increase (+) in interest-free trade and other short-term payables	7	-7
Change in working capital	-3	2
Funds generated from operations	-46	-45
Interest and other financial expenses paid, net	231	33
Group contribution received	662	335
Income taxes paid	-347	-162
Realised foreign exchange gains and losses	43	90
Net cash from operating activities	543	251
Investing activities		
Capital expenditures	-23	-
Proceeds from sales of fixed assets	-	1
Investments in other shares	-1	-
Redemption of shares in subsidiaries	50	-
Proceeds from sales of shares in subsidiaries net of cash disposed	-	55
Change in other investments, increase (-), decrease (+)	-3,939	-996
Cash flow from investing activities	-3,913	-940
Cash flow before financing activities	-3,370	-689
Financing activities		
Payment of (-)/Proceeds from (+) short-term borrowings	313	613
Proceeds from long-term liabilities	3,750	561
Payment of long-term liabilities	-549	-196
Dividends paid	-262	-220
Share issue	22	1
Other financial items	-24	-
Cash flow from financing activities	3,250	759
Net increase (+)/decrease (-) in cash and marketable securities	-120	70
Cash and marketable securities at the beginning of the period	360	290
Cash and marketable securities at the end of the period	240	360
Net increase (+)/ decrease (-) in cash and marketable securities	-120	70

Notes to the financial statements

1. Net sales by market area

EUR million	2003	2002
Finland	68	17
Sweden	1	-
Total	69	17

2. Other operating income

EUR million	2003	2002
Gains on the sales of fixed assets	-	1
Rental income	5	-
Total	5	1

3. Depreciation, amortisation and write-downs

EUR million	2003	2002
Depreciation and amortisation according to the plan	7	2

4. Other operating expenses

EUR million	2003	2002
Personnel expenses		
Wages and salaries	28	17
Indirect employee costs		
Pension costs	5	5
Other indirect employee costs	11	8
Other personnel expenses	2	-
Other operating expenses	73	35
Total	119	65

Salaries and remunerations

EUR million	2003	2002
President and CEO and members of the Board of Directors	1	1
Average number of employees	630	324

5. Financial income and expenses

EUR million	2003	2002
Income from associated companies	-	1
Other interest and financial income from Group companies	210	128
Other interest and financial income	26	32
Exchange rate differences	-49	48
Write-downs on other long-term investments	-	-1
Interest and other financial expenses to Group companies	-89	-56
Interest and other financial expenses	-92	-57
Total	6	95

Total interest income and expenses

EUR million	2003	2002
Interest income	234	161
Interest expenses	-177	-111
Net interest income	57	50

6. Appropriations

EUR million	2003	2002
Depreciation above the plan	1	-

7. Income taxes

EUR million	2003	2002
Taxes on regular business operations	310	206
Taxes on extraordinary items	-	-
Total	310	206

8. Fixed assets and other long-term investments

Intangible and Tangible assets

EUR million	Intangible assets	Machinery and equipment	Advances paid and construction in progress	Total
Acquisition cost as of 1 January 2003	6	3	-	9
Increases	4	14	5	23
Decreases	-	1	-	1
Acquisition cost as of 31 December 2003	10	16	5	31
Accumulated depreciation, amortisation and write-downs as of 1 January 2003	2	1	-	3
Depreciation and amortisation for the period	2	5	-	7
Accumulated depreciation, amortisation and write-downs as of 31 December 2003	4	6	-	10
Balance sheet value as of 31 December 2003	6	10	5	21
Balance sheet value as of 31 December 2002	5	2	-	7

Investments

EUR million	Shares in Group companies	Receivables from Group companies	Shares in associated companies	Receivables from associated companies	Other shares and holdings	Other receivables	Total
Acquisition cost as of 1 Jan	5,801	2,180	5	12	2	15	8,015
Increases	-	5,171	-	4	2	6	5,183
Decreases	51	2,344	-	-	-	5	2,400
Acquisition cost as of 31 Dec	5,750	5,007	5	16	4	16	10,798
Write-downs	-	-	-	-	1	-	1
Balance sheet value as of 31 Dec 2003	5,750	5,007	5	16	3	16	10,797
Balance sheet value as of 31 Dec 2002	5,801	2,180	5	12	2	15	8,015

9. Short-term receivables

EUR million	2003	2002
Receivables from Group companies		
Trade receivables	5	2
Other receivables	1,098	697
Accrued income and prepaid expenses	48	41
Total	1,151	740
Accrued income and prepaid expenses from associated companies	3	2
Trade receivables	1	-
Other receivables	3	6
Accrued income and prepaid expenses	105	144
Total	1,263	892

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

EUR million	2003	2002
Share capital as of 1 January	2,876	2,875
Options registered	10	1
Share capital as of 31 December	2,886	2,876
Share issue as of 1 January	-	-
Options exercised	5	-
Share issue as of 31 December	5	-
Share premium as of 1 January	2,778	2,778
Options registered	7	-
Share premium as of 31 December	2,785	2,778
Retained earnings as of 1 January	900	617
Dividends paid	-262	-220
Net profit for the period	743	503
Retained earnings as of 31 December	1,381	900
Distributable funds as of 31 December	1,381	900

Notes to the financial statements

12. Liabilities

EUR million	2003	2002
Long-term liabilities		
Bonds	2,459	-
Loans from financial institutions	557	552
Other long-term liabilities	750	10
Total	3,766	562
of which interest-bearing	3,766	562
Short-term liabilities		
Loans from financial institutions	3	599
Trade payables	7	2
Liabilities to Group companies		
Trade payables	1	1
Other liabilities	392	1,454
Accruals and deferred income	14	11
Total	407	1,466
Liabilities to associated companies		
Other liabilities	3	5
Total	3	5
Other short-term liabilities	878	4
Accruals and deferred income	200	81
Total	1,498	2,157
of which interest-bearing	1,274	958
Interest-bearing and interest-free liabilities		
Interest-bearing liabilities	5,040	1,520
Interest-free liabilities	224	1,199
Total	5,264	2,719

EUR million	2003	2002
Short-term accruals and deferred income		
Interests	191	34
Taxes	5	43
Other short-term accruals and deferred income	20	15
Total	216	92

Maturity of long-term liabilities

Year	
2004	3
2005	251
2006	903
2007	210
2008 and later	2,402
Total	3,769

13. Contingent liabilities

EUR million	2003	2002
Undertakings on behalf of Group companies		
Guarantees	365	668
Undertakings on behalf of associated companies		
Guarantees	128	90
Other contingent liabilities	2	2
Total	130	92
Undertakings on behalf of others		
Guarantees	12	-
Contingent liabilities total	507	760

Derivatives

Interest and currency derivatives

EUR million	2003 Contract or notional value	Fair value	Not recognised as an income	2002 Contract or notional value	Fair value	Not recognised as an income
Interest rate swaps	1,023	-4	-6	1,724	56	65
Forward foreign exchange contracts [1]	11,482	87	-	7,312	27	-
Currency swaps	-	-	-	1,455	106	-
Purchased currency options	-	-	-	314	8	-
Written currency options	-	-	-	205	-9	-

1) Includes also closed forward and future positions

Shares and shareholders

Share capital

Fortum has one class of shares. By the end of 2003, a total of 848,832,475 shares had been issued. The nominal value of the shares is EUR 3.40 and each share entitles the holder to one vote at the Annual General Meeting of shareholders. All shares entitle holders to an equal dividend.

In accordance with the Articles of Association, at the end of 2003, Fortum Corporation's share capital may range between a minimum of EUR 2 billion and a maximum of EUR 8 billion. Within these limits, it can be increased or decreased without changing the Articles of Association. Fortum Corporation's share capital on 31 December 2003, paid in its entirety and entered in the trade register, was EUR 2,886,030,415.

Fortum Corporation's shares are in the Finnish book entry system maintained by the Finnish Central Securities Depository Ltd.

SHARE CAPITAL 1998–2003

	No. of news share	No. of shares total	Increase in share capital, EUR	New share capital, EUR
Fortum established on 7 February 1998	500,000	500,000	1,681,879	1,681,879
Rights issue on 3 June 1998	293,104,055	293,604,055	985,931,265	987,613,144
Rights issue on 29 June 1998	397,906,226	691,510,281	1,338,460,462	2,326,073,606
Rights issue on 17 December 1998	91,272,354	782,782,635	307,018,159	2,633,091,765
Employee offering on 18 December 1998	2,000,000	784,782,635	6,727,517	2,639,819,282
Scrip issue on 17 April 2000	-	784,782,635	28,441,677	2,668,260,959
Rights issue on 30 September 2000	60,825,940	845,608,575	206,808,196	2,875,069,155
Subscriptions in 2002				
- under bond loan with warrants 1999	148,380	845,756,955	504,492	2,875,573,647
- under management share option scheme 1999	3,000	845,759,955	10,200	2,875,583,847
Subscriptions in 2003				
- under bond loan with warrants 1999	159,520	845,919,475	542,368	2,876,126,215
- under management share option scheme 1999	2,913,000	848,832,475	9,904,200	2,886,030,415
Share capital on 31 December 2003		848,832,475		2,886,030,415

Quotation and trading of shares, warrants and options

Fortum Corporation's shares are quoted on the Helsinki Exchanges. The first trading date was 18 December 1998.

At the end of 2003, Fortum Corporation's lot size was 200 shares. The highest quotation of Fortum Corporation's shares on the Helsinki Exchanges in 2003 was EUR 8.75, the lowest EUR 5.66, and the average quotation EUR 6.94. The closing quotation on the last trading day of the year was EUR 8.18.

During 2003, a total of 270.3 million shares for a total of EUR 1,876 million were traded. Fortum's market capitalisation, calculated using the closing quotation on the last trading day of the year, was EUR 6,943 million.

Relating to the bond loan with warrants to employees 1999, a total of 5.4 million warrants for a total of EUR 16.6 million was traded during 2003. Relating to the management share option scheme 1999, a total of 10,131 options for a total of EUR 16.5 million was traded during 2003.

KEY SHARE RATIOS 1999–2003

		1999	2000	2001	2002	2003
Earnings per share (EPS)	EUR	0.41	0.55	0.57	0.79	0.91
Fully diluted earnings per share	EUR	-	0.55	0.57	0.78	0.90
Cash flow per share	EUR	0.67	0.54	1.43	1.60	1.86
Shareholders' equity per share	EUR	6.00	6.32	6.49	6.97	7.55
Dividend per share	EUR	0.18	0.23	0.26	0.31	0.42 1)
Dividend per earnings	%	43.4	41.9	45.6	39.3	46.2 1)
Dividend yield	%	4.0	5.3	5.5	5.3	5.1 1)
Price/earnings ratio (P/E)		10.9	7.9	8.3	7.5	9.0
Share prices						
At the end of the period	EUR	4.50	4.35	4.75	6.25	8.18
Average share price	EUR	4.76	4.18	4.79	5.87	6.94
Lowest share price	EUR	4.24	3.50	4.05	4.75	5.66
Highest share price	EUR	5.80	4.94	5.70	6.52	8.75
Market capitalisation at the end of the period	EUR mill.	3,532	3,456	4,017	5,286	6,943
Trading volumes						
Number of shares traded	1,000	112,398	93,900	134,499	251,216	270,278
In relation to the weighted average number of shares	%	14.3	11.9	16.8	29.7	31.9
Number of shares	1,000	784,783	845,609	845,609	845,776	849,813
Number of shares excluding own shares	1,000	784,783	794,571	845,609	845,776	849,813
Adjusted average number of shares	1,000	784,783	787,223	798,346	845,642	846,831
Diluted adjusted average number of shares	1,000	-	787,223	798,308	851,482	858,732

1) Board of Directors' proposal.

For calculation, please see page 80.

State ownership

At the beginning of 2003, the Finnish State owned 60.77% of the company's shares. After the increase in the share capital based on the share subscriptions under bond loan with warrants and management share option scheme 1999, the Finnish State owned 60.53% of the company's shares at the end of the year.

The Finnish Parliament has authorised the Government to reduce the Finnish State's holding in Fortum Corporation to no less than 50.1% of the share capital and voting rights.

Management shareholding and share options

On 31 December 2003, the members of the Supervisory Board of Fortum Corporation owned a total of 6,163 shares or 0.00% of the shares and voting rights, and a total of 300 share warrants under the bond loan 1999. The members of the Board of Directors and the President and CEO owned a total of 100,016 shares, which corresponds to 0.01% of the company's shares and voting rights. The members of the Board of Directors and the President and CEO owned a total of 400,000 share options from 2001 and a total of 680,000 share options from 2002, which entitle them to a subscription of a total of 1,080,000 Fortum Corporation shares on certain conditions. If the subscription rights were exercised in full, the shares and voting rights accounted for the said persons would be 0.13% of the share capital at the end of 2003.

More information on management shareholding on pages 40 and 44–45.

Warrants and share options

Fortum has the following incentive systems tied to the shares.

MANAGEMENT SHARE OPTION SCHEME (1999)

In 1999, a resolution was passed to issue a total of 15,000 share options to the Group management. The share options entitled the holders to subscribe for a maximum of 15,000,000 Fortum Corporation shares. In accordance with the terms and conditions of the option scheme, some of the share options have been redeemed following the termination of some employment contracts before 1 October 2002.

The preconditions for this share option scheme were met, and a total of 11,768 share options were listed on 1 October 2002. Each share option entitles the holder to subscribe for 1,000 shares. The share options are exercisable during the period from 1 October 2002 through to 1 October 2005. The subscription price is EUR 5.61. By the end of 2003, a total of 2,916,000 shares were subscribed for and entered into the trade register. A total of 8,852,000 shares can still be subscribed for such that the share capital is increased by a maximum of EUR 30,096,800, which corresponds to 1.0% of the share capital at the end of 2003. Of these shares, a total of 965,000 shares were subscribed for but not entered into the trade register before the year-end. The shares subscribed for entitle the holder to a dividend for the accounting period during which the subscription was made. This scheme covers approximately 120 persons.

BOND LOAN WITH WARRANTS FOR EMPLOYEES (1999)

In 1999, a resolution was passed to issue a bond loan with warrants for a maximum amount of FIM 25,000,000 (approximately EUR 4.2 million) to employees. The bond loan included a total of 7,500,000 share warrants, which entitle holders to subscribe for a maximum of 7,500,000 shares. The loan period was three years, and it carried an annual interest of 4%. The loan including the interest was repaid in one instalment on 17 May 2002. According to the terms and conditions of the bond, part of the loan was redeemed following the termination of some employment contracts.

The total number of share warrants listed on 17 May 2002 was 6,159,300. Each share warrant entitles the holder to subscribe for one share. The warrants are exercisable during the period from 17 May 2002 through to 17 May 2005. By the end of 2003, a total of 307,900 shares were subscribed for and entered into the trade register. A total of 5,851,400 shares can be subscribed for such that the share capital is increased by a maximum of EUR 19,894,760, which corresponds to 0.7% of the share capital at the end of 2003. Of these shares, a total of 16,004 shares were subscribed for but not entered into the trade register before the year-end.

The subscription price of the shares with the share warrants was EUR 4.36 at the beginning of the listing. The dividend paid by Fortum Corporation each year will be deducted from the subscription price. At the end of 2003, the subscription price was EUR 4.05. The shares subscribed for entitle the holder to a dividend for the accounting period during which the subscription was made. This arrangement covers approximately 1,850 persons.

SHARE OPTION SCHEME FOR KEY EMPLOYEES (2001)

In 2001, a resolution was passed to issue a maximum of 24,000,000 share options to key employees of the Fortum Group and to a wholly owned subsidiary of Fortum Corporation. Of the total number of share options, 8,000,000 were marked with the letter A and are exercisable from 15 October 2005 through to 1 May 2007, 8,000,000 were marked with the letter B and are exercisable from 15 January 2006 through to 1 May 2007 and 8,000,000 were marked with the letter C and were exercisable from 15 April 2006 through to 1 May 2007. However, the exercise period does not commence for any share options unless the performance of the shares on the Helsinki Exchanges between 2001 and 2004 has at least matched that of the Dow Jones STOXX 600 Utilities Index, and unless the average profit per share for the four successive years beginning on 1 January 2001 is at least 105 per cent of the average profit per share for the financial years from 1998 through to 2000, adjusted for exceptional entries.

In March 2002, a total of 2,525,000 non-transferred share options marked with the letter A were cancelled, a total of 212,500 non-transferred share options marked with the letter B were cancelled, and all of the 8,000,000 non-transferred share options marked with the letter C were cancelled. By the end of 2003, a total of 5,200,00 share options marked with the letter A and a total of 7,400,000 share options marked with the letter B were distributed to key employees. The remaining 275,000 share options marked with the letter A and 387,500 share options marked with the letter B were granted to Fortum Assets Oy, a wholly owned subsidiary of Fortum, to be distributed later to the key employees of the Fortum Group.

The subscription price of the share options marked with the letter A will be the volume-weighted average price of the shares on the Helsinki Exchanges during the period from 1 April 2001 through to 31 March 2005 and for the share options marked with the letter B, the volume-weighted average price of the shares during the period from 1 October 2001 through to 30 September 2005. However, the subscription price for all the share options will be decreased by twice the percentage amount by which the performance of the shares on the Helsinki Exchanges exceeds the performance of the Dow Jones STOXX 600 Utilities Index during the period the subscription price of the share options is determined. The subscription price will, however, be a minimum of EUR 4.47. Any dividends paid by Fortum Corporation after the beginning of the period for determination of the subscription price but prior to the subscription of shares will be deducted from the subscription price. On the basis of the share options, a total of 13,262,500 shares can be subscribed for such that the share capital is increased by a maximum of EUR 45,092,500, which corresponds to 1.6% of the share capital at the end of 2003. The shares subscribed for under this share option plan will entitle their holders to dividends for the financial year during which the subscription is made. This scheme covers approximately 350 persons.

SHARE OPTION SCHEME FOR KEY EMPLOYEES (2002)

In March 2002, a resolution was passed to issue a maximum of 25,000,000 share options to key employees of the Fortum Group and to a wholly owned subsidiary of Fortum Corporation. Of the total number of share options, 12,500,000 are marked with the letter A and are exercisable from 1 October 2004 through to 1 May 2007, and 12,500,000 are marked with the letter B and are exercisable from 1 October 2006 through to 1 May 2009. By the end of 2003, a total of 11,146,000 share options marked with the letter A and 10,445,000 share options marked with the letter B were distributed to the key employees of the Fortum Group. The remaining 1,354,000 share options marked with the letter A and 2,055,000 share options marked with the letter B were granted to Fortum Assets Oy, a wholly owned subsidiary of Fortum, to be distributed later to the key employees of the Fortum Group.

A total of 25,000,000 shares can be subscribed for pursuant to the share options such that the share capital is increased by a maximum of EUR 85,000,000, which corresponds to 2.9% of the share capital at the end of 2003. The subscription price of the share options marked with the letter A will be EUR 5.73 (the volume-weighted average price of the shares on the Helsinki Exchanges during the period from 1 January 2002 through to 31 March 2002). The subscription price of the share options marked with the letter B will be EUR 6.19 (the volume-weighted average price of the shares on the Helsinki Exchanges during the period from 1 January 2003 through to 31 March 2003). Any dividends paid after the beginning of the period for determination of the subscription price but prior to the subscription of shares will be deducted from the subscription price. The shares subscribed for under this share option scheme will entitle their holders to dividends for the financial year during which the subscription was made. At the end of 2003, this scheme covered some 350 persons.

PERFORMANCE SHARE ARRANGEMENT FOR KEY PERSONNEL (2003)

In 2003, Fortum launched a new Performance Share Arrangement for key personnel. The potential reward will be based on the performance of the Group, its business units and the individual manager as well as appreciation of the Fortum share. At the first stage the new arrangement concerns some 190 managers.

Fortum estimates that 0.1% to 0.3% of the outstanding Fortum shares that is 1,000,000 to 2,500,000 shares, will be allocated under each individual plan starting 2008. The shares will be bought on the market and thus there will be no dilution effect. This arrangement is intended to replace other possible long term incentive schemes for senior management.

Other convertible bond loans, bonds with warrants, and unused authorisations

Fortum Corporation has issued no other convertible bonds or bonds with attached warrants, which would entitle the bearer to subscribe for Fortum shares. The Board of Directors of Fortum Corporation has today no unused authorisations from the General Meeting of shareholders to issue convertible bond loans or bonds with warrants, increase the company's share capital or acquire the company's own shares.

SHAREHOLDERS ON 31 DECEMBER 2003

Shareholder	No. of shares	Holding%
Finnish State	513,832,988	60.53
Social Insurance Institution	12,203,696	1.44
Ilmarinen Mutual Pension Insurance Company	9,508,931	1.12
The town of Kurikka	6,203,500	0.73
Fortum Pension Foundation	5,034,952	0.59
The State Pension Fund	4,450,000	0.52
Varma Mutual Pension Insurance Company	4,200,000	0.49
Mutual Pensions Insurance Company Etera	3,080,833	0.36
Suomi Mutual Life Assurance Company	2,965,000	0.35
Mutual Insurance Company Pensions Fennia	2,578,067	0.30
Nominee registrations	188,057,828	22.10
Other shareholders in total	105,468,314	11.39
Total number of shares	848,832,475	100.00

BREAKDOWN OF SHARE OWNERSHIP ON 31 DECEMBER 2003

By number of shares owned

No. of shares	No. of share holders	% of share-holders	No. of shares	% of share capital
1–100	2,974	5.88	194,208	0.02
101–500	21,149	41.82	5,573,035	0.66
501–1,000	14,639	28.95	9,585,939	1.13
1,001–10,000	11,188	22.12	27,650,309	3.26
10,001–100,000	513	1.13	13,891,534	1.64
100,001–1,000,000	87	0.17	28,317,347	3.34
1,000,001–10,000,000	18	0.04	56,545,392	6.66
over 10,000,000	4	0.01	706,991,415	83.29
	50,572	100.00	848,749,179	99.99
Unregistered/uncleared transactions on 31 December 2003			83,296	0.01
Total			848,832,475	100.00
of which nominee registrations			188,057,828	22.15

By shareholder category

	% of share capital
Finnish shareholders	
Corporations	1.2
Financial and insurance institutions	2.9
General government	67.3
Non-profit organisations	1.1
Households	5.3
Non-Finnish shareholders	22.2
Total	100.0

Proposal for the distribution of earnings

The Group's non-restricted equity and distributable equity as of 31 December 2003 amounted to EUR 3,479 million. The parent company's distributable equity as of 31 December 2003 stood at EUR 1,380,889,227.73.

The Board of Directors proposes that Fortum Corporation should pay a dividend of EUR 0.42 per share for 2003, totalling EUR 357 million. The remainder of the distributable reserves will be carried over to retained earnings.

Espoo, 4 February 2004

Peter Fagernäs

Heikki Pentti

Birgitta Kantola

Lasse Kurkilahti

Antti Lagerroos

Erkki Virtanen

Mikael Lilius
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 period of 1 January to 31 December 2003. 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 on corporate governance.

We have conducted the audit in accordance with 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 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 a true and fair view, as defined in the Accounting Act of both the consolidated and the parent company's 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 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 regarding the distributable funds is in compliance with the Companies Act.

Espoo, 4 February, 2004

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pekka Kaasalainen
Authorised Public Accountant

Statement by the Supervisory Board

The Supervisory Board has reviewed Fortum Corporation's income statement, balance sheet, notes to the financial statements, consolidated financial statements, report on activities, and the Board of Directors' proposal contained in the latter for the distribution of earnings, and the auditors' report provided by the Company's auditors. The Supervisory Board has no comments to make on these. The Supervisory Board recommends that the income statement, balance sheet and consolidated financial statements be approved and concurs with the Board of Directors' proposal for the allocation of profit.

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, 10 February 2004

Ben Zyskowicz, Deputy Chairman

Satu Hassi	Klaus Hellberg	Rakel Hiltunen
Harri Holkeri	Jorma Huuhtanen	Mikko Immonen
Kimmo Kalela	Kalevi Lamminen	Juha Mikkilä

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Fortum Corporation
Keilaniemi, Espoo
POB 1
FI-00048 FORTUM, Finland
tel. int. +358 10 4511
fax +358 10 45 24447
www.fortum.com

Domicile Espoo, VAT NO FI1463611-4