Fortum

Annual Report 2004

Contents

Investor information

Annual General Meeting

The Annual General Meeting of Fortum Corporation will be held on Thursday, 31 March 2005, at 11.00 am, at Finlandia Hall, Mannerheimintie 13 e, Helsinki. Registration of shareholders who have notified the Company of their attendance will begin at 9.45 am.

Registrations for the AGM must be received by 4.00 pm (Finnish time), on 23 March 2005. 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, Rita Lagerstedt, POB 1, FI-00048 FORTUM, Finland. 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 cash dividend of EUR 0.58 per share be paid for the financial period 2004. The record date for dividend payment is 5 April 2005, and the expected dividend payment date is mid-April 2005.

In addition, the Board of Directors will propose that Fortum's shareholders will receive shares in the new oil company as a dividend.

Publication of results

- Interim Report January – March will be published on 3 May 2005
- Interim Report January – June will be published on 19 July 2005
- Interim Report January – September will be published on 20 October 2005

The report "Fortum in society" will be published in March, 2005.

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.fi and www.fortum.se.

Fortum management serves analysts and the media with regular press conferences, which are web-cast 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.

As of 1 April 2005, Fortum observes a silent period of 30 days prior to publishing its results.

Additional information about shares and shareholders is available on pages 91–94.

Contact information

The contact for financial information is Mika Paloranta, Vice President, Investor Relations, tel. +358 10 452 4138, fax +358 10 452 4176, e-mail mika.paloranta@fortum.com.

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

SHARE INFORMATION FOR 2004

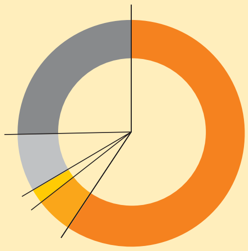
Highest share price	EUR 13.99
Lowest share price	EUR 7.45
Average share price	EUR 10.29
Total number of shares traded	478.8 million pcs
Market capitalisation 31 Dec 2004	EUR 11.8 billion

LARGEST REGISTERED SHAREHOLDERS
31 December 2004

Finnish State	59.26%
Ilmarinen Mutual Pension Insurance Company	1.34%
Social Insurance Institution	1.22%
The municipality of Kurikka	0.72%
Fortum Pension Foundation	0.58%
State Pension Fund	0.56%
OP-Delta Investment Fund	0.45%
Fennia Mutual Pension Insurance Company	0.24%
Etera Mutual Pension Insurance Company	0.23%
Varma Mutual Pension Insurance Company	0.20%

Distribution of ownership

31 December 2004



- Finnish State 59.3%
- Households 5.3%
- Financial and insurance institutions 2.1%
- Other Finnish investors 8.2%
- International investors 25.2%

BANKS AND BROKERS COVERING FORTUM IN 2004

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

Trading code: FUM1V. Type: Energy.

Share quotations 2000–2004

Monthly average

Fortum
Dow Jones STOXX 600 Utilities Index
HEX general index

Market capitalisation 2000–2004

EUR 1,000 mill.

Number of shares traded 2000–2004

mill. shares/day, monthly average

share price, EUR

5 13.5
4.5 12.5
4 11.5
3.5 10.5
3 9.5
2.5 8.5
2 7.5
1.5 6.5
1 5.5
0.5 4.5
0 3.5

EUR
Volume

Earnings per share

EUR

1.5 1.44
1.2
0.9
0.6
0

Dividend per share

EUR

0.6 0.58
0.5
0.4
0.3
0.2
0.1
0

*) Board of Directors' proposal

Fortum 2004

An excellent year. The strong result allows the separation of the oil businesses through a share dividend.

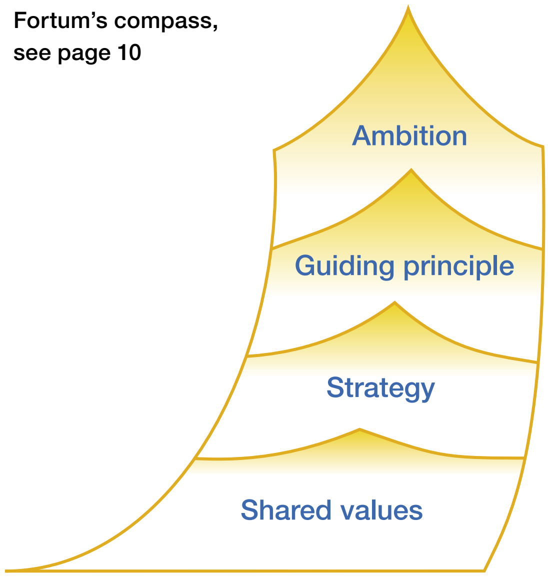
Fortum in brief

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 oil products.

In 2004, Fortum's net sales totalled EUR 11.7 billion and operating profit stood at EUR 1.9 billion. The average number of employees was 12,859. Fortum's shares are quoted on the Helsinki Stock Exchange.

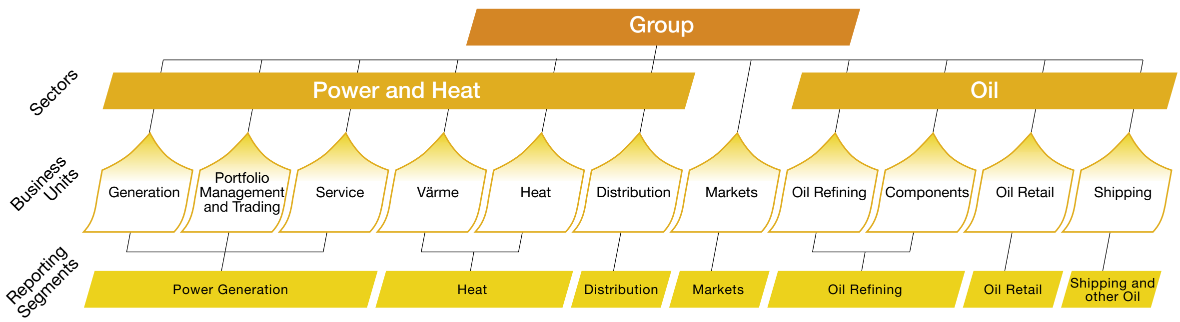
Fortum's compass,
see page 10



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	1.1
Electricity distribution customers	1.4
Traffic fuel loyalty card customers	0.5
Heating oil and gas customers	0.2

Corporate structure in December 2004



Operational highlights in 2004

The main development during the year was the plan to separate the oil businesses through a share dividend and a sale of shares.

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

Create the leading power and heat company

- increased stake in Russian OAO Lenenergo to 30.7%
- participation in the fifth Finnish nuclear power unit
- increase in power generation capacity
- expansion of heat business in Poland
- continued enhancement of waste-to-energy projects

Strengthen position as the leading clean fuels refining company

- ongoing investment of EUR 500 million at the Porvoo refinery to add diesel fuel refining capacity
- start of sulphur-free diesel and gasoline sales in Finland
- expansion of Neste station network in the Baltic Rim

Become the energy supplier of choice

New pan-Nordic initiatives
- launch of new electricity products and services
- pioneering customer guarantees
- start of automated meter-reading pilot projects
- introduction of post-debiting of electricity
- establishing customer ombudsman function

Achievements

- an excellent year
- share price development clearly above sector average
- strengthened foothold in north-west Russia
- good position considering possible impact of emissions trading
- improved customer care

Focal points in 2005

- successfully complete separation of the oil businesses
- pursue the Nordic strategy
- seize growth opportunities in Russia
- maintain unflinching focus on customer value
- strengthen performance culture
- further improve operational efficiency

Financial summary

(detailed financial information on pages 50–96)

Key figures

	2003	2004	Change %	IFRS 2004 **)
Net sales, EUR million	11,392	11,665	2	11,659
Operating profit, EUR million	1,420	1,914	35	1,916
Profit before taxes, EUR million	1,184	1,655	40	1,700
Earnings per share, EUR	0.91	1.44	58	1.48
Shareholders' equity per share, EUR	7.55	8.50	13	
Capital employed (at end of period), EUR million	12,704	12,697	0	12,890
Interest-bearing net debt (at end of period), EUR million *)	5,626	4,896	-13	5,095
Investments, EUR million	1,136	833	-27	833
Net cash from operating activities, EUR million	1,577	1,748	11	
Cash flow before financing activities, EUR million	1,759	1,010	-43	
Return on capital employed, %	11.4	15.6	37	15.8
Return on shareholders' equity, % *)	12.3	17.6	43	18.2
Gearing, % *)	85	64	-25	67
Average number of employees	13,343	12,859	-4	12,859

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

**) audited figures

Key figures by segment

	Net sales EUR million 2003	Net sales EUR million 2004	Change %	Share of Group's net sales, %	Operating profit EUR million 2003	Operating profit EUR million 2004	Change %	Share of Group's operating profit, %	RONA % 1) 2003	RONA % 1) 2004	Change %
Power Generation	2,681	2,088	- 22	18	603	725	20	38	9.5	11.6	22
Heat	964	1,021	6	9	173	226	31	12	7.3	9.2	26
Distribution	688	707	3	6	247	258	4	13	7.9	8.3	5
Markets	1,634	1,387	-15	12	35	26	-26	1	55.2	18.8	-66
Oil Refining	5,693	6,306	11	54	281	573	104	30	26.2	50.4	92
Oil Retail	2,203	2,374	8	20	44	48	9	3	13.8	15.9	15
Shipping and other Oil	308	339	10	3	79	107	35	6	56.7	63.5	12
Other operations	93	96	3	1	-42	-49	17	-3			
Eliminations	-2,872	-2,653									
Group	11,392	11,665	2	100	1,420	1,914		100			

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

Group financial targets

	Target	2003	2004
ROCE	**12%**	11.4%	15.6%
ROE	**12%**	12.3%	17.6%
Gearing	**< 100%**	85%	64%

Key sensitivities during 2005

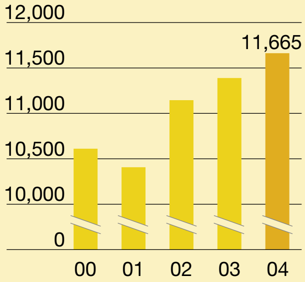
Approximate effect on the Group's full-year operating profit based on hedge ratios at the end of 2004.

Change in	EUR million
Price of electricity, EUR 1/MWh	+/-20 *)
Oil refining margin, USD 0.1/bbl	+/-10
Crude oil price, USD 1/bbl	+/-10 **)
Crude oil freight price, 10 WS points	+/-10
US dollar, 10%	+/- 50–70 ***)

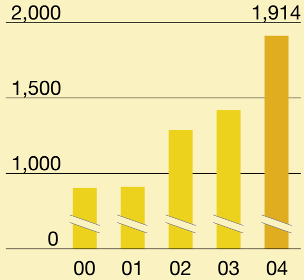
*) the effect is not linear **) mainly inventory gains and losses

***) before hedges

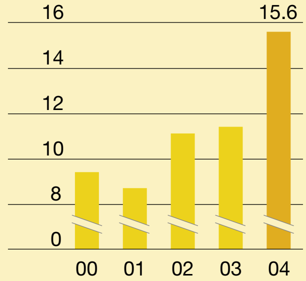
Net sales
EUR million



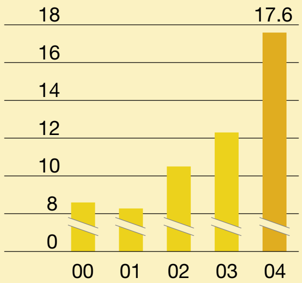
Operating profit
EUR million



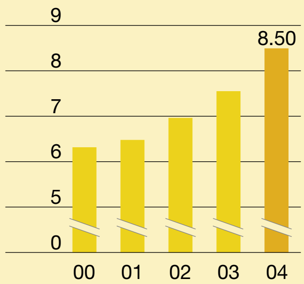
Return on capital employed
%



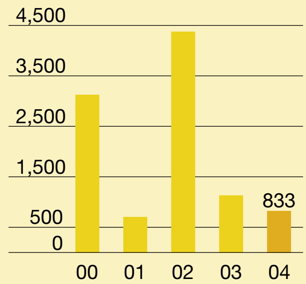
Return on shareholders' equity
%



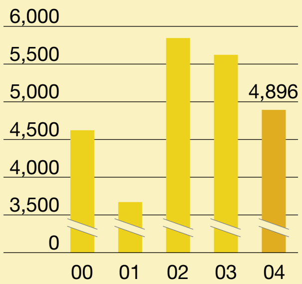
Shareholders' equity per share
EUR



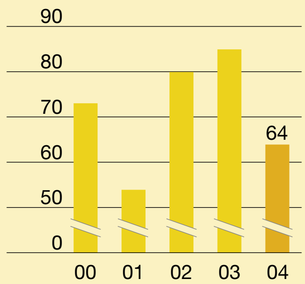
Investments
EUR million



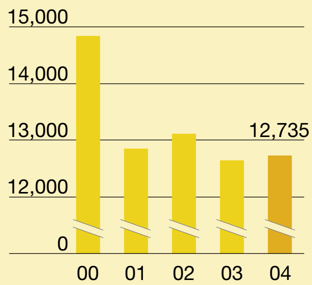
Interest-bearing net debt
EUR million



Gearing
%



Number of permanent employees



Good platform for two independent companies

2004 was another good year for Fortum. It was also the year we enjoyed the benefits of several years of improvements: the synergy benefits of the merger with Swedish Birka Energi were realised in full and other organisational improvements also boosted performance throughout the Group.

Good availability at the production plants and successful operation of the refineries further supported the strong result. In addition, market conditions worked in our favour, oil refining margins were very strong throughout the year and although power prices on the Nordic market were lower than the year before, favourable hedging positions enabled us to increase profits over 2003.

Delivering on the Nordic strategy

We continued to execute our Nordic strategy, which also covers the Baltic Rim area. In June we announced a strengthened position in north-west Russia by increasing our stake in Lenenergo, a major power company in the St. Petersburg region, to 30.7%. We now have a strong foothold in a large market about to be liberalised. Fortum is the only foreign power producer present on this market, giving us a unique opportunity to benefit from upcoming developments.

North-west Russia is also important to Fortum as a supply source for crude oil and other feedstocks to our refineries. We have been able to benefit from our location along the export route for Russian crude oil to the international market using our own tanker fleet and our ability to produce high quality traffic fuels out of a competitively priced crude oil.

The ongoing EUR 500 million investment at the Porvoo refinery aims at combining the increasing crude oil export from Russia with the higher demand for sulphur-free diesel in Europe. The investment is set to become very rewarding.

Determined to also execute our Nordic strategy westwards, Fortum made a bid on the Norwegian distribution company Hafslund in May. The deal, which had been negotiated with the City Board of Oslo, did not make it to City Council for approval. This setback has not changed our interest in the Norwegian power sector. We will continue to closely monitor any developments and are ready to act when interesting opportunities arise in this still very fragmented market. With increasing competition and upcoming changes in legislation we feel confident that such opportunities will turn up.

During 2004, we also strengthened our position in Poland, where the economy continues to develop in a good direction. Today we supply district heating in 28 Polish cities and operate 58 outlets for traffic fuels, up by 20 from last year. We will continue to pursue a growth strategy in both these businesses.

In January 2005 Fortum announced it will use the call option to buy the 65.6% stake in E.ON Finland owned by E.ON Nordic. The call option is part of the compensation Fortum received from the Wesertal deal made with E.ON in 2002. As E.ON has refused to sell its shares, Fortum has commenced legal proceedings to secure its rights.

A purchase offer was also made to the City of Espoo, which is the largest minority shareholder of E.ON Finland.

Focus on customer care

Competition in the electricity retail market increased during the year. This could be seen for instance in growing customer churn rates. On average, more than 20% of the Nordic retail customers have changed their supplier and this share will most likely increase further. Within Fortum, we continued our efforts to improve customer care. The new Customer Service unit, which provides a one-stop service for both our distribution and electricity customers, started up its services in January. Customer Service Technicians were trained and certified to grow the share of satisfied distribution customers. Fortum launched new products and services and became the first electricity company to give a full range of customer guarantees. We also installed customer ombudsmen in the autumn. All these initiatives were pan-Nordic in scope.

Competition also tightened on the Finnish oil retail market with aggressive new entrants struggling for market share. Fortum managed to retain its market leadership in these very harsh conditions.

Harmonised regulation needed to promote security of supply

The winter storms in both Sweden and Finland demonstrated the vulnerability of the power supply system and the importance of our EUR 500 million ongoing investment programme in the Swedish distribution business. Most of the money will be spent on underground cabling and insulation of power lines. The storms also underlined the need for more harmonised regulation in the Nordic countries with clear incentives for investments in the grid system.

Training tomorrow’s leaders

A company is as good as its people. With this in mind, we continued to improve various professional skills throughout the company as, for example, with our four-stage leadership training programme for the third consecutive year. The tailor-made content for different levels of management has proven to be very supportive of the training needs of the participants and thus also of the company expectations.

Sustainable Development Agenda

The three dimensions of Sustainable Development (SD), economic, social and environmental, were thoroughly discussed by management. As a result, a SD Agenda was agreed upon, which addresses all three dimensions and sets targets for focal issues in the next few years. One example is managing CO_2 emissions. In the past five years Fortum has developed its production portfolio with the Kyoto protocol in mind, and now the share of CO_2-free production of our total capacity is as high as 80%. We are very proud of being one of the largest sellers of eco-labelled electricity in the Nordic countries. We will continue to increase the share of renewable fuels and already have experience in emissions trading.

Good environmental and safety conduct is vital to an energy company. For this reason several of the targets in the SD Agenda are related to environmental and safety performance. In 2004 we continued our safety programme and were very pleased to meet our safety target for the year with a good margin. Our efforts will continue towards an even more ambitious target as will all measures to mitigate operational risks and emissions.

Our efforts in this field were acknowledged in several ways outside the company. Fortum was included in the Dow Jones Sustainability Index for the second year in a row.

Two independent companies with good prospects

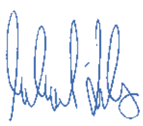
The decision in 2003 to separate the oil businesses into an independent company has now been geared to take place this spring. Fortum’s good financial result makes it possible to do this through a dividend distribution and sale of 15% of the company’s shares to the market. The rationale for the split is obvious: both the oil and power businesses are very capital intensive and following the major restructuring of the Group in recent years now was the right time for both companies to pursue their respective strategies independently.

Neste Oil will continue as a superior clean fuels refining company. The increased capacity for sulphur-free diesel will supply the growing European markets with this high quality product at very attractive terms. With growth opportunities in the components market and an optimized supporting tanker fleet, Neste Oil is set for a promising journey.

Europe is clearly moving towards one common electricity market through liberalised regional markets. This evolution continues to steer the strategy of the remaining Fortum. We are determined to further strengthen our position as an active player in the consolidating Nordic market. We will also continue our internal efforts to improve performance throughout the Group.

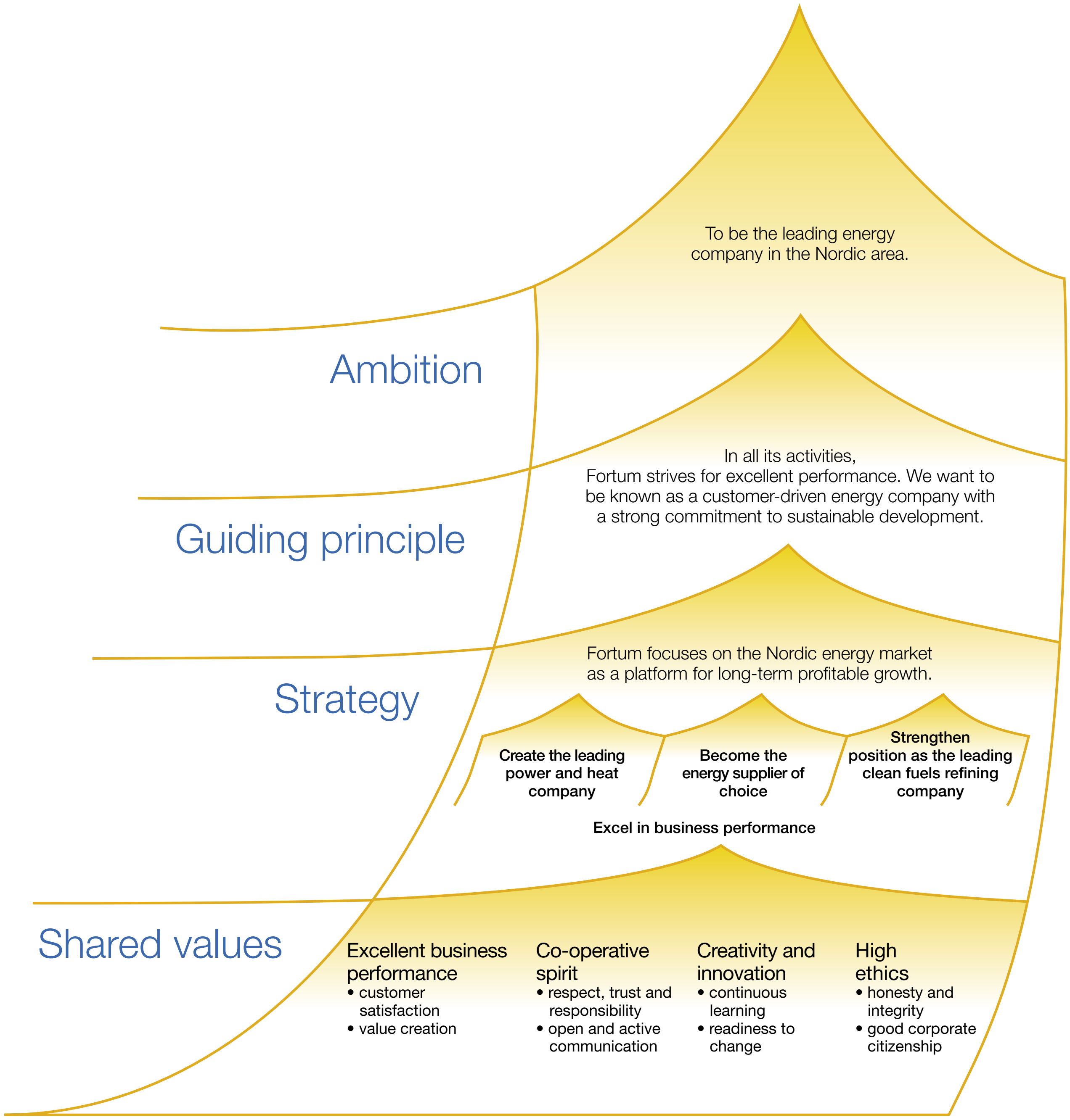
Although fully aware of the increasing demands from customers regarding the value of products and services, Fortum is very determined to achieve the goal of becoming the energy supplier of choice. In 2004 we took several important steps to this aim and we are determined to continue.

All in all, 2004 was an excellent year. For this I want to commend the splendid Fortum-team, consisting of more than 13,000 persons. We are clearly improving the performance culture in Fortum.



Mikael Lilius

Fortum's compass



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

Towards an integrated European power market

"The Community is seeking to create a competitive market for electricity for an enlarged European Union, not only where customers have choice of supplier, but also where all unnecessary impediments to cross-border exchanges are removed. Electricity should, as far as possible, flow between Member States as easily as it currently flows within Member States."

In its Strategy Paper from March 2004 the European Commission outlined further development of the European power market as a two-stage process where the primary emphasis is on developing regional power markets from the liberalised national markets.

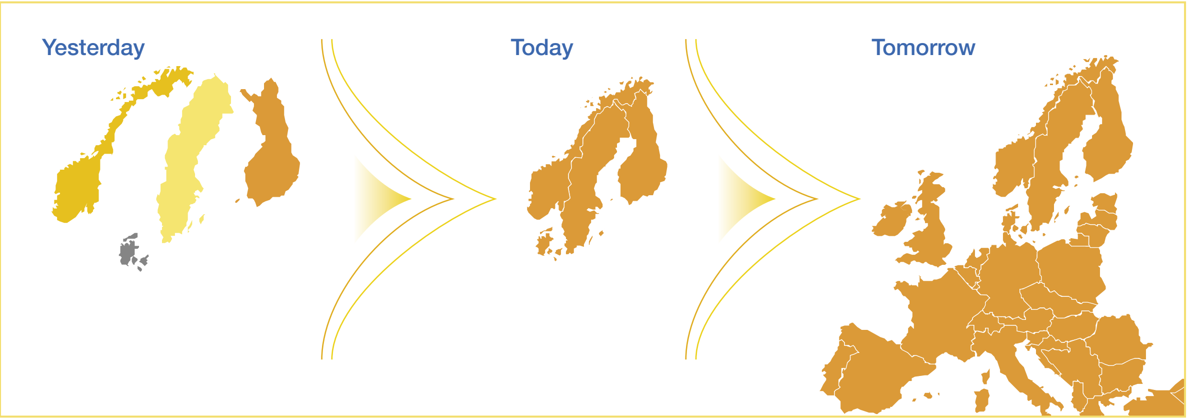
For a regional market to develop, a more harmonised regulatory approach on transmission, congestion management and intra-day and day-ahead markets will be needed. According to the Commission Strategy, regional markets are expected to be established by 2010.

Further development of the Nordic power market

The Nordic power market is a forerunner in Europe with a market design very similar to that described in the Commission Strategy; availability of the total grid for the whole market area, one liquid, physical power exchange with close Transmission System Operator (TSO) co-operation, market-based grid congestion management and the common balance mechanism enabling a functioning regional bulk power market.

Discussions on further developing the functionality of the Nordic market continued in 2004 with a positive tone. Nordenergi, the co-operation body of the national power industry organisations, continued to advance dialogue and work on critical issues to foster further integration and harmonisation. The Nordic Energy Ministers supported co-operation to strengthen the market infrastructure. In a meeting in September, the Nordic TSOs were asked to look into how increased co-ordination of system responsibility, joint organisation and financing of investments in the grid and market-based peak-load management can be carried out in practice. The first results of this work are expected in March 2005.

In June Nordel published plans for five priority Nordic grid projects by 2010 that will increase security of supply and reduce price area differences. In August a report on the Nordic grid congestion management proposing increased counter-trading and other measures to further integration was published by Nordel. In Denmark one TSO has been effective as of January 1, 2005.



Even though restructuring in the Nordic market continued, the market remains highly fragmented in comparison with European markets in general. There are still more than 350 generators, more than 500 distributors and some 450 retail companies. In Denmark, restrictions on power company ownership and structure will be abolished as of 2005. During the second half of 2004 there were intense negotiations to create a national energy champion in Denmark, while cross-border interests increased as well. In Norway the principles for hydropower ownership were reviewed and the parliament's actions are awaited.

Start of emissions trading

Emissions trading, an initiative with the most profound implications for the energy industry since the start of market liberalisation, commences in the EU as of 2005. In the long-term, emissions trading is the most cost-effective means of steering towards lower CO_2 emissions. As a market-based mechanism, it will harmonise CO_2 costs in the EU and advance European power market integration.

The ratification of the Kyoto Protocol by Russia in October secured its implementation. Preparations for emissions trading during 2008–2012 were initiated. Negotiations on the period thereafter will officially start during autumn 2005.

Russian power sector reform

The progress of the Russian power sector reform during 2004 created some uncertainty regarding the implementation of the reform plan. Several concrete steps were taken, however. RAO UES made decisions to create six thermal Wholesale Generation Companies (WGC) during the autumn. The government is generally expected to require the WGCs to be operational before auctioning their shares. The merger of the country's large hydropower plants into a Federal Hydrogeneration Company with state majority ownership was settled. Restructuring plans for Lenenergo, Kolenergo and Karelenergo were prepared by the respective companies. The preparation for the Territorial Generation Company number 1 (TGC-1) in north-western Russia proceeded based on a model to start the operation with a lease of the generation assets of respective regional power companies. According to the sector reform plan, the liberalisation of the Russian bulk power market will be completed in 2008.

Nuclear power developments

Work on the fifth nuclear unit in Finland continued and the license for construction was granted by the government spring 2005. In Sweden the negotiations between the government and the power industry on future use of nuclear power failed to generate consensus and the discussions were terminated in October. Government's decision to close down Barsebäck 2 at the end of May 2005 followed.

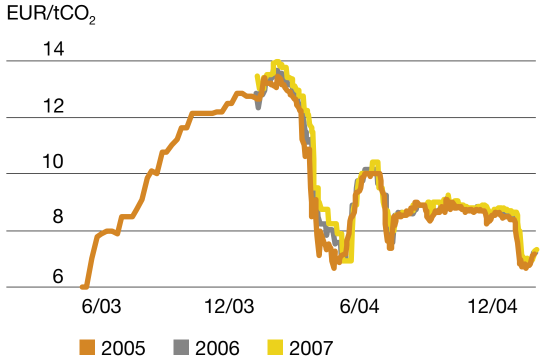
Oil prices hit record level

Demand growth was the main factor driving the crude oil price up. The rapid growth in China especially surprised the market. In October the crude prices reached all time records when US WTI price hit over USD 55/bbl and the North Sea Brent more than USD 52/bbl.

In addition to the growth in demand, there were several other reasons for the huge rise in oil prices, e.g. the continued unrest in Iraq, uncertainty around Yukos in Russia, the referendum in Venezuela, ethnic unrest and strikes in Nigeria and low inventory levels.

Speculative elements also drove the crude oil price up. This political 'fear factor' was estimated at least at USD 5–10/bbl. Speculative oil trade in future markets by US funds increased price volatility and accelerated price movements especially during the spring when the funds increased their long positions in anticipation of higher prices.

Price of EU emissions allowances 2005–2007



The return of downstream oil

Refining margins for complex refineries were healthy throughout the year. Early 2004 north-west Europe complex margins varied between USD 2–4/bbl and climbed to USD 8/bbl in the spring and summer supported by high gasoline prices. Later in 2004 the margins weakened to USD 5/bbl and below but remained mostly well above the long-term average.

Western European demand for oil products grew slightly with considerable differences among various products and national markets as the full implementation of clean fuels specifications is planned only for 2009. The consumption of motor gasoline and heavy fuel oil continued to decline while the demand for diesel fuel and jet kerosene increased, as did also that for naphtha, a raw material for the petrochemical industry. An increase in commercial road transportation and the continuing growth of the share of diesel in new car sales kept diesel demand on a growth track. Ten new member states joined the EU in May, adding demand for oil products by about 7% and refining capacity in the EU by one tenth.

The gasoline market was exceptionally strong in 2004 as the United States continued to import increasing quantities. In addition, large growth in demand occurred in Asia, where the rapid increase of motor vehicles drove gasoline use up.

The year 2004 confirmed the trend of several previous years: companies with complex refineries capable of producing high quality traffic fuels have an increasing competitive advantage over simple refineries with a high yield of heavy fuel oil. This was very evident in 2004, when price differences between light and heavy oil products increased substantially, driven by strong demand, low inventory levels, high crude oil prices and, at times, insecurity about the adequacy of supply. At the same time the price discount of heavy crude oil higher in sulphur compared to light and low-sulphur grades has grown. This differential gives significant added benefit to Fortum and other refiners who can process high-quality products out of sour crude oil.

The outlook for the refining industry is generally perceived as positive. Increases in refining capacity globally have been very limited for some time. The demand growth of oil products continues with a tight supply/demand balance. In the next few years this results in complex refining margin estimates higher than the some USD 2/bbl that has been the average during the last few years.

The year 2004 was relatively quiet in terms of European oil industry restructuring.

R & D to support business needs

Technology development in the energy industry is driven by a multitude of factors ranging from environment and climate change, political and regulatory requirements, increased demand on operational efficiency and customer needs to enabling innovations and new technology from outside the industry.

In Fortum, research and development work in technology aims at securing long-term competitiveness and a benchmark position in key business operations. Within R&D the emphasis is on development, in other words on the active follow-up of technologies relevant to Fortum's businesses and on building competencies for competitive application of existing knowledge. External research and development programmes and industry co-operation are important means for acquiring knowledge and retaining up-to-date know-how on pacing and emerging technologies as well as enhancements on currently applied technologies.

In 2004, Fortum's R&D spending totalled EUR 26 (35) million.

Segment reviews

Fortum reinforced its position as a leading Nordic energy company. A number of steps were taken to further improve customer care with the goal of becoming the energy supplier of choice.

Power and Heat improved thanks to operational efficiency

Fortum is a leading power company in the Nordic countries and the Baltic Rim area. Its activities comprise the generation, distribution and sale of electricity and heat, the operation and maintenance of power plants as well as other energy-related services.

Fortum is committed to generating power and heat in an efficient and environmentally benign way. Its power generation portfolio is flexible and diversified ranging from natural gas, coal and peat to waste and wind power with its cornerstones being hydro and nuclear power. Heat is also generated from biomass fuels.

Fortum's power and heat businesses are divided into four reporting segments. Power is generated in Fortum's own and partly-owned power plants by the Power Generation segment and in combined heat and power plants by the Heat segment. Power Generation sells the electricity it generates through the Nordic power exchange, Nord Pool. The Markets segment buys its electricity through Nord Pool and sells the electricity to private and business customers as well as to other electricity retailers. Heat sells steam and district heat mainly to industrial and municipal customers as well as to real estate companies, and it sells the power it produces directly to end-customers and to Nord Pool. Fortum's distribution and regional network transmissions are reported in the Distribution segment.

Recovery of Nordic electricity consumption

According to preliminary statistics, the Nordic countries consumed 386 (379) terawatt-hours (TWh) of electricity in 2004. This is 2% more than in 2003 when consumption was low due to the high price of electricity in the beginning of the year. Net imports to Nordic countries totalled 12 TWh, or 3% of the electricity consumed.

Stable spot price of electricity

In 2004, the spot price for electricity in the Nordic power exchange Nord Pool was stable, averaging EUR 28.9 (36.7) per megawatt-hour (MWh), which was approximately 21% lower than in 2003. The year started with a considerable deficit in the Nordic water reservoirs and continued with low inflows. During the autumn, the Nordic water reservoirs reached normal level after two years with deficit. This was due to heavy rains during the latter part of the year. At the end of 2004 the Nordic water reservoirs were 2 TWh above the average and 16 TWh above the corresponding level of 2003.

Over 60% increase in annual coal price for 2004 in comparison to 2003 increased production costs for coal condensing power. In addition, the start of emissions trading in the beginning of 2005 adds a new cost component to thermal power. During 2004, the market price for emissions allowance for 2005 was in the range of EUR 7–13 per ton of CO_2.

Slight increase in generation volumes

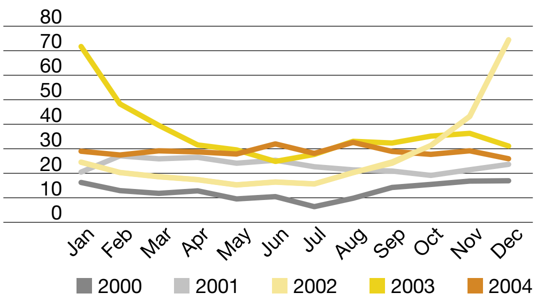
Fortum's total power generation was 55.5 (53.2) TWh, of which 54.4 (51.2) TWh in the Nordic countries. At the end of the year the power generation capacity totalled 11,373 (11,329) MW, of which 11,220 (11,186) MW was in the Nordic countries.

Fortum's total heat generation was 25.4 (25.9) TWh. At the end of the year, the heat generation capacity totalled 10,260 (9,688) MW. ●

In 2004, 83% (78%) of Fortum's power generation was CO_2 -free. The amount of CO_2 -free power generation has increased from 29 TWh to 46 TWh during the past five years.

Market price of electricity, Nord Pool

EUR/MWh, monthly average system price



Sales volumes up on previous year

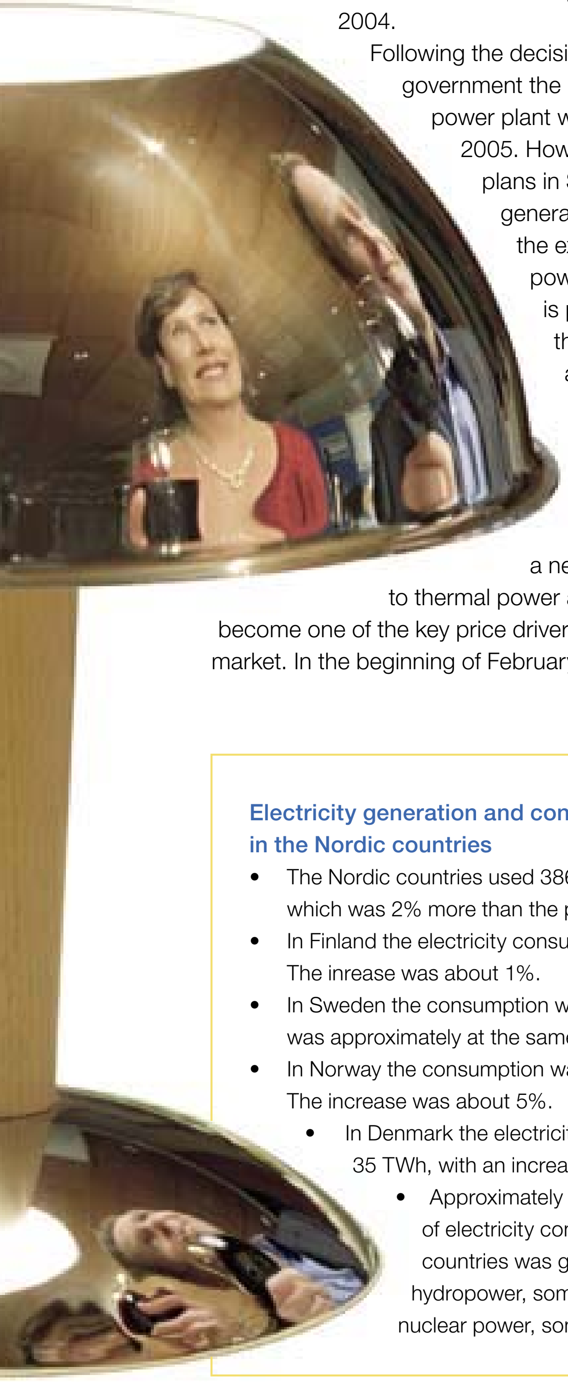
Fortum's total electricity sales amounted to 62.3 (61.0) TWh. Sales volumes in the Nordic countries were 60.7 (58.6) TWh, representing approximately 16% (15%) of Nordic electricity consumption during the year.

The average price of electricity sold by Fortum in the Nordic countries during the year was 4% lower than the corresponding figure last year.

Heat sales volumes in the Nordic countries were 20.2 (19.9) TWh and 3.6 (3.8) TWh in other countries.

Market outlook for 2005

In the beginning of February 2005 the Nordic water reservoirs were about 4 TWh or 6% above the average and 38% above the corresponding level in 2004.



Following the decision by the Swedish government the Barsebäck 2 nuclear power plant will be closed during 2005. However, there are plans in Sweden to increase generating capacity in the existing nuclear power plants. Fortum is participating in these discussions as a part-owner of the Oskarshamn and Forsmark power plants. The emissions trading has added a new cost component to thermal power and it is likely to become one of the key price drivers in the electricity market. In the beginning of February, the market price for emissions allowances for 2005 was around EUR 7 per ton of CO_2 and the market price for coal for the rest of 2005 was around EUR 50 per ton. At the same time, the electricity price in the Nordic forward market for the rest of 2005 was in the range of EUR 22–23 per MWh.

Total power generation by source

TWh	2003	2004	Change %
Hydropower	16.9	19.1	13
Nuclear power	23.8	25.8	8
Thermal power	12.5	10.6	-15
Total	53.2	55.5	4

Total power generation capacity 31 Dec 2004

MW	Finland	Sweden	Other	Total
Hydropower	1,428	3,157		4,585
Nuclear power	1,423	1,652		3,075
Combined heat and power	664	552	153	1,369
Condensing power	1,530	640		2,170
Other	21	153		174
Total	5,066	6,154	153	11,373

Electricity sales by area

TWh	2003	2004	Change %
Finland	29.1	31.1	7
Sweden	28.3	27.6	-2
Other countries	3.6	3.6	0
Total	61.0	62.3	2

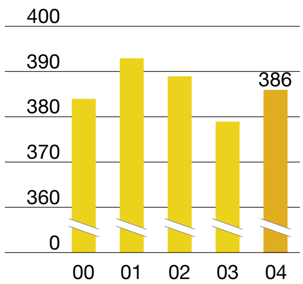
Heat sales by area

TWh	2003	2004	Change %
Finland	10.3	10.5	2
Sweden	9.5	9.6	1
Other countries	3.9	3.7	-5
Total	23.7	23.8	0

Electricity generation and consumption in the Nordic countries

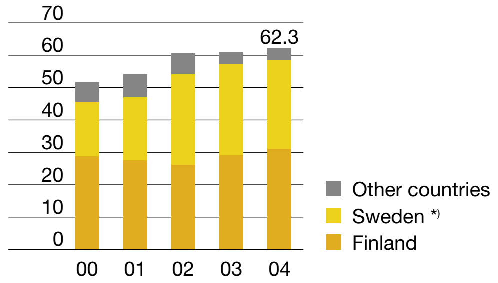
- The Nordic countries used 386 TWh of electricity, which was 2% more than the previous year.
- In Finland the electricity consumption was 86 TWh. The inrease was about 1%.
- In Sweden the consumption was 145 TWh, which was approximately at the same level as last year.
- In Norway the consumption was 120 TWh. The increase was about 5%.
- In Denmark the electricity consumption was 35 TWh, with an increase of some 1%.
- Approximately 181 TWh, or 47%, of electricity consumed in the Nordic countries was generated by hydropower, some 96 TWh, or 25%, by nuclear power, some 90 TWh, or 23%, by thermal power and 7 TWh, or 2%, by wind power.
- Net imports to Nordic countries totalled 12 TWh, or 3%, of the electricity consumed.

Electricity consumption in the Nordic countries TWh



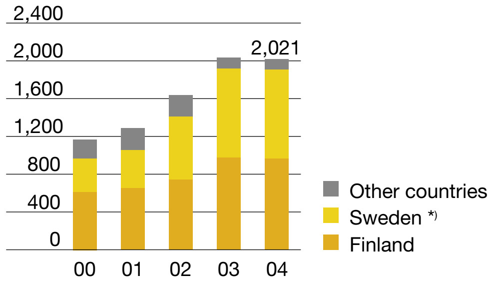
Total power and heat sales

Electricity sales by area
TWh



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

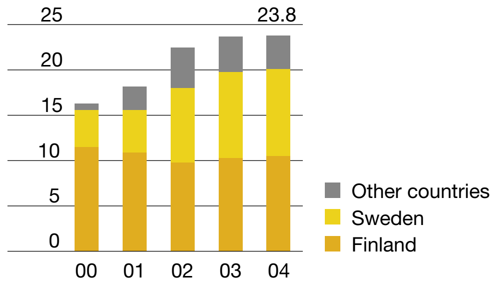
Electricity sales by area
EUR mill.



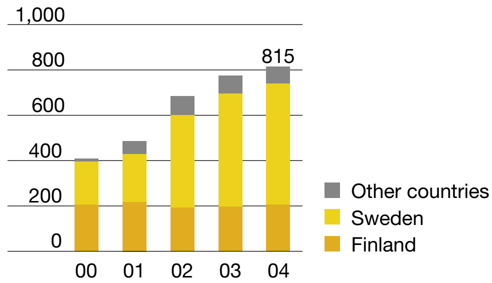
*) includes 100% of Birka Energi's figures as from March 2002, 50% prior to this

The segments sell their electricity to Nord Pool or to external customers and purchase it from Nord Pool or other external sources. In the graphs above, Fortum's Nord Pool transactions are calculated as a net amount of hourly sales and purchases on Group level.

Heat sales by area
TWh

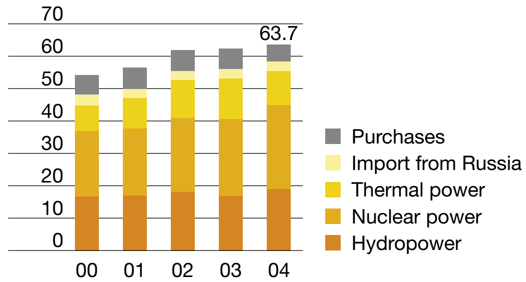


Heat sales by area
EUR mill.

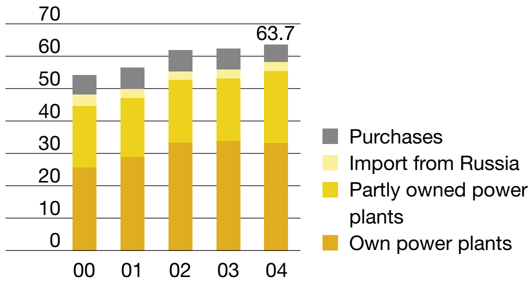


Total electricity procurement

Electricity procurement by type
TWh



Electricity procurement by source
TWh



Exact figures to be found in the Web Annual Report at www.fortum.com

Efficient utilisation of diversified, flexible power portfolio

- Stronger position on the Russian power market
- Improved operational efficiency and successful hedging
- Fortum's power generation 14% of Nordic consumption

Power Generation generates and sells power mainly on the Nordic electricity market. It is also responsible for the risk management operations in power generation. In addition, this business segment provides operation and maintenance services for the Nordic area and on selected international markets.

Fortum has been preparing for the CO_2 emissions trading system that started at the beginning of 2005. The company's flexible and environmentally benign generation portfolio demonstrates environmental values in action. ISO 14001 environmental certification was awarded in November to Fortum's power generation in the Nordic countries.

Improved efficiency

The segment's power generation was 50.9 (48.8) TWh, of which 49.8 (46.8) TWh derived from the Nordic countries. Of the segment's power generation in the Nordic countries 19.1 (16.9) TWh, or 38% (36%) was hydropower-based, 25.8 (23.8) TWh or 52% (51%) nuclear power-based and 4.9 (6.1) TWh or 10% (13%) thermal power-based.

At year-end the segment's power generating capacity totalled 10,030 (9,993) MW, of which 9,890 (9,863) MW was in the Nordic countries and 140 (130) MW in other countries.

The segment's power generation by source

TWh	2003	2004	Change %
Hydropower	16.9	19.1	13
Nuclear power	23.8	25.8	8
Thermal power	8.1	6.0	-26
Total	48.8	50.9	4

Characteristic for 2004 were successful hedging operations and internal efficiency improvements. Successful refurbishment of nuclear and hydropower plants resulted in greater availability than the previous year. The flexible use of thermal power plants was reached through optimisation.

Key figures

EUR million	2003	2004	Change %
Net sales	2,681	2,088	-22
- electricity sales	1,871	1,699	-9
- other sales	810	389	-52
Operating profit	603	725	20
- excluding non-recurring items	599	704	18
Net assets	6,391	6,258	-2
Return on net assets, %	9.5	11.6	22
Investments	386	210	-46
Average number of employees	5,338	4,588	-14

O&M competence centre

Fortum Service is the competence centre for operation and maintenance (O&M) at Fortum. By using advanced O&M services Fortum ensures high availability and cost-efficient utilisation of the company's generation and distribution assets. Fortum also operates in the Nordic industrial maintenance market and is looking for growth in selected international O&M markets.

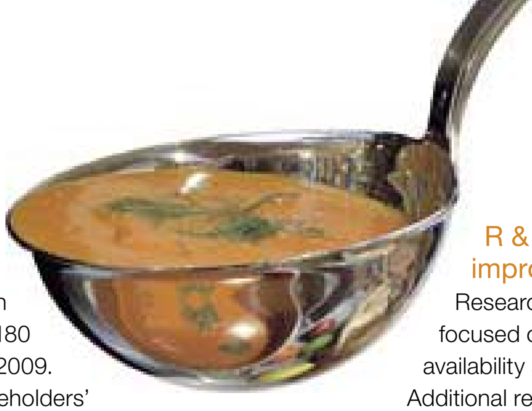
In 2004, Fortum Service focused on further increasing customer orientation through re-organisation and by advancing competence development as well as work safety.

Several new agreements were signed during the year including a 6-year asset management agreement for a power plant and a 12-year O&M contract for a waste-to-energy plant in the UK. Fortum Service also received ISO 9001 and ISO 14001 certificates covering its operations in Finland and Sweden.

Investments targeting strategic goals

In 2004 Fortum strengthened its position within the Russian OAO Lenenergo by increasing its ownership to 30.7% of the share capital and to 29.6% of the voting rights. Fortum has now invested some EUR 150 million in Lenenergo.

To ensure future power generation capacity, Fortum is engaged in the building of Teollisuuden Voima's new nuclear power plant unit in Finland through a 25% share



entitling to approximately 400 MW of plant capacity. Fortum's investment as equity in this new plant represents EUR 180 million during the period 2004–2009. Fortum has also granted a shareholders' loan of EUR 45 million to the project. The 1,600 MW pressurised water reactor unit will start operation in 2009.

In Sweden, there are plans to increase generating capacity in the existing nuclear power plants and Fortum is participating in these discussions as a part-owner in the Oskarshamn and Forsmark power plants. Fortum's share of the new generating capacity is estimated to be 200 MW. The power upgradings are planned to be completed during the next decade and Fortum's estimated share of the future investments, including annual refurbishments, is approximately EUR 600 million.

As a part of its power generation refurbishment Fortum is looking for opportunities to increase the capacity of the existing power plants. Refurbishment of the old Månsbo hydropower plant in Sweden is planned for early 2005. After the refurbishment its power production will increase by 20% and the plant will qualify for green certification in Sweden. Total investment in this five-year project is over EUR 30 million. In Finland, Fortum started the modernisation of automation systems at the Loviisa nuclear power plant in January 2005. All new automation systems related to the programme will be implemented by 2014. The investment, which is a part of Fortum Generation's long-term investment programme, is over EUR 50 million in the first phase. The goal of the automation renewal is to ensure that Loviisa power plant remains technically up-to-date into the foreseeable future.

Fortum continued to focus on its core businesses and divested Fortum Teknik & Miljö AB in Sweden and ETV-Erőterv Rt. in Hungary.

R & D focused on power plant improvements

Research and development work focused on higher power plant efficiency, availability and extended service life. Additional research programmes related to nuclear fuel and reactor technology, materials technology, nuclear waste, thermo hydraulics and safety analyses. CO_2 emission-free production technologies have also been developed. Investments in research and development totalled EUR 9.9 (11.6) million.

Operational improvements in the pipeline

Fortum's aim is to become the leading energy company in the Nordic market. The focus in 2005 is on further operational improvements such as increasing power plant efficiency and output. Other top priorities include emissions trading and an ongoing enhancement of risk management activities.

Heat business on growth path

• Expansion in Poland
• Improved results thanks to operational excellence
• Leading district heat provider in Nordic area

Heat focuses on district heating and cooling, industrial steam and waste-to-energy production, and the provision of energy outsourcing services to industry. It owns and operates 24 combined heat and power plants (CHP) and several hundred heat plants in the Nordic countries, the Baltic countries and Poland. ●

In the Nordic countries Fortum's market share in district heating sales was 13%, and the share of end-user sales was 9%.

Fortum's heat sales totalled 21.8 (21.1) TWh, with Sweden and Finland accounting for 9.6 (9.5) TWh and 10.5 (10.3) TWh respectively. In other countries total heat sales amounted to 1.7 (1.3) TWh. In the Nordic countries, industrial steam accounted for 5.7 (5.5) TWh and district heating for 14.4 (14.4) TWh while the sales of district cooling amounted to 0.4 (0.4) TWh. Power generation at CHP plants was 4.6 (4.4) TWh.

In Nynäshamn, Sweden, a biomass-based CHP plant was taken into use in January 2004. The plant's annual heat sales is some 230 GWh.

In December Fortum acquired an 85% share of a Polish district heating company PESC S.A. situated in the city of Częstochowa, with annual heat sales of some 780 GWh.

Increased interest in waste-to-energy

In Sweden, Fortum has a long experience in utilising municipal and industrial waste in energy production. The company also worked with several waste-to-energy projects in Finland during the year. There is a growing need to find new sustainable solutions for waste handling in the Nordic markets mainly because of increasingly stringent waste legislation. In Sweden, test runs of the new waste incineration boiler in the Högdalen CHP plant were started.

Restructuring of gas assets

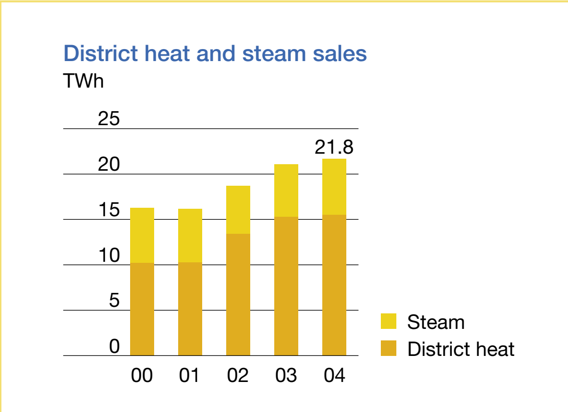
Fortum has shareholdings in gas companies in Finland, Sweden and Estonia. The company continued to restructure its gas assets and acquired an additional 6% share in Finnish Gasum Oy, thereby increasing its stake in the company up to 31%. The restructuring of Nova Naturgas AB in Sweden continued towards a pure transmission company. Fortum also continued the development of the various gas projects in central Sweden to enable having competitive gas for energy production in the future.

Key figures

EUR million	2003	2004	Change %
Net sales	964	1,021	6
- heat sales	728	785	8
- electricity sales	167	159	-5
- other sales	69	77	12
Operating profit	173	226	31
- excluding non-recurring items	176	224	27
Net assets	2,466	2,502	1
Return on net assets, %	7.3	9.2	26
Investments	158	181	15
Average number of employees	1,430	1,605	12

Targeting profitable growth

One of the focal points in 2005 is profitable business growth. In the Baltic Rim area, focus will be on establishing district heating and outsourced energy services. New markets and products based on liquefied natural gas will be developed and enhancement of the waste-to-energy projects in Finland will continue.



● Further information at www.fortum.com/2004/heat

Focus on security of supply

- Enhanced customer service
- Internal efficiency improvements
- Shared position as market leader in Nordic area

Distribution's goal is to offer a safe and secure supply of electricity to its customers throughout the Nordic area. Fortum owns and operates distribution and regional networks, and it distributes electricity to a total of 1.4 (1.4) million private and business customers. Fortum's market share of electricity distribution, based on volume transmitted via distribution networks, was 14% (14%) in Finland, 14% (14%) in Sweden, 3% (2%) in Norway and 3% (3%) in Estonia.

Distribution and regional network transmissions in 2004 totalled 22.7 (22.7) TWh and 17.8 (20.3) TWh, respectively. Electricity transmissions via the regional distribution network to customers outside the Group totalled 14.6 (15.0) TWh in Sweden and 3.2 (5.3) TWh in Finland. The distribution and regional networks in Sweden have been reclassified resulting in a small shift in net sales and volumes between the different types of network. The decrease of deliveries in regional network to external Finnish customers was due to the expiration of certain contracts.

In 2004, Distribution focused on three main areas: customer service, business development and regulation issues.

Continued strong focus on customer service

Distribution and Markets established a joint customer service at the beginning of 2004. These activities are presented on page 23.

A local customer service function already operating in Finland and Sweden, the Customer Service Technician (CST) service, was introduced in Norway at the beginning of 2004. Customer Service Technicians handle a number of activities that require visiting the customer.

Although still in its early days, the CST function has already received positive feedback in customer satisfaction surveys. ●

Key figures

EUR million	2003	2004	Change %
Net sales	688	707	3
- distribution network transmission	574	593	3
- regional network transmission	83	83	0
- other sales	31	31	0
Operating profit	247	258	4
- excluding non-recurring items	227	257	13
Net assets	3,129	3,101	-1
Return on net assets, %	7.9	8.3	5
Investments	339	106	-69
Average number of employees	1,005	995	-1

Further development of business processes

In 2004, Distribution introduced a three-year business development programme designed to develop long-term capacity and skills at a Nordic level. In addition to the improvements in customer service, maintenance and investment management are among the most notable projects in the programme. The processes aim to steer maintenance and investment activities towards those parts of the power grid where there are most customer benefits.

In the context of this programme Fortum has placed strong priority on preventing the risk of power outages.

Number of electricity distribution customers by area, 31 December

1,000	2003	2004
Sweden	855	860
Finland	400	405
Norway	93	93
Estonia	22	22
Total	1,370	1,380

Volume of distributed electricity in distribution network

TWh	2003	2004
Sweden	15.0	14.2
Finland	6.2	6.2
Norway	1.3	2.1
Estonia	0.2	0.2
Total	22.7	22.7

● Further information at www.fortum.com/2004/distribution

The programme includes covering of conductor lines and installation of underground cables.

The control of network operations in Sweden, Finland and Norway is being centralised. This centralisation will enhance the development of new systems, techniques and competences, and it will ensure that there are enough resources available for managing fault clearance. ●

A storm caused major power outages in south-western Finland during Christmas leaving approximately 40,000 customers without electricity. Customers who suffered from long distribution interruptions will be compensated with some EUR 1.5 million. The total cost of the interruptions was approximately EUR 3 million.

Changes in the regulatory environment

Electricity distribution is a monopoly and distribution price levels are therefore regulated by national authorities. The regulator defines reasonable tariffs for electricity distribution based on calculation models that vary from country to country.

In June 2004, the Energy Market Authority in Finland published its guidelines for methods applicable in network operator pricing. The new regulation came into force in January 2005. The Authority will make company-specific decisions on the parameters being used to assess the allowable return based on technical asset values. The most significant change in the new regulation is periodical assessment. A common annual efficiency demand of 1.3% of operational costs for all network companies has been set for the first three-year regulation period.

In Sweden, the Energy Authority has developed a new model for monitoring distribution prices. 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 Authority has published the first results based on year 2003 distribution tariffs and will have further discussions and analysis together with selected distribution area owners, including three of Fortum's distribution areas.

In Norway, the Energy Authority regulates the maximum annual income of a distribution company by setting revenue caps for five-year periods before implementation (ex-ante). The present revenue caps are valid for the period 2002–2006. The authority also sets a minimum and maximum return on capital which are calculated based on the book value of net assets.

Regulation in Estonia works in line with the existing EU directives. Prices must cover costs while at the same time allowing for legitimate profitability. According to new legislation, companies must separate their electricity sales and distribution tariffs.

Customer focus continues

In 2005, Fortum's electricity distribution business will continue to focus on customer orientation. The objective is to enhance a more harmonised Nordic approach in regulation and invoicing.

The work to secure the reliability of electricity distribution in rural areas will continue in 2005.

Fortum's distribution business consists of:

- the distribution and regional transmission of electricity and network asset management in Finland, Sweden, Norway and Estonia
- the distribution network: 136,100 km, 0.4–20 kV cables, overhead lines and 50,100 distribution transformers
- the regional network: 7,600 km, 20–220 kV cables and overhead lines

A special feature of the Finnish electricity market is that one single player is allowed a maximum 25% share of the electricity distributed in the 0.4 kV network across the country. At the end of 2004, Fortum's share stood at 15% (15%).

● Further information at www.fortum.com/2004/distribution

Strong customer orientation

- Increased sales activity and launch of new offerings
- Focus on improved service and efficiency in portfolio and risk management
- Second largest electricity sales company in the Nordic area

Markets is responsible for retail sales of electricity to a total of 1.1 (1.2) million private and business customers as well as to other electricity retailers in Finland, Sweden and Norway.

Electricity sales in 2004 amounted to 43.5 (47.1) TWh, which was some 8% lower than in 2003. The decrease was mainly due to the ending of some spot and long-term contracts.

In 2004, the focus was on operational excellence, on increasing customer orientation and on the development of attractive offerings for Nordic customers.

Tightening competition

Retail price levels were lower during 2004 than in 2003. Price volatility remained high, encouraging customers to choose fixed-price contracts or solutions offering protection against this volatility. Competition among suppliers increased, as did customer activity, especially in Sweden and Finland. Independent studies indicate that over 10% of customers in Finland have changed their supplier since the market opened while the figure for Sweden is almost 30%. In Norway 25% of customers are not buying their electricity from their local supplier.

Joint activities of Distribution and Markets to improve customer service

Distribution and Markets together established a new customer service unit at the beginning of 2004 in Finland, Sweden and Norway. This new unit enables the provision of a common interface towards customers which, in turn, promotes better customer service at all levels. This includes a Contact Center to handle all queries on anything from connections to invoices, with quicker response time by telephone and in technical service.

During 2004, Fortum developed further improvements aimed at greater transparency in invoicing and enhanced customer service. One example of this is the development of automated meter-reading system for all Fortum's Nordic customers. It means that electricity meters can be read remotely and allows customers to be invoiced according to their actual electricity consumption. A number of pilot projects were started in Sweden and Finland to test the system.

Key figures

EUR million	2003	2004	Change %
Net sales	1,634	1,387	-15
Operating profit	35	26	-26
- excluding non-recurring items	35	26	-26
Net assets	23	196	752
Return on net assets, %	55.2	28.8	-48
Investments	28	6	-79
Average number of employees	407	682	68

New offerings from Fortum

Fortum launched new offerings related to fixed-priced contracts as well as a range of solution-based services for price and risk management. The current-price electricity contracts in Finland and Sweden were changed to include environmentally-labelled electricity certified by local nature conservation associations. In 2004, Fortum was one of the biggest sellers of eco-labelled electricity in the Nordic countries. Fortum also continued to improve its service, introduced a customer guarantee and a customer ombudsman and adopted post-debiting for all its Nordic customers. A new customer service unit was jointly established with Fortum Distribution at the beginning of 2004 in Finland, Sweden and Norway.

Increased competition expected

Competition on the Nordic market is expected to increase, as is the level of customer activity.

Fortum aims to become the energy supplier of choice within the Nordic market. The guiding principle is to provide the best overall customer experience on the market. The focus will be on nurturing a customer-oriented culture.

Oil operations enjoyed favourable market conditions

Fortum's goal is to strengthen its position as the leading refiner of clean fuels in the Nordic area. Fortum is one of the largest oil refiners and one of the two largest suppliers of oil products in the Nordic market. The company focuses on the development, production and marketing of environmentally benign oil products.

Fortum's oil operations are divided into three reporting segments. The Oil Refining segment manufactures and sells gasolines, diesel fuels, light and heavy fuel oils, aviation fuels, base oils, gasoline components and LPG, and it also develops biocomponents for traffic fuels. The Oil Retail segment operates an extensive retail sales network and provides direct sales to private and business customers. The Shipping and other Oil segment has a tanker fleet for crude oil and product transport, and includes shares in SeverTEK, a crude oil producing company jointly owned with the Russian company Lukoil. The company also has its own terminals in Finland, Estonia, Latvia and St. Petersburg in Russia.

Improved oil refining margins

In 2004, refining margins in north-western Europe recovered appreciably compared to the previous year. The reference margin used by Fortum averaged USD 4.5 (2.7) per barrel. Fortum's premium margin was clearly higher than the average USD 2/bbl in the last few years.

An exceptional climb in crude oil prices continued until October, when the barrel price of Brent crude oil rose to more than USD 52/bbl. Towards the end of the year, the barrel price varied between USD 36 and 43. The average price in 2004 was USD 38.2 (28.8)/bbl. The average price difference between sweet (low in sulphur) North Sea crude oils and the sour Russian-type crude oils increased to almost USD 4/bbl, clearly up from the less than USD 2/bbl in the previous years.

Increase in sulphur-free traffic fuel production

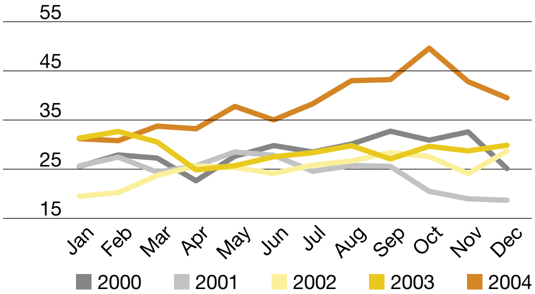
Fortum's oil refineries produced 13.6 (13.6) million tonnes of oil products. Of this, 62% (59%) was low-sulphur or sulphur-free.

Market uncertainty prevails in 2005

Growth in oil demand is expected to remain strong reflecting ongoing economic recovery. Oil markets will be influenced by changes in the Middle East situation. The price of crude oil will fluctuate and the volatility will continue. OPEC's pricing policy is expected to keep the prices historically at a high level although probably lower than in 2004.

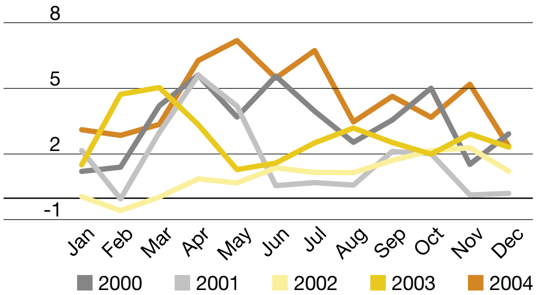
Brent crude price 2000–2004

USD/bbl



Oil refining reference margin 2000–2004*)

USD/bbl



*) average Brent Complex refinery in north-western Europe.

Improved competitiveness at the refineries

- EUR 500 million investment in Porvoo refinery to increase sulphur-free diesel production capacity
- Excellent result due to strong total refining margin
- The leading refiner of clean traffic fuels in Nordic area

Oil Refining is one of the largest players in the Nordic countries and the Baltic Rim, and one of the two biggest suppliers of oil products in the Nordic wholesale market. Fortum has two oil refineries in Finland, which manufacture all the main oil products needed by the transport and energy sectors and by industry.

The Porvoo refinery's primary products are environmentally benign traffic fuels, gasoline and diesel oil. In addition to traffic fuels, the Naantali refinery increasingly focuses on specialty products, such as bitumens, solvents, gasoline for small engines and high-octane racing fuel. Other oil products manufactured by Fortum are light and heavy fuel oils, aviation fuels, base oils, lubricants, gasoline components and LPG.

In 2004, Fortum started construction work for the EUR 500 million investment at the Porvoo refinery to increase the capacity of sulphur-free diesel production by about one million tonnes per year. Investment in increasing the annual production of a synthetic type of EHVI (Enhanced High Viscosity Index) base oil by 30,000 tonnes was also started at the Porvoo refinery. The flow improver agent (FIA) business was sold in January 2004.

Increased demand for environmentally benign oil products

Fortum's share of the wholesale market for major oil products in Finland was approximately 77% (73%). Exports of oil products refined by Fortum in Finland totalled 5.3 (5.5) million tonnes, of which 2.7 (2.8) million tonnes was gasoline and 1.8 (2.0) million tonnes diesel fuel. Sales of low-sulphur (sulphur content less than 50 milligrams per kilogram) and sulphur-free (sulphur content less than 10 milligrams per kilogram) gasoline and diesel increased. The Nordic countries and North America were Fortum's largest export markets.

As a result of long-term investment in the development of environmentally benign products Fortum has the complete capability to produce sulphur-free traffic fuels. For years now the company has produced and exported sulphur-free fuels to several countries and in May it started to sell its sulphur-free gasoline and diesel in Finland as well.

Key figures

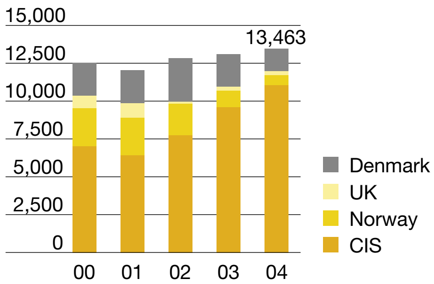
EUR million	2003	2004	Change %
Net sales	5,693	6,306	11
Operating profit	281	573	104
- excluding non-recurring items	267	492	84
Net assets	1,003	1,266	26
Return on net assets, %	26.2	50.4	92
Investments	97	200	106
Average number of employees	2,722	2,608	-4

Half of the gasoline exported by Fortum was shipped to Europe and the other half to the USA and Canada. Of the amount exported to Europe, 88% (88%) was low-sulphur or sulphur-free. Germany continued to be the principal market for sulphur-free gasoline. All exported diesel fuel was either low-sulphur or sulphur-free. The main markets for diesel fuel continued to be in Sweden, Germany and the UK. There was a strong increase in the demand for low-sulphur and sulphur-free diesel fuels in Europe.

Refinery investment increases sulphur-free diesel oil production

The EUR 500 million investment to increase the sulphur-free diesel production capacity at the Porvoo refinery

Supply of crude oil and feedstocks to the refineries 1,000 t



proceeded as planned. Capital expenditure in 2004 was approximately EUR 100 million.

This investment is scheduled for completion by the end of 2006 and will further strengthen the refinery's position as one of Northern Europe's most efficient refineries. The high expected return from this investment is driven by the Porvoo refinery's ability to increase the production of high value, environmentally benign products from less expensive crude oil. Demand for these products is rapidly growing in Fortum's key markets.

The new diesel production line will convert the crude oil which currently ends up as heavy fuel oil into sulphur-free diesel fuel, production of which will increase by one million tonnes per year. Fortum currently refines some four million tonnes of diesel a year. The investment does not increase the refinery's total refining capacity but it is expected to further enhance the refinery's competitiveness and profitability. ●

The use of logistically competitive crude oil and other feedstocks for Fortum's refineries, imported from Russia and other parts of the former Soviet Union area, increased substantially in 2004. Total imports of crude oil from these countries were some 10.7 (8.5) million tonnes, or approximately 80% of Fortum's total crude oil imports. In addition, Fortum has contracts with other oil producers mainly in the North Sea.

Preparing for the era of biofuels

Fortum is evaluating its options for entering the biofuels business. According to the EU biofuel directive the proportion of biocomponents in gasoline and diesel has to be gradually increased from 2005 onwards.

In February 2005 Fortum made a decision to build a biodiesel plant at its Porvoo oil refinery to produce diesel fuel from vegetable oils and animal fats. The total value of the investment is approximately EUR 100 million, almost one third of which will fall due in 2005 and the remainder in 2006. The plant will have an annual capacity of roughly 170,000 tonnes of biodiesel. The plant is due to completion in summer 2007.

The production and sale of ethanol gasoline in Finland, which began in 2002, ended in the autumn of 2004.

Components for cleaner traffic fuels

Fortum produces traffic fuel components at its refineries in Finland and in facilities in Canada, Portugal and Saudi Arabia. Fortum owns an ETBE (ethyl tertiary butyl ether) plant in Portugal, 50% of an iso-octane plant in Canada and 10% of an MTBE (methyl tertiary butyl ether) plant in Saudi Arabia.

Components are produced for use in own reformulated gasolines as well as for sale to other oil companies. MTBE, ETBE and TAME (tertiary amyl methyl ether) are oxygenates, which improve the combustion of gasoline and reduce harmful emissions. Iso-octane is a high-octane hydrocarbon-based gasoline component that helps to meet the most stringent environmental requirements.

Fortum produces iso-octane at a facility in Canada. The majority of iso-octane production from the Edmonton plant is sold to the Californian market. The plant, which previously produced MTBE, was converted to an iso-octane plant in 2002 because the use of MTBE was banned in California from the beginning of 2004. Fortum's share of the plant's annual production is about 250,000 tonnes. The plant uses the NExOCTANE technology developed by Fortum.

In May 2004, Fortum initialised the production at the Porvoo refinery of ETBE containing bioethanol to replace MTBE. The gasoline including ETBE is currently exported, mainly to Germany.

Oil products produced by Fortum, deliveries by region

1,000 t	2000	2001	2002	2003	2004
Finland	7,423	7,484	7,845	7,889	8,301
Other Nordic countries	2,142	1,991	1,982	1,921	2,149
Baltic countries and Russia	153	45	41	62	100
USA and Canada	1,029	682	1,276	1,252	1,260
Other countries	1,562	1,941	1,896	2,267	1,799
Total	12,309	12,143	13,040	13,391	13,609

● Further information at www.fortum.com/2004/oilrefining

World-renowned competence in oil technology

The NExOCTANE technology developed by Fortum is used for the production of iso-octane, which is a first-class hydrocarbon-based component of gasoline. This innovative technology is a continuance of the NExETHERS and NExTAME etherification technologies previously developed by Fortum. Fortum's NExOCTANE technology has potential particularly in the USA where MTBE plants are being converted into iso-octane production.

Technologies developed by Fortum have further strengthened their share in the global technology market. With over 50% market share, both the etherification technologies and the NExOCTANE technology are global market leaders within their sector.

Premium base oil for quality-conscious customers

Fortum is in a leading position in Europe in the development, production and marketing of top-quality base oils. The company produces polyalphaolefin base oils (PAO) in Belgium. PAO is an important component in high-quality synthetic lubricants. The production capacity is 50,000 tonnes a year. Fortum's share of the polyalphaolefin market in Europe is about 30%.

Fortum produces EHVI base oil, similar to synthetic oil, at its Porvoo refinery and is the sole manufacturer of this product in Europe.

Fortum will increase EHVI base oil annual production capacity at the Porvoo refinery by 30,000 tonnes. The extended unit will be ready for production in the autumn 2005, after which annual production will be about 250,000 tonnes.

EHVI base oil is sold to leading lubricant manufacturers and is also used in the manufacture of Fortum's own lubricants. The demand for these products increases by 15% each year in Europe, which is Fortum's most important market. In the rest of the world, demand is also on the increase driven by the increasing quality requirements of the automotive industry.

Fortum's production and sales of premium lubricating oil components have quadrupled within the past four years. The company continues to seek growth opportunities in the premium lubricant components business.

Stronger engineering knowledge

In June, Fortum and Jacobs Engineering Group Inc., based in California, USA, concluded a deal that gave Jacobs a 34% ownership position in Fortum's Neste Engineering operations. The deal was made to guarantee that Fortum's oil operations would always be able to call on competent engineering resources in the future. Neste Engineering Oy continues its operations under the name of Neste Jacobs Oy, and is responsible for the implementation of the diesel investment project in Porvoo, Finland. Neste Jacobs provides engineering services for the oil refining, petrochemical and chemical industries.

Increasing demand for top-quality oil products

The demand for clean traffic fuels, their components and top-quality base oils will continue to increase as more stringent EU product specifications are increasingly implemented in Europe.

Due to limited back-up production capacity, uncertainty on the market may increase crude oil prices even more steeply, at least for transient periods. The international refining margins are determined in US dollars, which mean that any change in the exchange rate of the dollar will affect the profitability of the Oil Refining segment.

Fortum's position as a refiner of clean traffic fuels will be further strengthened with the introduction of a new production line for sulphur-free diesel fuel in 2006. Furthermore, Fortum's location along the new export routes for Russian crude oil will be an advantage. Focusing on the performance improvement will continue.

Oil products produced by Fortum, deliveries by product group

1,000 t	2000	2001	2002	2003	2004
Gasoline	3,941	3,823	4,595	4,434	4,368
Diesel	3,246	3,310	3,619	3,886	4,265
Aviation fuel	786	455	586	611	705
Light fuel oil	1,843	1,713	1,503	1,474	1,197
Heavy fuel oil	1,133	1,201	1,233	1,314	1,280
Other	1,360	1,641	1,504	1,672	1,794
Total	12,309	12,143	13,040	13,391	13,609

Leading position in sulphur-free traffic fuels

- The first to bring sulphur-free gasoline and diesel to the Finnish market
- Profitable growth in Baltic Rim
- Maintained position as the leading marketer of clean traffic fuels in Finland

Oil Retail provides oil products and related services for transportation, industry and household needs in Finland and the Baltic Rim. The product and service offering includes traffic fuels, heating and motor fuel oils, lubricants for transportation and industry, car chemicals, and LPGs. The sale of traffic fuels takes place through Neste stations, automated Neste D-stations and A24 stations. Other products are sold through Fortum's own sales organisation.

During 2004, retail sales of the main oil products totalled 4,008 (3,908) thousand cubic metres, of which traffic fuels accounted for 2,641 (2,483) thousand cubic metres. Gasoline sales totalled 1,312 (1,269) thousand cubic metres and diesel fuels 1,330 (1,214) thousand cubic metres.

At the end of the year there were 873 (874) oil retail outlets in Finland and 178 (156) in other Baltic Rim countries. ●

Strong market position maintained

Fortum's network of service stations in Finland maintained its position as the nation's most comprehensive. Fortum was the first company in Finland to start selling sulphur-free (sulphur content less than 10 mg/kg) gasoline and diesel. Since June 2004 all the gasoline and diesel sold by Fortum's network of service stations in Finland has been sulphur-free. ●

Key figures

EUR million	2003	2004	Change %
Net sales	2,203	2,374	8
Operating profit	44	48	9
- excluding non-recurring items	53	42	-21
Net assets	329	296	-10
Return on net assets, %	13.8	15.9	15
Investments	36	36	0
Average number of employees	1,014	1,041	3

Fortum was a significant retailer of traffic fuels also in the Baltic countries, Poland, and the St. Petersburg area.

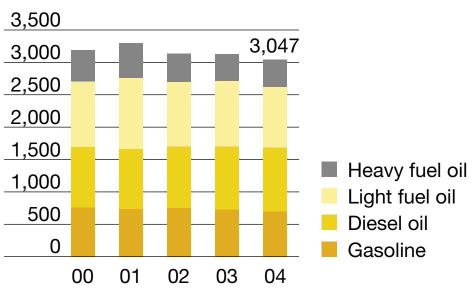
In 2003, Fortum and Kesko, Finland's largest wholesaler, established a joint venture, Pikoil, for building a nationwide retail chain selling fuel and everyday consumer goods. At the end of 2004, there were 28 (7) K-Pikkolo stores operating in conjunction with Neste stations. The plan is to build a total of 200 K-Pikkolo stores by 2008.

Active searching for business sites

The outlook for growth in sales of traffic fuels is good, particularly in Poland and the St. Petersburg area. In Finland, Fortum will concentrate on maintaining its market share, particularly in clean traffic fuels through active business site acquisitions.

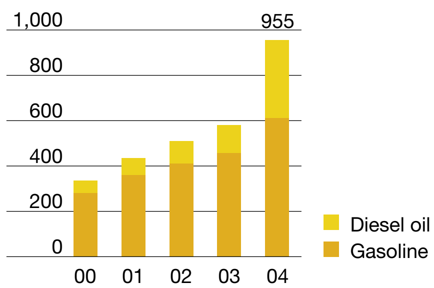
Sales volumes in Finland

1,000 m³



Sales volumes in the Baltic Rim countries

1,000 m³



● Further information at www.fortum.com/2004/oilretail

Continued strong demand for safe marine transport

- New vessels to the fleet
- Result boosted by high freight and utilisation rates
- First full-year production of oil in Russia

Shipping operates a tanker fleet for transporting crude oil and other products in the Baltic Sea, the North Sea and the North Atlantic. Oil is only transported in double-hull or partly double-hull tankers. Most of the Fortum vessels have the ice-class required for winter navigation in the Baltic Sea.

High freight rates

Fortum's tanker shipments totalled 41 (40) million tonnes. About 50% (51)% of the volume was carried for third party customers.

There was an increase in the freight rates for refined products and also rates for crude oil were slightly higher than 2003 levels. The availability and utilisation rate of the fleet remained high throughout the year. The growth of Russian crude oil exports increased the demand for ice-strengthened tonnage and also raised the level of freight during the winter season.

New vessels

Fortum acquired three new product tankers and sold one vessel. In addition, the fleet portfolio was managed through different actions based on chartering contracts. One new product tanker was completed in early 2005, and one is under construction. Furthermore, two partly double-hull ships were converted into full double-hull vessels.

Fortum will time-charter two Panamax-tankers from a joint-venture company established with Swedish Concordia Maritime. The first tanker will be completed in 2006 and the second in 2007. The new tankers will bring additional shipping capacity to handle the increasing export of gasoline to the North American market.

Fleet in January 2005

31 vessels, comprising
19 product tankers
10 crude carriers
2 barge/tug combinations
3 tugs

11 of the vessels are wholly owned by Fortum. The remaining 20 vessels are chartered on various bases. The total capacity of the fleet is about 1.3 million deadweight tonnes.

Key figures

EUR million	2003	2004	Change %
Net sales	308	339	10
Operating profit	79	107	35
- excluding non-recurring items	69	97	41
Net assets	133	206	55
Return on net assets, %	56.7	63.5	12
Investments	71	77	8
Average number of employees	606	609	0

Continued oil production in Russia

SeverTEK, a joint venture owned equally by Fortum and the Russian company Lukoil, commenced oil production in the South Shapkino oil field in north-west Russia in July 2003.

In 2004, SeverTEK's average oil production rate was some 27,500 barrels per day or 1.37 million tonnes per year, of which Fortum's share was 50%.

Growing demand for ice-strengthened vessels

Fortum is continuing its fleet renewal also in 2005. Increasing Russian oil transports is expected to result in a growing demand for ice-strengthened tonnage in the future.

Further increase in oil production will be subject to Transneft pipeline transportation capacity. Remaining proven reserves at year end 2004 were approximately 110 million barrels of which Fortum's share was 50%. SeverTEK also has additional satellite oil fields which are currently under evaluation.

SeverTEK's production, Fortum's share

bbl/day, average	2003 *)	2004
	9,809	13,678

*) production started in July

Further information at www.fortum.com/2004/shipping

Corporate citizenship

Fortum wants to be known as a customer-driven company committed to sustainable development. Safe and environmentally benign products and services help the customers meet their own environmental goals.

Contributing to sustainable development

- Launching Fortum's sustainable development agenda
- Significant improvement in safety performance
- Well-prepared for emissions trading

Member of Dow Jones Sustainability Indexes 05

In 2004, Fortum introduced a Group-wide agenda to further integrate sustainable development into its business planning processes.

The agenda contains the following objectives:

- Industry benchmark in safety
- Industry benchmark in greenhouse gas management
- Promotion of renewable energy
- Efficient use of resources
- Mitigation of local environmental impacts
- 100% environmental certification
- Growth opportunities for highly motivated people
- Energy supplier of choice
- Responsible supply chain management
- Good corporate citizenship

Fortum's financial objectives are to be found on page 6.

The challenges related to Environment, Health and Safety (EHS) posed by sustainable development are central to all energy companies. In 2004, Fortum made good progress, especially in safety and management of greenhouse gases.

Safety first

Fortum focused on safety development. This resulted in reduction of over 30% in lost workday (in absence of more than one day) injury frequency (LWIF) calculated per million working hours. Fortum's LWIF was 5.1 (8.5), which is well below the target value of 6.0 for 2004. This good progress was overshadowed by two casualties among Fortum's contractor employees, however.

A comprehensive safety training programme was carried out in the Oil sector. A similar effort has also been initiated in the Power and Heat sector. Training focuses on promoting safe working methods and engaging all personnel in safety development.

The industry benchmark in greenhouse gas management

EU-wide CO_2 emissions trading started on 1 January 2005. Altogether 139 of Fortum's installations applied for both emission permits and allowances in Finland, Sweden, Estonia, Poland and the UK.

Fortum is well prepared for emissions trading. Careful studies have been carried out into the emissions reductions options open to the company and trading strategies were defined accordingly. A trading desk was established in Fortum's Green Market Center, which is already involved in trading in green certificates. In addition Fortum has a USD 6 million share in the World Bank's USD 180 million Prototype Carbon Fund (PCF).

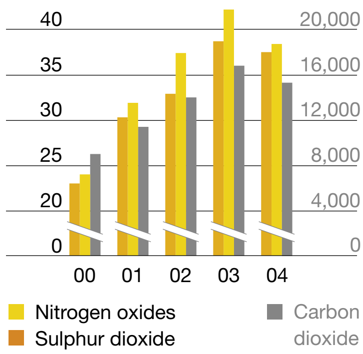
CO_2 emissions from Fortum's own operations totalled 15.3 (16.8) million tonnes in 2004. SO_2 and NO_x emissions were 36,000 (39,000) and 38,000 (42,000) tonnes respectively. The carbon content of Fortum's Nordic power generation was 112 (139) g/kWh, while the average in the 15 old EU countries has been around 350 g/kWh in recent years.

Promoting renewable energy

Renewable energy sources play a significant role in Fortum's power and heat production. In 2004, 37% (35%) of Fortum's power production was generated by renewable energy sources, mainly by hydropower. Biomass and geothermal energy accounted for 38% (38%) of heat production.

Emissions into the air

1,000 t/year



A new biomass-fired combined heat and power plant was commissioned in Nynäshamn, Sweden. Biomass purchasing concepts were further developed. Total consumption of biofuel was up by 10% on the previous year.

Legislation on the Guarantee of Origin for electricity came into effect in Finland and Sweden. During 2004, the first guarantees for electricity from renewable energy sources were sold to the Netherlands. Renewable energy certificates were traded to Dutch and Austrian markets within the framework of the European RECS system.

Using natural resources efficiently

Combined heat and power production (CHP) plays a central role in Fortum's production portfolio. In 2004, Fortum's CHP plants produced 6.7 (6.7) TWh of electricity. 60% of Fortum's total consumption of fossil fuels and close to 100% of renewable fuels in 2004 were used at CHP and heat plants with a high overall energy efficiency.

Refurbishment of hydropower plants continued. Several projects were completed during 2004 resulting in efficiency improvements.

Implementation of the waste-to-energy project at the Högdalen power plant in Stockholm continued. Trial operation of the new boiler started at the beginning of 2005. In Finland, Fortum continued to promote waste-to-energy projects in Lohja, Hämeenlinna and Kokkola.

Mitigating local impact

Fortum uses the best available technologies to control and mitigate the environmental impact of its production and logistics operations. In 2004, the main efforts related to improving oil spill prevention at the refineries and to the renewal of emissions control systems at power plants. Shipping continued to renew its tanker fleet and 90% of Fortum's tankers now feature a double hull.

In 2004 Fortum invested EUR 50 (45) million in improving environmental, health and safety performance. The corresponding operating expenses totalled EUR 63 (57) million. No major environmental investment needs are foreseen in the near future.

Environmentally certified operations

Fortum aims to achieve high-level environmental management in all its activities. At the end of 2004, Fortum had a total of 23 environmental certificates covering all production operations in Finland and Sweden.

Environmental liabilities under control

Fortum has evaluated its environmental liabilities relating to past actions and has made the necessary provisions, in line with its accounting principles, for any future remedial cost relating to environmental damage. The company's 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 these costs in full.

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

Fortum Oil Oy and four employees at the Naantali Refinery will be prosecuted in the district court of Turku for environmental pollution. The charge is based on the oil spill, which occurred at the refinery in December 2001. Due to a human error oil leaked from the wastewater treatment plant on to the yard and part of the oil infiltrated through the soil into the sea.

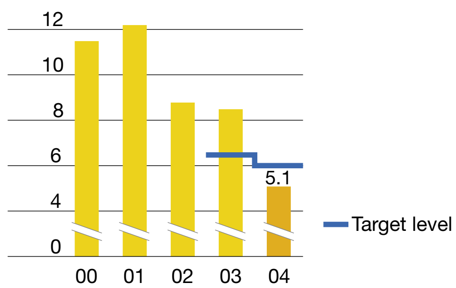
The contaminated shoreline was carefully cleaned up during the spring 2002. According to the several studies made by external experts no long-term environmental damage has occurred. The local residents have no claims against Fortum.

Aiming at continuous improvement

Fortum's agenda for sustainable development will be reviewed annually and new Group-level objectives defined when necessary. Currently Fortum aims to reduce lost workday injury frequency to 4.0 by the end of 2006 through intensive safety training and enhanced safety practices. The target for 2005 is 5.0. The development of environmental management systems aiming at readiness for certification in power and heat operations outside the Nordic countries by the end of 2006 continues.

Lost workday injury frequency

injuries/million hours worked



Committed people behind business success

- Better performance through improved leadership
- Development programmes for inspiration and renewal
- Passport to welcome new employees

A key success factor for Fortum is competent and enthusiastic employees, people aiming at achieving good performance based on shared values. Over the past few years Fortum's goal has been to establish advanced leadership and human resources (HR) management processes that support the business effectively.

2004 saw further development and intensification of these efforts. Improvement in the quality and efficiency of human resources management played a key role in this achievement.

People development

The key goal for all management activities continued to be ongoing improvement in the employees' performance. The Fortum Leader Profile, a development tool to improve the quality of leadership within the company was implemented in 2003. This process will be gradually extended to all managerial levels.

The middle management development programme, Fortum Challenger, continued in 2004. The Fortum Manager programme targeting young managers was run in English for the first time. The programme, which aims at developing basic leadership and managerial skills, will be launched in Swedish during 2005.

The programmes aim at increasing knowledge and skills, as well as at promoting job rotation, career development and networking across national and unit boundaries. In 2004, the total number of Fortum employees participating in these programmes was 215.

In other respects, the focus of employee development lies in the business units. Development is based on individual or team-specific development plans agreed upon at the annual development discussions. In 2004, training focused especially on enhancing individual professional skills, customer relationship management, as well as improving performance and development discussion skills. HR development investments during 2004 amounted to EUR 9.4 (10.0) million. Each Fortum employee spent an average of 3.0 (3.1) days in training.

Number of employees by segment 31 Dec

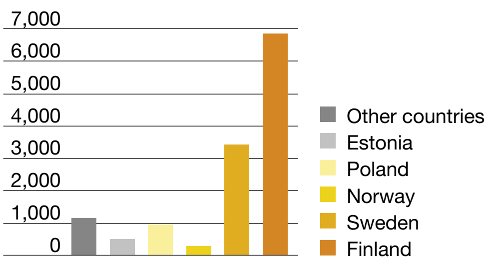
	2003	2004	Change %
Power Generation	5,115	4,377	-14
Heat	1,593	2,146	35
Distribution	1,006	1,076	7
Markets	414	709	71
Oil Refining	2,593	2,554	-2
Oil Retail	965	1,084	12
Shipping and other Oil	591	633	7
Other operations	769	596	-22
Total	13,046	13,175	1

Welcome to the Fortum family!

Managers are responsible for the induction of new employees. The Fortum Passport, an interactive eLearning programme, was created to provide a uniform basis for this induction. The goal is that new Fortum employees will complete the induction programme as soon as possible after starting their career with the company. In addition to presenting the Group's values and objectives, the programme offers an overall introduction to the business environment, the customers and other stakeholder groups as well as to the products, services and essential operating principles.

The work community development process has been built around the findings of the job satisfaction survey carried out annually in the autumn. The survey

Number of employees by country 31 Dec 2004



has established itself as a tool for enhancing job satisfaction and a pleasant working climate and in this way also improving efficiency. The 2003 survey provided the impetus for hundreds of different work community development projects. Results from autumn 2004 show that consideration of health and safety, knowledge of Fortum's targets and values, and the implementation of values in practice have clearly improved compared to the previous year.

Efficient human resources management in a multinational corporate requires efficient information systems. Implementation of a new HR information system began in the autumn of 2004 and is scheduled to be completed during 2006. The system facilitates harmonised, rapid and efficient HR processes and effective reporting. It also allows for a high degree of self-service in HR matters.

A year of health and safety

2004 was the year of occupational health and safety in Fortum. Safety improved considerably, but on the other hand, the bar must be continuously raised. Increasing the opportunities for personnel input through improved flow of information and interaction was of central importance in many business units. Co-operation between management and personnel representatives improved in the new, business unit oriented, co-operation model.

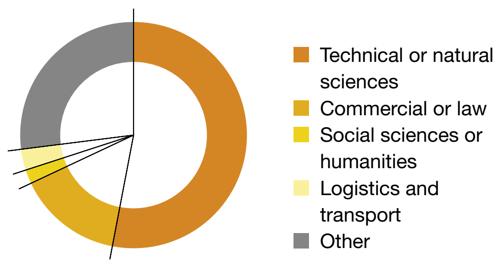
The result and performance-based pay systems established in 2003 were fully implemented in 2004. Bonuses for 2003 amounted to an average of 8.4% of the annual salary of a Fortum employee (excluding the senior management).

In the spring of 2004, Fortum Personnel Fund was paid a total of EUR 8.4 million in shared profit, based on the result for 2003. The fund had 7,281 members.

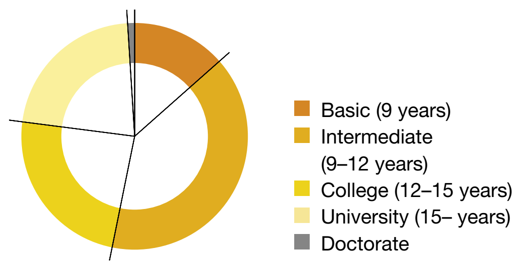
In 2004, internal recruitment had 305 (295) vacancies, and there were about 260 (180) transfers between units. A total of about 9,000 applications were received through Fortum's Internet recruitment pages. Some 6,000 applications were for summer trainee positions.

In 2004, Fortum employed an average of 12,859 (13,343) persons. At the end of the year, the number of personnel was 13,175 (13,046), out of which 12,735 (12,649) were permanently employed. The average age of Fortum employees was 45 (45) years.

Educational field 31 Dec 2004

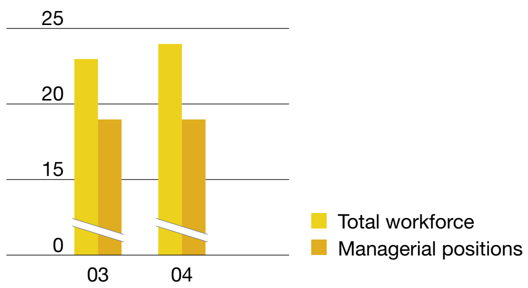


Educational level 31 Dec 2004



Share of women

%



An active corporate citizen

- Environmentally-labelled electricity for customers in Sweden and Finland
- Ethical guidelines for co-operation with suppliers
- Fortum included in Dow Jones Sustainability Index

Maintaining an active stakeholder dialogue and co-operation are essential in order to work according to Fortum's sustainable development agenda.

Energy supplier of choice

Fortum's goal is to be the energy supplier of choice in the Nordic energy market. Regular customer satisfaction surveys are conducted to anticipate the development of customers' needs and expectations. Feedback is also received through customer contact centres and websites.

In 2004, Fortum launched several initiatives based on such feedback as a way of retaining existing customers and gaining new ones. For example, Fortum delivers environmentally-labelled electricity to Finnish and Swedish customers with a current-price contract at no extra charge. In 2004, Fortum was one of the biggest sellers of eco-labelled energy in the Nordic countries.

To sharpen the customer focus still further, a pan-Nordic customer ombudsman function was established, and customer ombudsmen were appointed in Sweden and Finland. In Finland, Fortum was the first power company to appoint a customer ombudsman.

Responsible supply chain management

Fortum aims to develop unified, efficient purchasing processes. The underlying idea is to reduce the total number of suppliers and to improve cost efficiency and quality in purchasing. Tools for vendor rating and supplier audit will be implemented in 2005.

In all its purchasing activities Fortum complies with EU competition laws regarding the open and fair treatment of potential suppliers and contractors. In 2004, Fortum introduced ethical guidelines concerning co-operation with suppliers.

An active member of the community

In order to learn from others' experiences and to advocate its own initiatives, Fortum participates in a number of working groups within national and international industry organisations. Fortum is a member of the World Business Council for Sustainable Development and RECS International (Renewable Energy Certificate System) as well as being a shareholder in World Bank's Prototype Carbon Fund. In Sweden, Fortum Värme participates in the Business Leaders' Initiative on Climate Change.

Active dialogue with Fortum's neighbouring communities continues, for example, through open house days. Also neighbourhood surveys are carried out.

Support for research, education and the arts

The Fortum Foundation distributed a total of EUR 396,000 in new grants to support research and development work relating to its business. Fortum continued working during the year in partnership with several schools and teaching organisations.

In Finland, Fortum made grants totalling EUR 300,000 (300,000) to various charitable causes. These included projects relating to children and youth, and to the arts and culture, as well as for sports and anti-drug campaigns. At the turn of the year Fortum donated EUR 175,000 to Red Cross and Save the Children to provide aid to the tsunami victims in South-East Asia. Fortum was the main sponsor of Operation Mermaid, WWF Finland's campaign for the protection of the Baltic Sea. The three biggest single sponsorship projects were the World Cup of Hockey, Neste Rally Finland and the Folkoperan in Stockholm.

Fortum included in sustainability index

Fortum communicates openly and actively on its progress in sustainable development. More information can be found in the "Fortum in Society 2004" report and on our website www.fortum.com/environment. Fortum's performance in sustainable development was acknowledged through the company's inclusion in the Dow Jones Sustainability World Index for 2005 for the second year running.

Enhanced risk management practices

Fortum continued to enhance risk management practices across the major risk categories, which include financial, strategic, operational and event risks.

During 2004, risk management issues continued to receive much attention. Some recent developments demonstrate the need for a robust risk management framework:

- Increased focus on corporate governance issues
- Continued consolidation within the Nordic power market
- EU directives on greenhouse gas emissions
- Unrest in Iraq and a weak U.S. economy affecting oil prices and currency rates

Fortum's risk management framework comprises the following:

Objective

Fortum's risk management objective is to support achievement of agreed targets while avoiding unwanted operational and financial events.

Policies

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 financial risks. Based on this, each business unit submits its own financial risk policy to the CEO for approval.

Separate policies, procedures and instructions govern the management of strategic, operational and event risks.

Organisation

Risks are generally managed at source, i.e. within the business unit where the risks occur. An 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.

Corporate Risk Management is organised within the Corporate Finance unit, headed by the Chief Financial Officer. Risk control functions at the business unit level are responsible for reporting their risks to the Corporate Risk Management function where Group-wide consolidation and analysis is performed. The Chief Financial Officer reports the Group's consolidated risk exposure to the CEO and the Board of Directors.

Process

Fortum steers the Group through business units, which each have their own targets defined by Group management. The risk management strategies employed to achieve these targets are decided upon within each business unit. However, in order to ensure an efficient and harmonised financial risk management process within the Group, there is a need for a co-operation between the business units and corporate functions. This process is facilitated through a Corporate Risk Committee, headed by the Chief Financial Officer, which meets on a regular basis to discuss risk-related issues from a corporate perspective.

Financial risks

Financial risk management is a core element of Fortum's business operations, and has continued to be improved during the past year. The focus has been on harmonising market risk quantification models across different products and business units. 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 financial risks which affect Fortum's earnings are:

- Electricity price and volume risks
- Oil price and refining margin risks
- Freight rate risks
- Liquidity and refinancing risks
- Currency and interest rate levels
- Counterparty risks

Electricity price and volume 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 power generation separately from customer sales. Price risks in power generation are managed by entering into electricity derivatives and sales contracts in order to hedge the cash flows generated by production assets. The objective of hedging is to reduce the effect of electricity price volatility on Fortum's earnings and to secure the achievement of agreed targets. Strategies for achieving these targets are defined for several years, and are continuously evaluated as market prices or hydrological and other situations change.

The effects of potential changes in electricity prices and volumes on Fortum's earnings are monitored on a continuous basis. The hedge ratio on 31 December 2004 was approximately 65% for the year 2005. Assuming no changes in generation volumes or cost structure, a EUR 1/MWh change in the market price of electricity would affect Fortum's 2005 pre-tax earnings by approximately EUR 20 million.

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. Cash flows generated from customer sales contracts are subject to uncertainty because consumption and price levels are not always known. The objective is to hedge the contracts as accurately as possible in order to minimise uncertainty in profit margins.

Oil price and refining margin risks

The 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. Weather also affects oil prices, as heating oil demand is very much weather driven. Political tension, especially in the Middle East where most of the oil reserves are located, can have an impact on oil prices. In 2004 the oil market was extremely volatile and the record high oil price level was influenced e.g. by the uncertain situation in Iraq.

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 not covered by hedging would affect Fortum's 2005 pre-tax earnings by approximately EUR 10 million.

The oil refining business is exposed to changes in refining margins, which affect cash flow generation. At the end of 2004, the oil refining position was basically unhedged and a change of USD 0.1/bbl in the company's total refining margin would affect Fortum's 2005 pre-tax earnings by approximately EUR 10 million.

Freight rate risks

Changes in freight rates affect Fortum's shipping and oil refining businesses. Freight rates can be volatile, and high prices, especially for Russian crude freights, are beneficial for Fortum. The freight rate market in the Baltic region is relatively undeveloped, and due to this, hedging of freight rates is difficult. A change of 10 Worldscale points in freight rates would affect Fortum's 2005 pre-tax earnings by approximately EUR 10 million.

Liquidity and refinancing risks

Financing and liquidity management within the Group are managed centrally at parent company level by Group Treasury. The operating companies are primarily financed via internal loans from the parent company and excess cash positions are centralised to the parent company either through internal cash-pools arrangements or by internal deposits.

Fortum's strategy is to work with only a smaller cash position, and to use excess cash flow generated in the Group to reduce debt. In order to ensure that liquidity and financing are available at all times, Fortum has entered into a number of committed credit facility agreements with its core banks. The total amount of these facilities covers forecast financing requirements and should ensure that the Group has sufficient reserves to meet unexpected increases in financing needs. As per 31 December 2004 cash and marketable securities amounted to EUR 146 million and the amount of committed credit facilities was EUR 1,414 million, of which EUR 1,362 million was unused.

In order to further reduce refinancing risk, Fortum strives to maintain a diversified financing structure in terms of debt maturity profile, debt instruments and geographical markets. The average duration of the debt portfolio was 1.3 years as per 31 December 2004. (For more detailed information regarding debt maturity profile and financing instruments see Note 25.) Fortum has received credit ratings by Standard and Poor's BBB+ (stable outlook) and Moody's Baa1 (stable outlook).

Currency and interest rate levels

Fortum has cash flows and investments also 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 crude, oil products and freights are set in USD. NOK exposures arise from electricity trading, as some of the 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 2004 was EUR 5,042 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 2004, a 1% change in interest rates would affect Fortum's 2005 pre-tax earnings by EUR 18 million.

Counterparty risks

Counterparty risks arise when entering into external contracts, and they occur in all normal business operations. 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 collateral.

Especially important are the counterparty risks that arise in conjunction with hedging market risks through derivatives contracts. Exposures in these contracts are often volatile since market prices change on a daily basis. The majority of commodity derivatives are traded through exchanges such as Nord Pool for electricity derivatives, but there are a number of contracts which are entered into directly with other counterparties. It is therefore important at all times for Fortum to have control 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. Corporate policies set a Group-wide limit to the maximum amount of exposure allowed with any single counterparty, and these limits are then delegated to the business unit level. The policies ensure that wholesale and retail sales are made to customers with an appropriate credit history. Cash and derivatives transactions are limited to high credit-quality companies in the financial or energy markets. Corporate Credit Control continuously monitors and reports counterparty exposures against the approved limits.

Strategic, operational and event risks

Large-scale energy business involves many types of strategic, operational and event risks. During 2004, an effort has been initiated to systematically identify and evaluate the major strategic, operational and event risks to which Fortum is exposed. This effort has been facilitated through self-assessment workshops which have been conducted with all the business units within the Group.

Operational and strategic risks are difficult to quantify, and they often occur as a result of inadequate processes or procedures, incorrect use of systems or models, or unclear management practices. Fortum's objective is to minimise these risks by using clearly documented and automated processes and ensuring a strict distinction between decision-making and controlling functions. Quality and environmental management systems are a tool for achieving this objective, and Fortum has several certificates including ISO 9001 and ISO 14001.

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.

Event risks, such as 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.

Some of the strategic, operational and event risks to which Fortum is exposed are:

- Nuclear risks
- Risks at production facilities
- Environmental, health and safety risks
- IT and information security risks
- Political and regulatory risks

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 and must be covered by insurance. As the operator of Loviisa power plant, Fortum has a statutory insurance policy of some EUR 205 million per nuclear incident, which is the upper liability limit for Fortum under the provisions of the Finnish Nuclear Liability Act. Similar insurance policies are in place for the operators where Fortum has a minority interest.

Assessment and improvement of nuclear safety at the Loviisa power plant is a continuous process, which is performed under the supervision of the Radiation and Nuclear Safety Authority of Finland (STUK).

Risks at production facilities

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.

The long-term programme to improve the surveillance of the conditions of dams and to secure the discharge capacity in extreme flooding situations continued during 2004.

In the distribution business, storms and other unexpected events may result in electricity outages which cause costs in the form of repairs and customer compensation. The outages are typically short, but it is not possible to prevent long outages totally, and there is a procedure in place to minimise the length and consequences of outages in exceptional circumstances.

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 in the shipping business and to ensure the safe transport of crude oil and oil 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 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, and corrective and preventive action is launched when necessary. All major production and logistics activities are covered by certified environmental management systems (ISO 14001).

There has been a strong emphasis to develop the safety culture within Fortum during 2004. Training programmes have been run and the results can be seen as an improvement of safety performance.

Environmental, health and safety risks arising in investments are systematically evaluated. EHS-related responsibilities and liabilities are defined in the contract documents for acquisitions and divestments.

Climate change is the biggest environmental challenge for energy companies in the future. Developing EU-wide and national climate strategies implies stricter climate control of greenhouse gas emissions like CO_2. Emissions trading is the key control instrument in the EU. The first phase of the EU emissions trading scheme started at the beginning of 2005. In Fortum, these activities are covered by the approved risk policies.

From a climate risk point of view, Fortum's strength is that approximately 80% of its power production is based on CO_2-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 minimizing 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.

Political and regulatory risks

Development of the political and regulatory environment may have 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 ongoing dialogue with the bodies involved in the development and enforcement of laws and regulations. Specifically, this includes close co-operation with key Nordic and European industrial organisations, such as Finnish Energy Industries in Finland, Svensk Energi in Sweden and Eurelectric on the EU level. On the oil side Fortum co-operates with Finnish Oil and Gas Federation in Finland as well as with the organisation of oil refiners EUROPIA and European Fuel Oxygenate Association EFOA on the EU level.

Fortum's business operations in Russia are rather limited. However, the ongoing restructuring of the power sector in Russia and the political energy dialogue between the EU and Russia may have an impact on the Nordic energy market and on Fortum. To manage the related risks, Fortum continuously monitors and assesses these developments. During 2004, Fortum appointed two representatives in Russia to develop Fortum's power and heat businesses, and an area manager for oil supplies.

Corporate governance

Fortum practices good corporate governance to establish and maintain transparency throughout the organisation. Under the new Articles of Association, the AGM appointed the Board of Directors for the first time.

Transparent governance at all levels of the organisation

Fortum is managed from its head office in Finland where it is listed on the Helsinki Stock Exchange.

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

Governing bodies

The decision-making bodies running the Group's administration and operations are the Annual General Meeting of Shareholders, 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 more than one of them.

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.)

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

General Meeting of Shareholders

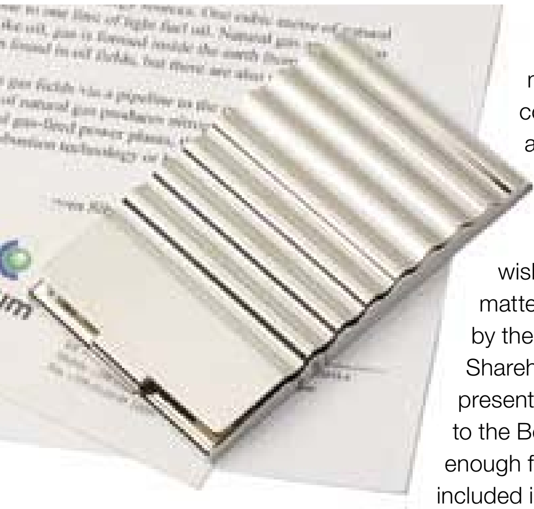
The right of shareholders to make decisions over company matters is exercised at an appropriately convened General Meeting by those shareholders present, or by their authorised representatives.

In accordance with the Articles of Association, a notice to convene 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

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



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, 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.

A new body to assist the General Meeting of Shareholders

The Annual General Meeting held on 25 March 2004 appointed a Shareholders' Nomination Committee to prepare proposals concerning Board members and their emoluments for the following Annual General Meeting. The Shareholders' Nomination Committee will consist of the representatives of three biggest shareholders with the Chairman of the Board of Directors as an expert member. Those three shareholders, whose share of the total votes of all the shares in the company is the largest on 1 December preceding the Annual General Meeting, are entitled to appoint the members representing the shareholders.

The Shareholders' Nomination Committee will be convened by the Chairman of the Board of Directors and the Committee will select a chairman from amongst themselves. The Shareholders' Nomination Committee should give its proposal to the Board of Directors no later than 1 February preceding the Annual General Meeting.

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 financial statements 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; in February 2005 the number was 12. 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 2004, the Supervisory Board met 7 times. Average attendance at these meetings was 87%.

In the 2004 Annual General Meeting, the following persons were elected to the Supervisory Board for a one-year term of office: Members of Parliament Timo Kalli (b. 1951), Chairman of the Supervisory Board, Klaus Hellberg (b. 1945), Deputy Chairman of the Supervisory Board, Satu Hassi (b. 1951), Lasse Hautala (b. 1963), Rakel Hiltunen (b. 1940), Mikko Immonen (b. 1950), Kimmo Kiljunen (b. 1951), Jari Koskinen (b. 1960), Ben Zyskowicz (b. 1954); 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, Matti Neiglick, Timo Nyman, and Edvard Trebs.

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; in February 2005 the number was seven. 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 the 2004 Annual General Meeting, the following persons were elected to the Board of Directors: Peter Fagernäs (b. 1952), Chairman, Heikki Pentti (b. 1946), Deputy Chairman, Birgitta Johansson-Hedberg (b. 1947), Birgitta Kantola (b. 1948), Lasse Kurkilahti (b. 1948), Antti Lagerroos (b. 1945), and Erkki Virtanen (b. 1950). More detailed information on the Board members can be found on page 47.

In 2004, the Board of Directors met 11 times, of which three were teleconferences. Average director attendance at all Board meetings was 96%. The main item during the year was the separation of the oil businesses. In 2004, one Board meeting also addressed succession planning and other key issues relating to human resources.

The members of the Board of Directors are all non-executive and independent with the exception of 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 47).

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.

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 which will expire at the end of the first Annual General Meeting following the election.

The Audit Committee assists the Board of Directors in fulfilling its supervisory responsibilities. The Committee oversees the financial reporting process, the systems of accounting and financial controls, the management of financial risks, and monitors the independence and performance of the external auditors.

In 2004, the Audit Committee was chaired by Birgitta Kantola and the members were Birgitta Johansson-Hedberg and Antti Lagerroos. In 2004, the Audit Committee met three times. The main items during the year included follow-up of IFRS transition preparations, the company's risk management, selection process of external auditor, and the reporting of the external and internal auditors.

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 2004, the Nomination and Compensation Committee was chaired by Peter Fagernäs and the members were Lasse Kurkilahti and Heikki Pentti. In 2004, the Nomination and Compensation Committee met two times. The main items included the Group's salary policy, compensation and benefits issues of the Corporate Executive Committee members and the long-term incentive scheme activities.

Assessment of the Board of Directors

An annual self-assessment procedure has been established to further develop the work of the Board of Directors. The process analyses the efficiency of the work, the size and composition of the Board, the preparation of the agenda and the level and openness of discussions as well as the members' ability to contribute to an independent judgement. In 2004, the first such report was finalised during the autumn by an external expert.

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.

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 Nomination Committee. The evaluation is used by the Nomination Committee to determine the level of the President and CEO's compensation to be recommended for approval by the Board of Directors.

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

Corporate Executive Committee

The Corporate Executive Committee consists of eight members, including the President and CEO to whom the members of the Corporate Executive Committee report. The Senior Vice President, Corporate Legal Affairs acts as the Secretary to the Executive Committee. The Corporate Executive Committee meets regularly on a monthly basis. In addition there are meetings dealing with strategy and business planning, as well as performance reviews. The Corporate Executive Committee members and their individual responsibilities are presented on pages 48–49.

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 President and CEO as well as the Corporate Executive Committee 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 the maximum bonus 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.

The performance bonuses of the Corporate Executive Committee amounted to 0.18% of the total salaries and remuneration paid in the Group.

Long-term incentives

The management share option scheme (1999), a bond loan with attached warrants for employees (1999), share option schemes for key employees (2001 and 2002), and the Performance Share Arrangement for key personnel all support the achievement of Fortum's long-term goals. The Performance Share Arrangement, launched in 2003, replaces other possible long-term incentive schemes for senior management.

More details can be found in the official financial statements (see pages 92–94).

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.

Up to the end of 2004 the Finnish TEL pension scheme provided for early retirement benefits at age 60 and full retirement benefits at age 65. Finnish pension legislation was fundamentally changed on 1 January 2005. It now offers, for example, a flexible retirement from age 63 to age 68 without any full pension limits.

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.

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. ●

Fortum Personnel Fund

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

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

Risk management

Risk management within Fortum is intended to support the achievement of agreed targets while avoiding unwanted operational and financial events.

The Board of Directors approves the Corporate Financial Risk Policy. Within the scope of this policy are financially-related risks including market risks, counterparty risks and liquidity risks. Market risks refer to exposure to commodity prices, interest rates and currencies, counterparty risks include credit, replacement and settlement risks, and liquidity risks refer to the Group's exposure to financing and funding risks. In addition, the policy governs operational and legal risks associated with the management of these financially-related risks.

The CEO approves all Business Unit financial risk policies and the Group Treasury risk policy. These policies are aligned with and governed by the Corporate Financial Risk Policy. They include limits and mandates for all defined risks, as well as responsibilities for managing these risks within the Business Unit. The

Business Unit head is responsible for ensuring that the Business Unit risk policy is adhered to, and for reporting exposure to these risks to the CEO and CFO.

The CFO is responsible for the financial risk management process within Fortum. This responsibility includes approving all models used for risk reporting, approval of counterparty limits for the Group and consolidating and reporting the Group's exposure to financially-related risk to the CEO and the Board of Directors.

See more details on page 36.

Insider guidelines

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

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 Ltd. 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.

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 co-ordination 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.

Internal and external auditing

The Corporate Internal Audit function evaluates the effectiveness and efficiency of the various businesses and processes and the adequacy of risk management, the accuracy and correctness of the financial and management reporting as well as compliance with laws, regulations and internal instructions. The Standards for the Professional Practice of Internal Audit and The Institute of Internal Auditors' Code of Ethics form the basis for its work.

The Corporate Internal Audit is independent of business and other units in Fortum and it reports to the Audit Committee of the Group Board of Directors as well as reporting administratively to the CFO.

The purpose, authority and responsibility of the Corporate Internal Audit, formally defined in a Charter, and the Annual Plan are approved by the Audit Committee.

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 25 March 2004 with Juha Tuomala, Authorised Public Accountant, having the principal responsibility.

The fees invoiced and expected to be invoiced by the independent auditors for professional services rendered for the audit of Fortum's 2004 annual financial statements and other services through 31 December 2004 were as follows:

EUR 1,000	
Audit fees	1,346
IFRS assignments	713
Tax assignments	426
Other	546
Total	3,031

● Further information at www.fortum.com/2004/governance

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 in accordance with the company's travel policy.

On 25 March 2004, the Annual General Meeting confirmed the following remuneration for Supervisory Board service:

Chairman	EUR 1,000/month
Deputy Chairman	EUR 600/month
Members, excluding employee representatives	EUR 500/month
Meeting fee	EUR 200/meeting

Compensation for Board service

Each Board member receives a fixed fee per year. On 25 March 2004, the Annual General Meeting confirmed the following remuneration for Board Service:

Chairman	EUR 49,500 /year
Deputy Chairman	EUR 38,500/year
Members	EUR 27,500/year
Meeting fee	EUR 500/meeting

In addition a meeting fee of EUR 500 is paid for the Board Committee meetings. The members are entitled to travel expense compensation in accordance with the company's travel policy.

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.

Total compensation for Supervisory Board and Board of Directors paid by Fortum

EUR	Total compensation 2004	Total compensation 2003
Chairman of the Supervisory Board	10,200	4,400 *)
Deputy Chairman of the Supervisory Board	8,600	8,200
Members of the Supervisory Board	66,900	67,300
Chairman of the Board	56,100	**)
Deputy Chairman of the Board	44,200	36,004
Other members of the Board of Directors	156,525	129,417

*) 4 months

**) Executive Chairman of the Board

Shares held by the members of the Supervisory Board and the Board of Directors on 31 December 2004

	Shares
Members of the Supervisory Board	
Kalela, Kimmo	3,200
Mikkilä, Juha	831
Members of the Board of Directors	
Fagernäs, Peter	591
Pentti, Heikki	546

Compensation for the President and CEO and the Corporate Executive Committee paid by Fortum

EUR	Salaries and fringe benefits 2004	Salaries and fringe benefits 2003	Performance-related bonuses 2004	Performance-related bonuses 2003	Total 2004	Total 2003
President and CEO	732,312	673,728	336,864	179,130	1,069,176	852,858
Other members of the Executive Committee	1,521,137	1,514,773	561,031	303,660	2,082,169	1,818,433

Shareholding and share options, Corporate Executive Committee

	Share-holding 31 Dec 2004	1999 Received	1999 Remaining 31 Dec 2004	2001 A+B Received and remaining	2002A Received	2002A Remaining 31 Dec 2004	2002B Received and remaining
Mikael Lilius	150,050	350	-	400,000	340,000	-	340,000
Mikael Frisk	-	175	-	200,000	150,000	37,500	150,000
Timo Karttinen	18,870	75	-	125,000	90,000	-	120,000
Tapio Kuula	20,050	250	-	200,000	200,000	-	200,000
Juha Laaksonen	20,000	125	-	200,000	250,000	-	175,000
Christian Lundberg	20,000	-	-	-	150,000	-	175,000
Risto Rinne	550	175	-	125,000	90,000	-	90,000
Carola Teir-Lehtinen	16,970	175	-	200,000	150,000	-	150,000

Board of Directors
on 31 December 2004

Peter Fagernäs
L.L.M., born 1952, Chairman of the Board. Mr Fagernäs is Chairman of the Board of Oy Hermitage Ab and Managing Partner of Hermitage & Co. Ltd. Former Chairman of Pohjola Group plc (2001-2003). He is a member of the Board of Finnlines Plc. He has been a member of the Board of Directors since 2004. Independent member.

Birgitta Johansson-Hedberg
Bachelor of Arts, Master of Psychology, born 1947. President and CEO of Lantmännen. Former President and CEO of Foreningssparbanken and Resident Director for Scandinavia in the Dutch-listed company Wolters Kluwer. She is a member of the Boards of Skandia, Sveaskog and Oriflame and the Chairman of University of Umeå. Currently she is a member of Aktiemarknadsnämnden. She has been a member of the Board of Directors since 2004. 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 the Wärtsilä Corporation and a member of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company. He has been a member of the Board of Directors since 2002. Independent member.

Erkki Virtanen
M.Sc. (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 a member of the Board of Directors since 1999. Non-independent member.

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

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

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

Group management

Corporate Executive Committee on 31 December 2004

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

Mikael Lilius
BSc (Econ), born 1949, President and Chief Executive Officer.
Employed by Fortum since 2000.
External Board memberships: Ahlstrom Corporation, Hafslund ASA, OAO Lenenergo, OMX AB, Sirona Dental Systems Beteiligungs- und verwaltungs GmbH

Christian Lundberg
born 1956, President, Fortum Markets.
Employed by Fortum since 2003.
External Board memberships: -

Mikael Frisk
MSc (Econ), born 1961, Senior Vice President, Corporate Human Resources.
Employed by Fortum since 2001.
External Board memberships: –

Risto Rinne
MSc (Eng), born 1949, President, Oil sector.
Employed by Fortum since 1975.
External Board memberships: -

Timo Karttinen
MSc (Eng), born 1965, Senior Vice President, Corporate Development.
Employed by Fortum since 1991.
External Board memberships: Fingrid Oyj

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

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

Secretary to the Board of Directors and the Corporate Executive Committee

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

Other management on 31 December 2004

Power and Heat sector

Tapio Kuula	President
Håkan Grefberg	Distribution
Pekka Päätiläinen	Generation
Risto Riekko	Heat
Per Langer	Portfolio Management and Trading
Kim Kronstedt	Service
Åke Pettersson	Värme

Oil sector

Risto Rinne	President
Kimmo Rahkamo	Components
Jarmo Honkamaa	Oil Refining
Matti Peitso	Oil Retail
Risto Näsi	Shipping

Other

Christian Lundberg	President, Markets

Corporate Staff

Carola Teir-Lehtinen	Communications
Timo Karttinen	Development
Arja Koski	Environment, Health and Safety
Juha Laaksonen	Finance
Mikael Frisk	Human Resources
Harri Pynnä	Legal Affairs

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

Financial Statements

Review by the Board of Directors

2004 was a very strong year for Fortum. The company's financial performance continued to improve: both the operating results and cash flow from operating activities were significantly strengthened. The key financial targets, ROCE and ROE 12%, were clearly exceeded. The balance sheet was further strengthened. During 2004, net debt decreased by EUR 730 million compared to year-end 2003 and Fortum's gearing stood at 64% at the year end.

The operating profits excluding non-recurring items of all segments except Markets and Oil retail were higher than in 2003. The best relative improvement was seen in the Oil Refining segment, driven by high refining margins and good availability of refineries.

Power Generation and Heat segments also delivered substantially better operating profits. The good results were due to operational efficiency: utilisation of the flexible power production portfolio, successful hedging, good availability at production units, as well as an improved cost structure.

Development of the key market drivers was diverging. The average Nord Pool electricity spot price was 21% lower than a year ago, at EUR 28.9/MWh.

The international oil refining reference margin (Brent Complex) continued very strong, 67% higher than a year ago, boosting the results of Oil Refining. The average margin for 2004 was USD 4.5 (2.7)/bbl. In 2004, Fortum's premium margin over the international Brent complex refining reference margin was clearly higher than the average of some USD 2/bbl in the last few years.

In 2004, the average Brent crude oil price was USD 38.2 (28.8)/bbl. The increasing price of crude oil led to inventory gains of EUR 74 (13) million for the full year, despite an inventory loss of EUR 16 million in the fourth quarter.

The net cash from operating activities increased to EUR 1,748 (1,577) million. However, the increase in cash flow did not fully reflect the improvement in operating profit. This was mainly due to an increase in working capital and in paid financial expenses and taxes. The increase in working capital was driven mainly by higher oil prices.

A plan was announced to separate the oil businesses through a share dividend and a sale of shares in April 2005. Fortum strengthened its position in the Russian electricity company, OAO Lenenergo.

Net sales and results

Group net sales stood at EUR 11,665 million (EUR 11,392 million in 2003). Higher prices for oil products had a positive impact, whereas the Group's exit from gas trading, slightly lower electricity prices and a weakened US dollar decreased the net sales.

Net sales by segment

EUR million	2004	2003
Power Generation	2,088	2,681
Heat	1,021	964
Distribution	707	688
Markets	1,387	1,634
Oil Refining	6,306	5,693
Oil Retail	2,374	2,203
Shipping and other Oil	339	308
Other operations	96	93
Internal invoicing	-2,653	-2,872
Total	11,665	11,392

Group operating profit totalled EUR 1,914 (1,420) million. Operating profit excluding non-recurring items stood at EUR 1,790 (1,360) million, an increase of EUR 430 million over the 2003 figures. The net amount of non-recurring items was EUR 124 (60) million, mainly consisting of inventory gains arising from the increasing price of crude oil and of a one-time compensation of EUR 29 million from other parties in the new Finnish nuclear power unit relating to the existing nuclear infrastructure.

Total electricity sales volumes were slightly above the previous year's level. There was a marked improvement in the results for Power Generation despite a lower market price for electricity. This was mainly due to successful hedging, the flexible production portfolio and internal efficiency improvements.

Total heat sales volumes were at the same level as in the previous year. The results for the Heat segment improved because of a rise in Fortum Värme's results, which was mainly due to internal efficiency improvements, a better fuel mix and good power plant availability.

Distribution's results were slightly higher than the previous year due to internal efficiency improvements. The December storms in Finland accrued costs of around EUR 3 million, split evenly between damage compensation to customers and repair work.

The results for Markets declined compared to last year. The main reason was tighter competition on the Nordic electricity market as well as costs related to improvements of customer service. Furthermore, Markets' results in Norway were not satisfactory.

The oil refining margins, both the international Brent Complex refining margin and Fortum's premium margin, were clearly higher than in 2003, which gave a major boost to Oil Refining. Other positive drivers for the results were high refinery capacity utilization rates and the increasing price of crude oil which led to considerable inventory gains of EUR 74 million (13 million) for 2004.

The results for Oil Retail were higher than in 2003, but the ongoing operating profit was EUR 11 million lower than in 2003. The sales volumes of traffic fuels increased slightly, whereas the corresponding margins decreased somewhat.

The Shipping and other Oil segment enjoyed higher freight rates, both for crude oil and oil products. However, a weaker US dollar had a negative impact on the results. SeverTEK contributed positively to the segment's results.

Operating profit by segment

EUR million	2004	2003
Power Generation	725	603
Heat	226	173
Distribution	258	247
Markets	26	35
Oil Refining	573	281
Oil Retail	48	44
Shipping and other Oil	107	79
Other operations	-49	-42
Total	1,914	1,420

Profit before taxes was EUR 1,655 (1,184) million.

The Group's net financial expenses were EUR 259 (236) million. They include additional interest costs after redemption of the preference shares issued by Fortum Capital Ltd as well as the effect of prepayment of the private placement bonds issued in the US in 1992.

Minority interests accounted for EUR 31 (90) million of the results for the period. The decrease mainly stems from redemption of Fortum Capital's preference shares, accounted for as minority interests before the redemption. The minority interests for 2004 are mainly attributable to Fortum Värme Holding, in which the City of Stockholm has a 50% economic interest.

Taxes for the period totalled EUR 397 (325) million. The tax rate according to the income statement was 24.0% (27.4%). Taxes for the period include a decrease in deferred tax liabilities of EUR 41 million due to the change in the Finnish income tax rate from 29% to 26% which takes effect from the beginning of 2005. The tax rate would have been 26.5% excluding the decrease in deferred tax.

Net profit for the period was EUR 1,227 (769) million. Earnings per share were EUR 1.44 (0.91). Return on capital employed was 15.6% (11.4%) and return on shareholders' equity was 17.6% (12.3%).

Reporting structure

In order to improve the transparency of its financial reporting, Fortum adopted a new reporting structure in 2004. The number of reporting segments was increased from four to seven. The new segments include the following business units (names of the business units in brackets after the segment name): Power Generation (Generation, Portfolio Management and Trading, Service); Heat (Heat, Värme); Distribution (Distribution); Markets (Markets); Oil Refining (Oil Refining, Components); Oil Retail (Oil Retail); Shipping and other Oil (Shipping, other oil operations including SeverTEK). In addition, the segment 'Other' includes, for example, Group administration and shared service functions.

Power and Heat segments

Fortum's power and heat businesses are divided into four reporting segments. Power is generated in Fortum's own and partly-owned power plants by the **Power Generation** segment and in combined heat and power plants by the **Heat** segment. Power Generation sells the electricity it generates and purchases through the Nordic power exchange, Nord Pool. The **Markets** segment buys its electricity through Nord Pool and sells the electricity to private and business customers as well as to other electricity retailers. Heat sells steam and district heat mainly to industrial and municipal customers as well as to real estate companies, and it sells the power it produces directly to end-customers and to Nord Pool. Fortum's distribution and regional network transmissions are reported in the **Distribution** segment.

Market conditions

According to preliminary statistics, the Nordic countries consumed 386 (379) terawatt-hours (TWh) of electricity in 2004. This is 2% more than in 2003 when consumption was low due to the higher price of electricity in the beginning of the year.

The spot price for electricity in Nord Pool was fairly stable during 2004, averaging EUR 28.9 (36.7) per megawatt-hour (MWh), which was approximately 21% lower than in 2003. The corresponding price decrease in electricity sold by Fortum was 4%.

The year started with a considerable deficit in the Nordic water reservoirs and continued with low inflows. During the autumn, heavy rains brought the Nordic water reservoirs back to normal levels after two years of deficit. At the end of 2004 the Nordic water reservoirs were slightly above the average level and 16 TWh above the corresponding level of 2003.

Total power and heat generation figures

Fortum's total power generation was 55.5 (53.2) TWh, of which 54.4 (51.2) TWh in the Nordic countries. This represented approximately 14% (14%) of the region's total consumption.

At year end, Fortum' power generating capacity in the Nordic countries was 11,220 (11,186) MW, while its total capacity was 11,373 (11,329) MW.

Total electricity and heat sales figures

Fortum's total electricity sales amounted to 62.3 (61.0) TWh. Sales volumes in the Nordic countries were 60.7 (58.6) TWh, representing approximately 16% (15%) of Nordic electricity consumption during the year.

Heat sales volumes in the Nordic countries were 20.2 (19.9) TWh and 3.6 (3.8) TWh in other countries.

Power Generation

The segment's power generation was 50.9 (48.8) TWh. At year-end the segment's power generating capacity totalled 10,030 (9,993) MW, of which 9,890 (9,863) MW was in the Nordic countries and 140 (130) MW in other countries.

ISO 14001 environmental certification was awarded in November to all Fortum's power generation in Sweden and Finland.

After the acquisition of additional shares in the Russian company OAO Lenenergo Fortum's holding in the company's share capital is 30.7% and its share of voting rights is 29.6%.

Fortum Service signed several new agreements during the year including a 12-year O & M contract for a waste-to-energy plant in the UK. It also received ISO 9001 and ISO 14001 certificate covering its operations in Finland and Sweden.

Heat

The segment's heat sales amounted to 21.8 (21.1) TWh.

Power generation at combined heat and power plants (CHP) was 4.6 (4.4) TWh during 2004.

The inauguration of Fortum's Nynäshamn combined heat and power plant in Sweden took place in September. The plant uses biomass fuels to produce process steam, district heat and electricity.

In Sweden, test runs at the new waste incineration boiler in the Högdalen combined heat and power plant were started.

In December Fortum acquired an 85% share of a Polish district heating company PESC S.A., situated in the city of Częstochowa, with annual heat sales of some 780 GWh.

Fortum finalised the acquisition of an additional 6% share in the Finnish natural gas company Gasum Oy, thereby increasing its stake in the company to 31%.

Distribution

The volume of distribution and regional network transmissions totalled 22.7 (22.7) TWh and 17.8 (20.3) TWh respectively. Electricity transmissions via the regional distribution network to customers outside the Group totalled 14.6 (15.0) TWh in Sweden and 3.2 (5.3) TWh in Finland. The distribution and regional networks in Sweden have been reclassified resulting in a small shift in net sales and volumes between the different types of network. The decrease of deliveries in regional network to external Finnish customers was due to expiration of certain contracts.

Further efforts aiming at better invoicing transparency and enhanced customer service were initiated. One example is the automated meter-reading system that enables electricity meters to be read remotely and allows customers to be invoiced according to their actual electricity consumption. A number of pilot projects were started in Sweden and Finland to test the system.

The investment programme to reduce the risks of outages continued in western Sweden. The five-year programme includes covering of conductor lines and installation of underground cables.

A new common customer service unit was jointly established with Fortum Markets at the beginning of 2004 in Finland, Sweden and Norway.

A local customer service function already operating in Finland and Sweden, the Customer Service Technician (CST) service, was introduced in Norway at the beginning of 2004. Customer Service Technicians handle a number of activities related to grid operation, such as minor repairs, and meter installations.

In June 2004, the Energy Market Authority in Finland published its guidelines for methods applicable in network operator pricing. The new regulation came into force in January 2005. The Authority will make company-specific decisions on the parameters being used to access the allowable return based on technical asset values.

In Sweden, the Energy Authority has developed a new model for monitoring distribution prices. The Authority has published the first results based on year 2003 distribution tariffs and will have further discussions and analysis together with selected distribution area owners, including three of Fortum's distribution areas. Further details are expected to be published later this year.

A storm caused major power outages in south-western Finland during Christmas leaving approximately 40,000 customers without electricity. Customers, who suffered from long distribution interruptions, will be compensated with some EUR 1.5 million. The total cost of the interruptions, approximately EUR 3 million, was booked in the fourth quarter results.

Markets

Average retail electricity prices on the Nordic market were slightly lower than during 2003. The segment's electricity sales totalled 43.5 (47.1) TWh. The decline was due mainly to the ending of some spot and long-term contracts.

Fortum reduced its current-price contracts' retail price during spring 2004 and announced a price decrease for spring 2005 due to the falling trend in market price. Prices for new fixed-term contracts followed the price development of Nord Pool's financial market.

Fortum continued to launch new products to different customers segments on the Nordic market. 60% of Fortum's Nordic customers now receive eco-labelled electricity certified by local nature conservation associations. Fortum adopted post-debiting for all its Nordic customers and the possibility to use self-meter-reading was expanded during the autumn. Fortum also introduced a customer guarantee to secure customer service levels and a customer ombudsman. A new customer service unit was jointly established with Fortum Distribution at the beginning of 2004 in Finland, Sweden and Norway.

Oil segments

Fortum's oil operations are divided into three reporting segments. The **Oil Refining** segment produces and sells gasolines, diesel fuels, light and heavy fuel oils, aviation fuels, base oils, gasoline components and LPG, and it also develops biocomponents for traffic fuels. The **Oil Retail** segment operates an extensive retail sales network and provides direct sales to private and business customers. The **Shipping and other Oil** segment has a tanker fleet for crude oil and product transport, and includes SeverTEK, a crude oil producing company jointly owned with the Russian company Lukoil.

Market conditions

Refining margins in north-western Europe increased compared to the previous year. The Brent Complex reference margin used by Fortum averaged USD 4.5 (2.7)/bbl in 2004. Fortum's premium margin was clearly higher than the average USD 2/bbl in the last few years.

An exceptional climb in crude oil prices continued until October. The barrel price of Brent crude oil rose to more than USD 52. Towards the end of the year, the barrel price for Brent crude oil varied between USD 36 and 43. In 2004, the average Brent crude oil price was USD 38.2 (28.8)/bbl.

During 2004, the average price difference between sweet (low in sulphur) North Sea crude oils and the sour Russian type crude oils increased to almost USD 4/bbl, clearly up from the less than USD 2/bbl in the previous years.

Oil Refining

Fortum refined a total of 14.1 (14.2) million tonnes of crude oil and other feedstocks. In Finland, the oil product sales amounted to about 8.3 (7.9) million tonnes. Exports of oil products refined by Fortum in Finland amounted to 5.3 (5.5) million tonnes, of which gasolines accounted for 2.7 (2.8) million tonnes and diesel fuels for 1.8 (2.0) million tonnes. The Nordic countries and North America were Fortum Oil's largest export markets.

Fortum's oil refineries produced 13.6 (13.6) million tonnes of oil products. Of this, 62% (59%) was low-sulphur or sulphur-free.

Work on the investment to increase the sulphur-free diesel production capacity of the Porvoo refinery continued as planned. The capital expenditure in 2004 amounted to slightly more than EUR 100 million. The production line is expected to be taken into use at the end of 2006.

Fortum also converted the MTBE production into ETBE (ethyl tertiary butyl ether), containing bioethanol, at Porvoo.

Fortum made a decision to increase the production of a synthetic type of EHVI base oil by 30,000 tonnes at the Porvoo refinery. EHVI is used as a blending component for lubricants. The extended production will commence in the autumn of 2005, after which the annual production will amount to some 250,000 tonnes.

The flow improver agent (FIA) business was sold in January 2004. Production and sale of ethanol gasoline in Finland, which began in autumn 2002, ended in the autumn of 2004.

Oil Retail

In 2004, retail sales of the main oil products totalled 4,008 (3,908) thousand cubic metres, of which traffic fuels accounted for 2,641 (2,483) thousand cubic metres.

The number of oil retail outlets at the end of the year was 873 (874) in Finland and 179 (156) in the Baltic Rim countries.

In May, Fortum was the first company to start marketing sulphur-free gasoline and diesel (less than 10 mg/kg) in Finland.

Shipping and other Oil

Fortum's shipments totalled 41 (40) million tonnes. About 50% (51%) of the volume was carried for third party customers. There was an increase in the rates for refined products and also rates for crude oil were slightly higher than 2003 levels. The availability and utilisation rate of the fleet remained high throughout the year. The growth of Russian crude oil exports increased the demand for ice-strengthened tonnage and also raised the level of freight during the winter season.

In 2004, Fortum acquired three new product tankers and sold one vessel. In addition, fleet portfolio was managed through chartering contracts. One new product tanker was completed in early 2005, and one is under construction.

At year-end, Fortum owned 11 tankers and 21 were time-chartered. 10 tankers carried crude oil and 22 carried a range of oil products.

SeverTEK, a joint venture equally owned by Fortum and Lukoil, commenced oil production in the South Shapkino oil field in north-west Russia in July 2003. In 2004, the average oil production of SeverTEK in Russia totalled approximately 27 500 barrels per day of which Fortum's share was 50%.

Research and development

In Fortum, research and development work in technology aims at securing long-term competitiveness and a benchmark position in key business operations. In 2004, Fortum's R&D spending totalled EUR 26 (35) million. In the power and heat businesses the focus was on improving the efficiency of existing assets. Other key areas included the further development of environmental concepts, of which Hammarby Sjöstad in Stockholm and waste-to-energy solutions in the Heat business are examples. In the oil businesses, R&D focused on supporting Fortum's clean fuels and lubricants strategy.

Environmental issues

EU-wide CO_2 emissions trading started as planned on 1 January 2005. Altogether 139 of Fortum's installations applied for both emission permits and allowances in Finland, Sweden, Estonia, Poland and the UK. Fortum's allocation of CO_2 emission allowances is about 12 million tonnes per annum for the first trading period 2005–2007. In 2004 Fortum's CO_2 emissions subject to emissions trading amounted up to 14.3 (15.8) million tons.

Fortum is well-prepared for emissions trading. Emissions reduction options at the company's own facilities have been systematically reviewed. Each business unit defines its emissions trading strategy and risk policy. A centralised trading desk is operating in Fortum's Green Market Center, which already has experience in green certificates trading. Fortum has participated with USD 6 million in the USD 180 million Prototype Carbon Fund (PCF) managed by the World Bank. The PCF invests in emission reduction in developing countries and in Eastern Europe.

The emission reduction credits created in PCF's projects are valid in the EU emissions trading scheme.

Fortum continued to reduce its carbon intensity by increasing production capacity based on renewable energy sources. A new biomass fuelled CHP power plant was taken into use in Nynäshamn in Sweden. Refurbishment of the hydro power plants continued according to the long term programme and seven projects were completed during year 2004 resulting in an improvement of output and efficiency at the plants. A feasibility study on a new bio-diesel component production process was launched at the Porvoo refinery.

The results are promising and preparations for an investment decision are ongoing.

A significant improvement in the safety level was achieved. Fortum's lost workday injury frequency (LWIF) calculated per one million working hours decreased from 8.5 to 5.1, which is well below the target value of 6.0 for 2004. The good progress was shadowed by two casualties among contractors' employees. Intensive training programmes were launched to reach the LWIF targets of 5.0 in 2005 and 4.0 in 2006.

ISO 14001 environmental certification was awarded in November to all Fortum's power generation operations and Fortum Service in Sweden and Finland.

60% of Fortum's Nordic customers now receive eco-labelled electricity certified by local nature conservation associations.

Fortum was included in Dow Jones Sustainability World Index for the second year in a row. Fortum's environmental and social performance is described in more detail in the "Fortum and Society 2004" report. The report is subject to assurance by an independent party.

Investments and divestments

Investments in fixed assets during the year totalled EUR 833 (1,136) million. Investments excluding acquisitions were EUR 651 (550) million.

Work on the approximately EUR 500 million investment to increase the sulphur-free diesel production capacity at the Porvoo refinery continued as planned. The capital expenditure in 2004 amounted to slightly more than EUR 100 million.

Fortum will participate in the new, fifth nuclear power plant unit in Finland with a share of approximately 25%. 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. During the first quarter, Fortum also provided a shareholders' loan of EUR 45 million.

During 2004, Fortum's holding in the Russian power company OAO Lenenergo increased to 30.7% and its share of voting rights to 29.6%. Fortum's total investment in Lenenergo shares is approximately EUR 150 million.

In December Fortum acquired an 85% share of a Polish district heating company PESC S.A., situated in the city of Częstochowa, with annual heat sales of some 780 GWh.

In December, Fortum acquired an additional 6% share in Finnish Gasum Oy, thereby increasing its stake in the company to 31%.

The real estate divestment programme continued. Since the programme started in mid-2002, Fortum has sold over 500 real estate properties and the total sales income amounted to almost EUR 190 million by the end of 2004. In 2004, sales income was some EUR 50 million.

Financing

During 2004 Fortum's financial position continued to improve and net debt decreased by EUR 730 million. At year end the interest bearing net debt stood at EUR 4,896 million (EUR 5,626 million in 2003) and the gearing ratio was 64% (85% at end of 2003). The Group's net financing expenses for 2004 were EUR 259 (236) million. In 2003 Fortum paid EUR 80 million as a dividend under the EUR 1,200 million Fortum Capital financing arrangement. The dividend was accounted as minority interest. This financing arrangement was terminated in December 2003. In order to make a correct comparison of the development of the net financial cost between the two years, the dividend payment under Fortum Capital financing arrangement should be added to the net financial cost in 2003.

At year end the average interest rate of Fortum's interest bearing loans was 4.1%.

In December Fortum signed a 5-year EUR 1,200 million Syndicated Revolving Credit Facility. The proceeds of the facility will be used for general corporate purposes and to refinance the existing loan facility of EUR 1,200 million signed in April 2003.

Group liquidity remained good. Year-end cash and marketable securities totalled EUR 146 million. In addition the Group had a total of EUR 1,362 million available for drawings under committed credit facilities, such as the EUR 1,200 million Syndicated Revolving Credit Facility and bilateral overdraft facilities. The total amount of committed facilities amounted to EUR 1,414 million at year end.

In February Fortum Corporation's long term credit rating from Moody's was upgraded from Baa2 (positive outlook) to Baa1 (stable). Fortum Corporation's long-term credit rating from Standard & Poor's has remained BBB+ (stable) in 2004.

Shares and share capital

During 2004, a total of 478.8 (270.3) million shares for a total of EUR 4,927 million were traded. Fortum's market capitalisation, calculated using the closing quotation on the last trading day of the year, was EUR 11,810 million. The highest quotation of Fortum Corporation's shares on the Helsinki Stock Exchange in 2004 was EUR 13.99, the lowest EUR 7.45, and the average quotation EUR 10.29 (6.94). The closing quotation on the last trading day of the year was EUR 13.62 (8.18).

Relating to the bond loan with warrants to employees 1999, a total of 5.1 million warrants for a total of EUR 31.2 million was traded during 2004. Relating to the management share option scheme 1999, a total of 6,767 options for a total of EUR 33.9 million were traded during 2004. Relating to the share option scheme for key employees 2002A, a total of 8.6 million options for a total of EUR 61.9 million was traded during 2004.

A total of 18,251,430 (3,072,520) shares were subscribed for based on the above share option schemes and entered into the trade register in 2004. After these subscriptions, Fortum Corporation's share capital is EUR 2,948,085,277 and the total number of registered shares is 867,083,905 (848,832,475). Fortum Corporation's share capital increased by a total of EUR 62,054,862 (10,446,568). The amount of shares which can still be subscribed for under these three share option schemes from 1999 and 2002 is a maximum of 0.8% of Fortum's year end share capital and voting rights.

In addition to the above arrangements, Fortum continues to have share option programmes for key employees, 2001A+B and 2002B, which can be exercisable later. At the end of 2004, these option schemes covered some 320 persons. The amount of shares subscribed for under these share option schemes is a maximum of 3.0% of Fortum's year-end share capital and voting rights.

At year end, the Finnish State's holding in Fortum was 59.3% (60.5%). The proportion of international shareholders stood at 25.2% (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.

Group personnel

In 2004, the Fortum Group employed an average of 12,859 (13,343) people. At year end, the number of employees totalled 13,175 (13,046), of which 12,735 (12,649) were permanent employees. The number of employees in the parent company, Fortum Corporation, at year end totalled 619 (589).

Corporate Governance

Fortum practices good corporate governance to establish and maintain transparency throughout the organisation. Fortum adheres to the Finnish Companies Act and the recommendation for listed companies jointly issued by the Helsinki Stock Exchange, the Central Chamber of Commerce of Finland, and the Confederation of Finnish Industries (EK).

In the 2004 Annual General Meeting, the following persons were elected to the Supervisory Board for a one-year term of office: Timo Kalli, Chairman of the Supervisory Board, Klaus Hellberg, Deputy Chairman of the Supervisory Board, Satu Hassi, Lasse Hautala, Rakel Hiltunen, Jorma Huuhtanen, Mikko Immonen, Kimmo Kalela, Kimmo Kiljunen, Jari Koskinen, Juha Mikkilä and Ben Zyskowicz.

For the period 1 January 2004 to 25 March 2004, the following persons were elected to the Board of Directors: Peter Fagernäs (Chairman), Heikki Pentti (Deputy Chairman), Birgitta Kantola, Lasse Kurkilahti, Antti Lagerroos and Erkki Virtanen. In the Annual General Meeting on 25 March 2004 the following persons were re-elected to the Board of Directors: Peter Fagernäs (Chairman), Heikki Pentti (Deputy Chairman), Birgitta Kantola, Lasse Kurkilahti, Antti Lagerroos and Erkki Virtanen. Birgitta Johansson-Hedberg was elected as new member.

On 16 December 2004 the following persons were appointed to Fortum's Shareholders' Nomination Committee: Markku Tapio (Chairman), Kari Puro and Jorma Huuhtanen. The Chairman of Fortum's Board of Directors Peter Fagernäs serves as the Committee's expert member.

Group management

Mr Risto Rinne was appointed President, Oil Sector and member of the Corporate Executive Committee as of 15 January 2004. Mr Timo Karttinen was appointed Senior Vice President, Corporate Development, and member of the Corporate Executive Committee as of 1 July 2004.

Business development and restructuring

Separation of oil businesses

Fortum announced in September 2004 its plan to implement the separation of Fortum Oil Oy in April 2005 through a distribution of Fortum Oil shares as a dividend to the shareholders of Fortum Corporation and a marketed offering of the remaining shares to investors. This will enable Fortum Oil to simultaneously seek a listing of its shares. The dividend distribution is subject to an approval by the Annual General Meeting of Fortum in spring 2005.

The plan to distribute Fortum Oil shares as a dividend has been facilitated by Fortum's very strong operating performance in both the oil and power and heat businesses over the last 12 months. It is designed to allow both Fortum Corporation and Fortum Oil to maintain their financial strength without raising significant new capital from the markets.

Following the dividend distribution and the planned sale of shares, Fortum Corporation does not intend to continue as a shareholder in Fortum Oil. Fortum Oil will be capitalised with approximately EUR 1 billion of debt including approximately EUR 130 million of shipping leases.

The Board of Directors will propose to the Annual General Meeting that 85% of Fortum Oil shares should be distributed as a dividend to the shareholders of Fortum Corporation. The remaining 15% of the shares will be sold to institutional and individual investors by Fortum Corporation.

The detailed terms of Fortum Oil Oy shares distribution will be decided and announced in connection with the invitation to the Annual General Meeting by mid-March.

Fortum Oil Oy will be renamed to Neste Oil Corporation.

Events after the period under review

Fortum's Board of Directors decided on 17 January 2005 to use the call option to buy all shares of E.ON Finland owned by the German E.ON Group. The call option is part of the compensation Fortum received from the Wesertal deal made with E.ON in 2002. The shares to be acquired from E.ON constitute about 65.6% of the share capital and votes of E.ON Finland. The total value of the purchase is about EUR 390 million. The exact purchase price depends on the net result and dividend distribution of E.ON Finland for the year 2004. As E.ON has refused to sell its shares, Fortum has initiated legal proceedings to secure its rights.

The board of Fortum also decided to make a purchase offer to the City of Espoo, which is the largest minority shareholder of E.ON Finland with a share of approximately 34.2% If the offer of Fortum is approved, Fortum will pay to the City of Espoo about EUR 257 million in cash. If Fortum's share of the share capital and votes of E.ON Finland exceeds 90%, Fortum will offer to redeem the shares of other shareholders at the same price as in the purchase offer to the City of Espoo.

Outlook

Power and Heat

The key market driver influencing Fortum power and heat businesses' performance is the market price of electricity. Starting in 2005, emissions trading is likely to become a new key market driver.

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 2004, the average spot price for electricity was EUR 28.9 (36.7) per megawatt-hour on the Nordic electricity market, or 21% lower than the corresponding figure in 2003.

At the beginning of February, the Nordic water reservoirs were about 4.1 TWh or 6.0% above the average and 37.9% above the corresponding level in 2004. In January, the spot price was at the level of EUR 23.0 per megawatt-hour. The electricity forwards for February-May 2005 were in the range of EUR 21.6–22.2 per MWh, and for the rest of 2005 in the range of EUR 22.4–23.1 per MWh.

The first and last quarters of the year are usually the strongest quarters for the continuous operations of the power and heat businesses. The electricity prices in the forward market for the 2005 are clearly lower than the corresponding forward prices for 2004 a year ago. In the beginning of January 2005, Fortum had hedged approximately 65% of its electricity sales for the next 12 months, the average price being at roughly the same level as achieved in 2004.

During the past five years, the volume of Fortum's CO_2 -free power generation has increased from 29 TWh to 46 TWh. Its share was 83% (78%) of Fortum' power generation in 2004. With this production portfolio, Fortum is in a good position considering the possible impacts of emissions trading.

In Distribution, the total costs for the storms in Sweden in January 2005 is estimated to be about EUR 8 million in the first quarter 2005 results.

In 2004, the euro exchange rate against the Swedish krona was on average 9.1203 (9.1430). At the end of December, the exchange rate was 9.0206 (9.0800).

The 2004 financial results of power and heat businesses were very good. The foundation for future good performance has been laid.

Oil

The key market drivers influencing oil businesses' performance are the Brent Complex refining reference margin, the exchange rate of the US dollar, and the changes in the price of crude oil causing inventory profits or losses. In addition to these market drivers, Fortum Oil's total margin is influenced by the price difference between sweet (low in sulphur) North Sea crude oils and the sour Russian type crude oils.

The oil refining reference margin in North-western Europe (Brent Complex) was considerably higher than in 2003 averaging USD 4.5 (2.7)/bbl. During the fourth quarter, it averaged USD 3.8 (2.3)/bbl. In January 2005, the refining reference margin averaged USD 1.5/bbl. For several years, the international refining reference margin has averaged USD 1.5–2.0/bbl.

The refining margins and shipping freights are exposed to the US dollar 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 by the forward hedging policy of the estimated US dollar sales margins. The US dollar/euro exchange rate has been hedged at less attractive levels than in 2004.

In 2004, the euro exchange rate against the US dollar was on average 1.2474 (1.1346). At the end of December, the exchange rate was 1.3621 (1.2630).

In 2004, the average price for Brent crude oil was USD 38.2 (28.8)/bbl. In January 2005, the average price was USD 45/bbl while the International Petroleum Exchange's Brent futures for the balance of the year 2005 were at the level of USD 44/bbl at the end of January. The price of crude oil has an impact on the results of Oil Refining through inventory gains and losses. The increasing crude price during 2004 led to considerable inventory gains of EUR 74 (13) million.

In 2004, Fortum's premium margin over the international Brent complex refining reference margin was clearly higher than the average of some USD 2/bbl in the last few years. Fortum's premium margin is expected to remain at the levels of previous years. During 2004, the average price difference between sweet (low in sulphur) North Sea crude oils and the sour Russian type crude oils increased to almost USD 4/bbl, clearly up from the less than USD 2/bbl in the previous years.

The next major maintenance shutdown at the Porvoo refinery is planned to take place in the autumn of 2005 and to last five weeks.

In 2005, capital expenditure is expected to be over EUR 500 million, which includes approximately EUR 300 million to increase the sulphur-free diesel production capacity at the Porvoo refinery.

Tanker freight futures indicate that rate levels for the first quarter 2005 will decrease from the fourth quarter 2004 levels but are still expected to be better than long-term average levels. Due to demand for ice-classed tonnage, the winter season is usually most profitable for Shipping.

During 2004, the financial performance of the oil businesses was exceptional, driven by excellent refining margins and good availability of Fortum Oil refineries. The results were also lifted by inventory gains due to the increasing trend in the crude oil price during 2004.

Dividend policy

Following the separation of the oil businesses – subject to a decision of the Annual General Meeting – Fortum will become a pure Power and Heat company. The Board of Directors has reviewed the company's stated dividend policy against this background.

Fortum Corporation's dividend policy following the separation of the oil businesses states that the company aims at paying a dividend which corresponds to a payout ratio of 50% to 60% on the average.

Transition to International Financial Reporting Standards (IFRS) in 2005

Introduction

Fortum will adopt the International Financial Reporting Standards (IFRS) starting 1 January 2005. The date of transition from Finnish GAAP (FAS) to IFRS is 1 January 2004. The first interim report under IFRS will be published 3 May 2005.

The purpose of this IFRS summary is to give an overview of the impact of the transition and to describe the effects of those IFRS accounting principles and rules that will have a material impact on the consolidated income statement and certain key ratios. The IFRS financial information presented in this summary may require adjustments before its inclusion as comparative information in the Fortum's first set of IFRS financial statements for the year ended 31 December 2005 due to the ongoing changes in IFRS which might have an effect on the accounts of the companies applying IFRS from 2005.

In March 2005 Fortum will provide a separate detailed disclosure on the transition to IFRS including the adjusted 2004 quarterly income statement, balance sheet, cash flow, key ratios and segment information as well as reconciliations of equity and net profit.

Fortum's IFRS project

In order to evaluate the impact of the transition to IFRS, Fortum established a project in the autumn 2002. The IFRS project organisation included participants from corporate center as well as from all business units. The IFRS project worked under the leadership of a steering committee, the Chief Financial Officer acting as a chairman. The auditors of Fortum have assisted the different sub-project groups as well as taken part in the work of steering committee. The results of the project have been communicated to the Corporate Executive Committee and the Audit Committee on a continuous basis.

The main impacts will result from the changes in the recognition and measurement principles of financial instruments, the recognition of assets and provisions in relation to asset retirement obligations and disposal of spent fuel regarding the nuclear power plants, differences in the classification of leasing arrangements compared to FAS and from the changes in the accounting for pension obligations.

In the IFRS transition Fortum has elected to apply exemptions allowed in the First-Time Adoption standard (IFRS 1). The most important exemption elected is concerning business combinations that have taken place before the date of transition to IFRS. Fortum will keep the same classification and recognition of assets and liabilities as in its FAS financial statements. This means that acquisitions made before 1 January 2004 are not restated. Impairment tests have been performed continuously and no impairment charges have been recognised in the IFRS opening balance sheet.

Fortum has chosen to apply IAS 32 and 39 standards regarding financial instruments also for the comparison year 2004.

Fortum Group 2004

The preliminary impact of the transition to IFRS on the Fortum Group's Income Statement and key ratios

Consolidated income statement

EUR million	31 Dec 2004	Nuclear related assets and provisions	Financial instruments	Leasing	Employee benefits	Other IFRS impacts	Total IFRS impact	IFRS 2004**)
Net sales	11,665			-6			-6	11,659
Other operating income	121		29	6	1		36	157
Materials and services	-7,861						-	-7,861
Employee benefit costs	-684				23	-12	11	-673
Depreciation, amortisation and impairment charges	-511	2		-3		-15	-16	-527
Other operating expenses	-886	5		9		33	47	-839
Operating profit	1,844	7	29	6	24	6	72	1,916
Share of profits of associated companies and joint ventures *)	70	-2				-20	-22	48
Finance costs - net	-259	-8	-10	7	4	2	-5	-264
Profit before taxes	1,655	-3	19	13	28	-12	45	1,700
Income taxes	-397						-11	-408
Profit for the year	1,258						34	1,292
Attributable to:								
Equity holders of the Company	1,227						32	1,259
Minority interest	31						2	33
	1,258						34	1,292

*) Share of profits of associated companies and joint ventures is included in operating profit in FAS

**) Audited figures

Earnings per share for profit attributable to the equity holders of the company during the year (in EUR per share)

	31 Dec 2004	IFRS 2004
Basic	1.44	1.48
Diluted	1.42	1.46
Average number of shares, 1,000 shares	852,625	
Diluted adjusted average number of shares, 1,000 shares	861,772	

Key ratios

EUR million	31 Dec 2003	Nuclear related assets and provisions	Financial instruments	Leasing	Employee benefits	Other IFRS impacts	Total IFRS impact	IFRS 2003
Capital employed	12,704	39	-55	155	7	-35	111	12,815
Interest-bearing net debt	5,626		98	149		-1	246	5,872
Total equity including minority interest	6,638	39	-153	6	7	-28	-129	6,509
of which minority interest	232	1	-101			-12	-112	120

Key ratios

EUR million	31 Dec 2004	Nuclear related assets and provisions	Financial instruments	Leasing	Employee benefits impacts	Other IFRS impact	Total IFRS	IFRS 2004
Capital employed	12,697	38	35	118	28	-26	193	12,890
Interest-bearing net debt	4,896		96	102	1	199	5,095	
Total equity including minority interest	7,655	38	-61	16	28	-26	-5	7,650
of which minority interest	261	1	-100		-12	-111	150	
Return on capital employed, %	15,6							15.8
Return on shareholders' equity, %	17,6							18.2
Gearing, %	64							67

Assets and liabilities related to decommissioning of nuclear power plants and the disposal of spent fuel

Fortum owns Loviisa nuclear power plant in Finland. The nuclear liability and Fortum's share in the Nuclear Waste Fund related to the Loviisa power plant are under FAS presented in the note Contingent liabilities in the financial statements. The nuclear liability is calculated according to the Nuclear Energy Act in Finland. That calculation does not take into account the effect of discounting the future liability. The paid annual fee to the Nuclear Waste Fund (due to the change in the nuclear liability, the share of profit of the Nuclear Waste Fund and incurred costs of taken actions) is recorded in the income statement. The nuclear liability related to Loviisa nuclear power plant is fully covered in the Nuclear Waste Fund.

Under IFRS, Fortum's part of the Nuclear Waste Fund and the related nuclear liability are presented gross as non-current interest-bearing assets and provisions. Fortum's share in the Nuclear Waste Fund has been accounted for according to IFRIC Draft Interpretation D4 which states that the fund assets are measured at the lower of fair value or the value of the related liabilities since Fortum does not have control or joint control over the Nuclear Waste Fund. Both Fortum's share of Nuclear Fund in assets and the total provisions amount to EUR 354 million in the opening balance January 1, 2004 and to EUR 401 million in the closing balance 31 December 2004. The asset and provisions are both included in the capital employed and the resulting net amount is then equal to zero (see below for 'Impact on key ratios').

The fair value of the provisions in IFRS is calculated by discounting the future cash flows, which are based on estimated future costs and actions already taken. The initial net present value of the provision for decommissioning (at the time of commissioning the nuclear power plant) has been included in the investment cost and depreciated over the estimated operating time of the nuclear station. The provision for spent fuel covers the future disposal costs of fuel used until the end of the accounting period. Costs for disposal of spent fuel are expensed during the operating time based on fuel usage.

The timing factor will be taken into consideration by accounting for interest expense related to discounting the nuclear provisions. The interest on the Nuclear Waste Fund assets is presented as financial income.

Fortum also has minority shareholdings in the associated nuclear power production companies Teollisuuden Voima Oy (TVO) in Finland and directly and indirectly OKG AB and Forsmarks Kraftgrupp AB in Sweden. Similar kinds of adjustments have been made through accounting of associates.

Financial Instruments

General principles

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of highly probable forecast transactions (cash flow hedges); (2) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (3) hedges of net investments in foreign operations.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss, for instance when the forecast sale that is hedged takes place.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If derivatives do not qualify for hedge accounting the change of fair value is recognised immediately in the income statement.

Electricity commodity derivatives

Electricity derivatives are mainly used to hedge future cash flows of electricity sales (Power Generation and Heat) to Nord Pool and purchases (Markets and Distribution) from Nord Pool or other sources. Regarding electricity commodity derivatives, hedge accounting is applied for most of the cash flow hedges to decrease the volatility in the income statement however creating volatility in equity. Forecasted underlying physical electricity deliveries, i.e. sales or purchases are not recorded until the delivery period.

Total volatility in operating profit caused by electricity derivatives on the Group level amounted to EUR 12 million in 2004. Some of the contracts for the years 2004–2007 entered into during 2003 and for which hedge accounting was not applied to caused some volatility, EUR 11 million in 2004, as the changes in the fair values are recognised in income statement. To a very large extent contracts entered into during 2004 and onwards will have a hedge accounting status.

Oil commodity derivatives

Oil derivatives entered into to hedge price risk are economical hedges and they do not qualify for hedge accounting under IAS 39. All fair value changes, EUR 29 million in 2004, are recognised in the operating profit.

Treasury derivatives (foreign exchange and interest rate derivatives)

Foreign exchange derivatives are used for hedging forecast cash flows of the sales and purchases, assets and liabilities in the balance sheet and net investments in foreign operations.

During 2004 hedge accounting was applied to all Oil cash flow hedges and partly to Power and Heat cash flow hedges (Power Generation and Heat) to decrease the volatility in operating profit in the income statement. The volatility from foreign exchange derivatives hedging future cash flows was EUR -6 million in operating profit for those hedges for which hedge accounting was not applied during 2004.

The Group has chosen not to apply hedge accounting for foreign exchange derivatives hedging balance sheet items. A minor volatility in financial items is caused by the forward points of these hedges. The cross currency and interest rate derivatives maturing in 2004–2011 entered into earlier do not qualify for hedge accounting. A major part of these swaps are maturing during 2005–2006, and are thus expected to create less volatility in the coming years. However, fair value hedges of issued bonds in 2003 qualify for hedge accounting. Volatility in financial items was EUR -10 million during 2004.

Net investments in foreign subsidiaries are hedged according to the approved Treasury policy. In IFRS, as in FAS, gains and losses on net investment are recognised in the equity.

Minority preference shares with option agreement

Fortum owns 10.1% of the shares in Nybroviken Kraft AB Group (NYKAB) (which represents 52.9% of the votes). NYKAB is consolidated as a subsidiary in Fortum's consolidated accounts. NYKAB owns hydroelectric power generating assets. Fortum manages these power assets by agreement and utilises all the power produced. Fortum is entitled to buy the minority preference shares of NYKAB through option agreements. According to the option agreements the repurchase may take place in 2007, 2011 or 2015 at a price in accordance with an agreed formula. The minority interest accounted for in Fortum represents the nominal amount of the minority preference shares.

According to IAS 32 and 39 the minority interest referring to the preference shares is classified as an interest-bearing liability and the difference between the estimated value based on the option formula and the capital amount of the interest-bearing liability is presented as accrued interest liability. Changes in the estimated value based on the option formula are accounted for as interest costs.

Leasing

The classification criteria when considering whether a lease arrangement is an operating lease or financial lease are different under IFRS than under FAS.

In Fortum this means that some lease arrangements, where Fortum is the lessee are reclassified to be financial leases. The liabilities of these agreements that have previously been reported as contingent liabilities are under IFRS included in the balance sheet. The resulting increase in the interest-bearing liabilities at year-end 2004 is EUR 102 million. The main part of this amount relates to Shipping leases.

In some customer contracts in Heat Fortum also acts as a lessor. Fortum has evaluated customer contracts against the criteria in IFRIC D4 (leasing). A part of these contracts is classified as financial leases. In the balance sheet the effect will be seen mainly as a reclassification between interest-bearing receivables and tangible assets.

Employee benefits

Fortum has various pension plans in accordance with local practices in the countries where it operates. Under FAS, the Group's pension obligations have been reported according to local regulations. In IFRS financial statements, pension obligations are treated in accordance with IAS 19 Employee Benefit and all accumulated actuarial gains and losses related to defined benefit plans are recognised in the balance sheet of the transition date as allowed by IFRS 1. The interest component is included in the pension costs in the income statement.

Major impact from the transition to IFRS is due to the accounting for Finnish statutory employment pension scheme (TEL), which is in Fortum covered partly in insurance companies and partly in pension funds.

In the IFRS transition balance sheet 1 January 2004 the impact of the Finnish pensions covered by pension funds was some EUR 40 million which resulted from the fact that the fair value of the assets of the Fortum pension funds exceeded the obligations caused by different pension plans. This has been reported as other non-current assets. In addition an obligation of some EUR 30 million has been recognised in the provisions for the future disability pension component for the plans that are provided by insurance companies.

Due to changes approved by Finnish authorities in December 2004 TEL's disability pension component is accounted for as a defined contribution plan in the IFRS balance 31 December 2004 instead of defined benefit plan as in the IFRS transition balance sheet. This change will have a positive impact of some EUR 20 million before tax on the period's net profit. The rest of the total change in the income statement (some EUR 30 million) is due to positive development of the fair values of pension fund assets.

Other IFRS transition impacts

Other IFRS adjustments include for example:

- According to FAS accounting principles costs for major overhauls (mainly in Oil Refining) are accrued in advance of the shutdown and accounted for as a provision in the balance sheet. Under IFRS these costs are treated according to the asset component approach. The costs are capitalised when they occur and depreciated during the shutdown cycle.
- Fortum has elected to keep FAS revaluations net of cumulative depreciations of certain items of property, plant and equipment as deemed cost of property, plant and equipment. Adjustments are made retrospectively for depreciations following the underlying asset.
- According to FAS accounting principles connection fees have been recognised as revenue immediately. In IFRS connection fees regarding cooling will be deferred and recognised as revenue over the expected customer relationship period.
- The difference between the acquisition cost of shares in associated companies and Fortum 's part of the shareholders' equity at the time of acquisition, have been allocated to fixed assets at the time of acquisition to the extent that their fair value at the time exceeded the book value. In FAS the depreciation of these fair value adjustments has been presented in Other expenses. According to IFRS these depreciations, EUR 20 million, have been reclassified to Share of profit (loss) of associates and joint ventures.
- The tax expense reported in the income statement has been affected by a positive one-time adjustment of EUR 6 million concerning the change in the corporate tax rate in Finland from 29% to 26% from 2005 onwards.

Impact on certain key ratios

Capital employed

The IFRS adjustments increase the capital employed in Fortum. The changes in accounting for certain lease agreements are the main reason to the change in the capital employed being an increase of EUR 111 million in the opening balance and an increase of EUR 193 million in the closing balance 2004. The provisions for decommissioning and the provision for spent fuel regarding nuclear power assets have been included in the capital employed. The financial costs associated with these provisions have also been included when calculating return on the capital employed.

Interest-bearing net debt

Net debt increases under IFRS with EUR 246 million in the opening balance and with EUR 199 million in the closing balance 2004. The increase is mainly due to the financial leases (oil tankers) which are now included in the balance sheet and to the reclassification of the minority shareholding in NYKAB to interest-bearing liability.

According to IFRS the nuclear liabilities and Fortum's part of the nuclear waste fund are presented gross in the balance sheet. The fund is fully covered and the net of Fortum' share of fund assets recorded in the balance sheet and the related provisions amount to zero so the indebtedness of Fortum is not effected. Neither the interest-bearing provisions related to the nuclear obligations nor the interest-bearing non current are taken into account when calculating net debt.

Total equity including minority interest

The net effect of the IFRS adjustments to total equity is is EUR -5 million at year-end 2004. In the opening balance this effect amounts to EUR -129 million. The change is mainly due to the changes in fair value of financial instruments which qualify for hedge accounting.

Key ratios

Return on capital employed and return on equity are slightly improving when including the 2004 IFRS adjustments to the underlying profit and balance sheet items. Gearing is increasing from 64% to 67%.

Consolidated income statement

EUR million	Note	2004	2003
Net sales	2, 3, 4	11,665	11,392
Share of profits of associated companies	5	70	41
Other operating income	6	121	151
Operating expenses	8		
Change in product inventories		21	8
Materials and services		-7,882	-8,054
Personnel expenses		-684	-654
Depreciation, amortisation and write-downs	7	-511	-538
Other operating expenses	11	-886	-926
Operating profit		1,914	1,420
Financial income and expenses	9	-259	-236
Profit before taxes		1,655	1,184
Income taxes	10	-397	-325
Minority interests		-31	-90
Net profit for the period		1,227	769
Earnings per share			
Basic earnings per share, EUR		1.44	0.91
Diluted earnings per share, EUR		1.42	0.90

Consolidated balance sheet

EUR million	Note	2004	2003
ASSETS			
Fixed assets and other long-term investments	12, 13, 14		
Intangible assets		112	146
Tangible assets		11,824	11,632
Other long-term investments		2,662	2,394
		14,598	14,172
Current assets			
Inventories	15	659	551
Trade receivables		1,048	951
Short-term receivables	16, 17	253	449
Cash and cash equivalents		146	439
		2,106	2,390
		16,704	16,562
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholders' equity	18		
Share capital		2,948	2,886
Share premium		75	41
Retained earnings		3,144	2,710
Net profit for the period		1,227	769
		7,394	6,406
Minority interests		261	232
Provisions for liabilities and charges	19	237	207
Deferred tax liabilities	20	1,842	1,843
Liabilities	21, 22		
Long-term liabilities			
Interest-bearing		4,257	4,840
Interest-free		359	346
		4,616	5,186
Short-term liabilities			
Interest-bearing		785	1,225
Interest-free		1,569	1,463
		2,354	2,688
		16,704	16,562

Consolidated cash flow statement

EUR million	2004	2003
Operating activities		
Profit before taxes	1,655	1,184
Depreciation, amortisation and write-downs	511	538
Other non-cash flow income and expenses	-21	-38
Financial income and expenses	259	236
Divesting activities, net	-26	-53
Operating profit before change in working capital	2,378	1,867
Change in working capital		
Decrease (+)/increase (-) in interest-free trade and other short-term receivables	-50	502
Decrease (+)/increase (-) in inventories	-112	-53
Decrease (-)/increase (+) in interest-free liabilities	61	-339
Change in working capital	-101	110
Funds generated from operations	2,277	1,977
Interest and other financial expenses paid, net	-370	-220
Dividends received	47	37
Interest and other financial income	45	66
Income taxes paid	-319	-376
Realised foreign exchange gains and losses	68	93
Financial items and taxes total	-529	-400
Net cash from operating activities	1,748	1,577
Investing activities		
Capital expenditures	-651	-550
Proceeds from sales of fixed assets	89	142
Acquisition of shares in subsidiaries net of cash acquired	-14	-193
Investments in shares in associated companies	-168	-350
Investments in other shares	-	-27
Proceeds from sales of shares in subsidiaries net of cash disposed	12	1,213
Proceeds from sales of shares in associated companies	6	5
Proceeds from sales of other shares	5	9
Change in other investments, increase (-), decrease (+)	-17	-67
	-738	182
Cash flow before financing activities	1,010	1,759
Financing activities		
Payment of (-)/proceeds from (+) short-term borrowings	-489	-233
Proceeds from long-term liabilities	319	1,622
Payments of long-term liabilities	-870	-1,788
Dividends paid	-359	-264
Proceeds from issuance of common stock	95	22
Other financial activities *)	1	-1,267
Cash flow from financial activities	-1,303	-1,908
Net increase (+)/decrease (-) in cash and marketable securities	-293	-149
Cash and marketable securities at the beginning of the period	439	592
Foreign exchange adjustment	-	-4
	439	588
Cash and marketable securities at the end of the period	146	439
Net increase (+)/decrease (-) in cash and marketable securities	-293	-149

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

Notes to the Financial Statements

1. Accounting policies and principles

Fortum's financial statements are prepared in accordance with Finnish Generally Accepted Accounting Principles (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 to the provision of a 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 as well as Fortum Heat 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, Fortum Oil and Fortum Heat 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 the 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.

Inter-group 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.

Fortum owns 10.1% of the shares in Nybroviken Kraft AB Group (NYKAB), which represents 52.9% of the votes. NYKAB is consolidated as a subsidiary in Fortum's consolidated accounts. NYKAB owns hydroelectric power generating assets. Fortum manages these power assets by agreement and utilises all the power they produce. Fortum is entitled to buy the minority preference shares of NYKAB through option agreements. According to the option agreements the repurchase may take place in 2007, 2011 or 2015 at a price in accordance with an agreed formula. The minority interest accounted for in Fortum represents the nominal amount of the minority preference shares.

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. If the information is not available the share of the net profit of certain associated companies is included in the consolidated accounts based on the previous quarterly information.

Joint ventures are companies for which Fortum exercises joint control together with an outside party. Joint ventures have been consolidated using the equity method. In the establishment where Fortum has a contractual arrangement which includes jointly controlled assets, Fortum applies the proportionate method. SeverTEK ZAO reports its figures to Fortum according to US GAAP.

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.

Netting of external electricity sales

As from 1 January 2004 Fortum has replaced its physical electricity transactions between segments with transactions against Nord Pool. The hourly sales and purchases with Nord Pool are netted on Group level and posted either as revenue or cost, according to whether Fortum is a net seller or net buyer during any particular hour.

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 euro area 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 Group enters into derivative contracts mainly for hedging electricity and oil price, foreign exchange and interest rate exposures.

Electricity and oil price derivatives hedging future cash flow are booked once the underlying exposure occurs. Unrealised losses on trading deals are booked immediately, but gains on electricity and oil price trading derivatives are booked only at maturity or when the open exposure of the derivative is closed with similar derivative.

Foreign exchange derivatives are booked in four different ways; future cash flow hedges, hedges of balance sheet items, net investment hedges and trading. Gains or losses on foreign exchange derivatives that hedge future cash flows are recognised once the underlying income or expense occurs. Derivatives used to hedge balance sheet items e.g. bank accounts, loans or receivables are valued employing the exchange rate quoted on the balance sheet date, and gains or losses are recognised in the income statement. Gains and losses on net investment hedges are booked against equity, net of tax effect. Foreign exchange gains on open trading deals are booked only at maturity, but losses are recognised immediately. The interest element on all forward contracts is accrued.

Option premiums are treated as advances paid or received until the option matures, and any losses on options entered into other than for hedging purposes are entered as an expense in the income statement.

Interest income or expense for derivatives used to hedge the interest rate risk exposure is accrued over the period to maturity and is recognised as an adjustment to the interest income or expense of the underlying liabilities.

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 peat reserves 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

Finance leases

Lease arrangements that qualify as financial leases under Finnish GAAP where Fortum is either the lessee or lessor have been accounted for as financial leases. When Fortum acts as a lessor the lease payments are entered into other operating expenses in the income statement on an accrual basis. When Fortum is a lessee the lease payments are allocated between interest-bearing receivable and finance income.

Investments

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

Treatment of nuclear asset and liabilities

Fortum owns the Loviisa nuclear power stations and has minority shareholdings in associated companies Teollisuuden Voima Oy (TVO) in Finland and directly and indirectly OKG AB and Forsmarks Kraftgrupp AB in Sweden.

In these companies, the shareholder has a right to receive its share of power and is responsible for its share of nuclear company's costs according to the articles of associations.

In Finland, TVO has external loans without shareholders' guarantees. In Sweden, Fortum has provided loans and guaranteed companies' external loans according to its shareholding. In addition, Fortum gives guarantees related to its share of uncovered nuclear waste liability.

The nuclear waste liability is calculated according to Nuclear Energy Act in Finland and Act on the Financing of

Future Expenses for Spent Nuclear Fuel etc. in Sweden. The nuclear waste liability covers all future nuclear waste management costs including decommissioning, spent fuel disposal costs and calculable risk margin, as if decommissioning would start at the end of each year. The Nuclear Waste Fund, supervised by the authorities, is collected to cover in full the nuclear waste liability during max 25 years. Thereafter the nuclear waste liability will change due to annual increase of spent fuel, possible changes in nuclear management plans and taken nuclear waste actions. The net change in the nuclear waste liability and the profit share of the Nuclear Waste Fund is covered by a fee paid (or received) by the nuclear licence holders.

An annual fee to Nuclear Waste Fund and the incurred costs related to nuclear actions are booked in the income statement. The nuclear waste liability and Fortum's share in Nuclear Waste Fund are presented in the notes. Guarantees are given to cover the difference between the nuclear waste liability and the share of Nuclear Waste Fund and additional security for unexpected events.

In Finland, licence holders or shareholders are allowed to borrow back 75% of their share in the Nuclear Waste Fund. A guarantee is provided against the loan.

Spent fuel disposal is managed by Posiva Oy in Finland and Svensk Kärnbränslehantering AB in Sweden both owned by nuclear companies.

Inventories

Inventories have been valued on the FIFO principle at the lower of direct acquisition cost or market value, taking into account the impact of possible hedging operations. In the case of some foreign subsidiaries, the acquisition cost also includes indirect expenses in line with the practice of the country concerned. Valuation differences do not have a material impact on the consolidated financial statements.

Net assets

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

Marketable securities

Marketable securities are short term investments in money market instruments which are valued at the lower of acquisition cost or market value

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 are recognised in accordance with the local regulations in each country. Statutory pension obligations in Finland are covered through a compulsory pension insurance policy or Group's own pension fund. Payments to Group's pension fund are recorded in the income statement in amounts determined by the pension fund according to the actuarial assumptions pursuant to the Finnish Employee's Pension Act. In Sweden main part of pension obligations are accrued and accounted for as provisions.

Sharebased compensation benefits

Social charges related to Fortum Corporation options have been entered as expense to the income statement in the accounting period during which the options have become exercisable. Costs related to the Fortum long-term incentive plans are accrued over the plan period and the related liability is booked to the balance sheet.

Change in tax rate

On 30 June 2004 the Finnish Parliament passed new tax laws that include, among other things, a reduction in the Finnish corporate income tax rate from 29 percent to 26 percent from the beginning of tax year 2005. The effect of the tax rate change affecting the deferred taxes has been booked as a tax reduction in the income statement and balance sheet.

Deferred tax liabilities and assets

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 and assets 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 be reasonably 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. Expenses for planned refineries' and power plants' maintenance and upgrade shutdowns are provided for during the shutdown cycle.

Exchange rates 2000–2004

The table below shows the most important exchange rates used in the financial statements during the years 2000–2004:

Exchange rates at the balance sheet date

	2000	2001	2002	2003	2004
USD	0,9305	0,8813	1,0487	1,2630	1,3621
GBP	0,6241	0,6085	0,6505	0,7048	0,7051
SEK	8,8313	9,3012	9,1528	9,0800	9,0206
NOK	8,2335	7,9515	7,2756	8,4141	8,2365

Average exchange rates over the period

	2000	2001	2002	2003	2004
USD	0,9236	0,8939	0,9420	1,1346	1,2474
GBP	0,6087	0,6196	0,6279	0,6901	0,6813
SEK	8,4805	9,2451	9,1442	9,1430	9,1203
NOK	8,1051	8,0532	7,5144	7,9801	8,3702

2. Information by segment

2004 EUR million	Net sales	Operating profit	Depreciation, amortisation and write-downs	Non-recurring items	Investments	Average number of employees
Power Generation	2,088	725	105	21	210	4,588
Heat	1,021	226	127	2	181	1,605
Distribution	707	258	133	1	106	995
Markets	1,387	26	16	-	6	682
Oil Refining	6,306	573	76	81	200	2,608
Oil Retail	2,374	48	30	6	36	1,041
Shipping and Other oil	339	107	12	10	77	609
Other operations	96	-49	12	3	17	731
Eliminations	-2,653	-	-	-	-	
Total	11,665	1,914	511	124	833	12,859

2003 EUR million	Net sales	Operating profit	Depreciation, amortisation and write-downs	Non-recurring items	Investments	Average number of employees
Power Generation	2,681	603	116	4	386	5,338
Heat	964	173	116	-3	158	1,430
Distribution	688	247	143	20	339	1,005
Markets	1,634	35	14	-	28	407
Oil Refining	5,693	281	80	14	97	2,722
Oil Retail	2,203	44	41	-9	36	1,014
Shipping and Other oil	308	79	14	10	71	606
Other operations	93	-42	14	24	21	821
Eliminations	-2,872	-	-	-	-	
Total	11,392	1,420	538	60	1,136	13,343

EUR million	2004 Net assets	Return on net assets (%)	2003 Net assets	Return on net assets (%)
Power Generation	6,258	11.6	6,391	9.5
Heat	2,502	9.2	2,466	7.3
Distribution	3,101	8.3	3,129	7.9
Markets	196	18.8	23	55.2
Oil Refining	1,266	50.4	1,003	26.2
Oil Retail	296	15.9	329	13.8
Shipping and Other oil	206	63.5	133	56.7

Notes to the income statement

EUR million	2004	2003
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	6	4

4. Net sales by market area

Finland	4,499	4,222
Sweden	3,301	2,650
Other Nordic countries	215	418
Other European countries	1,377	1,619
USA and Canada	1,790	1,460
Other international sales	483	1,023
Total	11,665	11,392

5. Share of profits (losses) of associated companies

Nynäs Petroleum Group	27	10
Gasum Group	13	14
Nova Naturgas AB	14	5
Fingrid Oyj	13	8
Other associated companies	3	4
Total	70	41

Undepreciated overvalues allocated to the fixed assets in connection with the acquisition of the associated companies amounted to EUR 377 (425) million.

6. Other operating income

Rental income	14	14
Gains on sales of fixed assets	36	75
Other	71	62
Total	121	151

7. Depreciation, amortisation and write-downs

Depreciation and amortisation according to the plan	505	524
Write-downs on fixed assets	6	14
Total	511	538

8. Other operating expenses

Change in product inventories	-21	-8
Materials and external services		
Materials and supplies		
Purchases	7,850	7,872
Change in inventories	-82	-16
External services	114	198
Personnel expenses		
Wages, salaries and remunerations	489	468
Other indirect employee costs		
Pension costs	70	81
Other indirect employee costs	125	105
Other operating expenses	886	926
Total	9,431	9,626

EUR million	2004	2003
Salaries and remunerations of managing directors and the members of the Boards		
Managing directors and members of the Boards	9	8

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
A loan for EUR 113 thousand has been issued to Group management. Loan is a constant payment loan with interest rate of 3.5%. Loan will be amortized twice a year and it is due in year 2009.

9. Financial income and expenses

Dividend income from other long-term investments	9	9
Other interest income	53	76
Other financial income	2	4
Exhange rate differences	-11	1
Interest expenses	-291	-320
Other financial expenses	-21	-6
Total	-259	-236

10. Income taxes

Taxes on regular business operations	397	325
Taxes for the period	404	329
Taxes for previous periods	10	14
Change in deferred taxes	-17	-18
Total	397	325

11. Auditors' fees

Audit fees	1	1
Other fees		
IFRS assignments	1	2
Other assignments	1	1
Total fees	3	4

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 intangible assets	Total
Acquisition cost as of 1 January 2004	135	80	-5	210	420
Exhange rate differences and other adjustments	-1	-	-	-	-1
Increases	3	-	-	29	32
Decreases	11	9	-	28	48
Transfer between categories	-79	-58	-	100	-37
Acquisition cost as of 31 December 2004	47	13	-5	311	366
Accumulated depreciation, amortisation and write-downs as of 1 January 2004	90	41	-5	148	274
Exhange rate differences and other adjustments	-	-1		-	-1
Accumulated depreciation, amortisation and write-downs of decrease and transfers	-56	-34	-	31	-59
Depreciation and amortisation for the period	10	1	-	25	36
Write-downs for the period	-	-	-	4	4
Accumulated depreciation, amortisation and write-downs as of 31 December 2004	44	7	-5	208	254
Balance sheet value as of 31 December 2004	3	6	-	103	112
Balance sheet value as of 31 December 2003	45	39	-	62	146

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 2004	3,096	2,934	10,968	265	425	17,688
Exchange rate differences and other adjustments	48	38	42	15	9	152
Increases	5	92	440	12	115	664
Decreases	3	127	81	20	8	239
Transfer between categories	86	-19	28	-	-58	37
Acquisition cost as of 31 December 2004	3,232	2,918	11,397	272	483	18,302
Accumulated depreciation, amortisation and write-downs as of 1 January 2004	2	1,309	4,666	155	-	6,132
Exchange rate differences and other adjustments	-1	-3	24	5	-	25
Accumulated depreciation, amortisation and write-downs of decreases and transfers	-	-12	-60	-4	-	-76
Depreciation and amortisation for the period	-	82	380	8	-	470
Write-downs for the period	-	1	-	-	-	1
Accumulated depreciation, amortisation and write-downs as of 31 December 2004	1	1,377	5,010	164	-	6,552
Revaluations	12	60	2	-	-	74
Balance sheet value as of 31 December 2004	3,243	1,601	6,389	108	483	11,824
Balance sheet value as of 31 December 2003	3,107	1,686	6,304	110	425	11,632

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 2004	1,215	525	127	107	1,974
Exchange rate differences and other adjustments	48	6	-2	3	55
Increases	121	102	-	17	240
Decreases	6	26	5	46	83
Transfers between categories	46	-	-46	-	-
Acquisition cost as of 31 December 2004	1,424	607	74	81	2,186
Accumulated write-downs as of 1 January 2004	4	-	3	-	7
Accumulated write-downs as of 31 December 2004	4	-	3	-	7
Retained earnings in associated companies	321	-	-	-	321
Balance sheet value as of 31 December 2004	1,741	607	71	81	2,500
Balance sheet value as of 31 December 2003	1,548	525	124	107	2,304

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 4 (52) million of quoted shares, the market value of which was EUR 7 (89) million. Shares in associated companies include EUR 419 (262) million of quoted shares, the market value of which was EUR 478 (277) million.

13. Capitalised interest expenses

EUR million	2004	2003
Machinery and equipment	12	13
Advances paid and construction in progress	-	1
Total	12	14

There were no capitalised interest expenses in 2004 and 2003.

14. Revaluation

EUR million	Revaluations as of 1 January	Increases	Decreases	Revaluations as of 31 December
Land areas	12	-	-	12
Buildings	61	-	1	60
Machinery and equipment	2	-	-	2
Total	75	-	1	74

Revaluations are based on current replacement cost.

Notes to the balance sheet

EUR million	2004	2003
15. Inventories		
Raw materials and supplies	421	336
Work in progress	140	83
Products/finished goods	75	114
Other inventories	21	11
Advanced paid	2	7
Total	659	551

Difference between replacement value and book value of inventories is EUR 40 (36) million.

16. Short-term receivables		
Trade receivables	1,033	936
Receivables from associated companies		
Trade receivables	16	15
Other receivables	14	7
Accrued income and prepaid expenses	20	13
Total	50	35
Other receivables	135	299
Accrued income and prepaid expenses	83	130
Total	1,301	1,400
Short-term accrued income and prepaid expenses		
Accrued interests	22	18
Accrued taxes	24	38
Other	58	87
Total	104	143

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

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.

Prepayments and accrued income	5	4
Deductions in inventories and financial assets	5	4
Advance payments received	2	-
Deductions in liabilities	2	-

EUR million	2004	2003
18. Changes in shareholders' equity		
Share capital as of 1 January	2,886	2,876
Options registered	62	10
Share capital as of 31 December	2,948	2,886
Share issue as of 1 January	5	-
Transfer from share issue	-5	-
Options exercised	13	5
Share issue as of 31 December	13	5
Share premium as of 1 January	36	62
Transfer from restricted equity	-	-33
Options registered	26	7
Share premium as of 31 December	62	36
Reserve fund as of 1 January	-	148
Transfer from restricted equity	-	-148
Reserve fund as of 31 December	-	-
Retained earnings as of 1 January	3,478	2,810
Dividends paid	-359	-264
Transfer from resticted equity	-	181
Translation differences and other changes	25	-18
Net profit for the period	1,227	769
Retained earnings as of 31 December	4,371	3,478
Distributable funds as of 31 December	4,371	3,478

19. Provisions for liabilities and charges		
Provisions for pensions	124	124
Other provisions		
Maintenance and upgrade shutdown	49	37
Dismantling provisions of terminals	7	1
Provisions for impregnated poles	16	-
EHS provision	8	7
Other provisions	33	38
Total	237	207

20. Deferred taxes

Change in deferred taxes		
Appropriations	106	145
Consolidation entries	24	-67
Separate financial statements of subsidiaries	-147	-96
Total	-17	-18
Deferred tax assets		
Consolidation entries	38	15
Separate financial statements of subsidiaries	71	15
Total	109	30
Deferred tax liabilities		
Appropriations	1,263	1,131
Consolidation entries	476	652
Separate financial statements of subsidiaries	103	60
Total	1,842	1,843

EUR million	2004	2003
21. Liabilities		
Long-term liabilities		
Bonds	2,400	2,786
Loans from financial institutions	873	1,089
Pension loans	88	91
Other long-term liabilities to associated companies	192	181
Other long-term liabilities	1,063	1,039
Total	4,616	5,186
of which interest-bearing	4,257	4,840
Short-term liabilities		
Bonds	332	308
Loans from financial institutions	19	12
Trade payables	543	449
Liabilities to associated companies		
Trade payables	29	37
Other short-term liabilities	36	15
Accruals and deferred income	3	4
Total	68	56
Other short-term liabilities	1,001	1,376
Accruals and deferred income	391	487
Total	2,354	2,688
of which interest-bearing	785	1,225
Interest-bearing and interest-free liabilities		
Interest-bearing liabilities	5,042	6,065
Interest-free liabilities	1,928	1,809
Total	6,970	7,874
Maturity of long-term liabilities		
Year		
2005	785	
2006	1,055	
2007	304	
2008	590	
2009	50	
2010 and later	2,258	
Total	5,042	
Liabilities due after five years		
Bonds	1,039	1,046
Loans from financial institutions	448	265
Pension loans	88	91
Other long-term liabilities	683	656
Total	2,258	2,058
Short-term accruals and deferred income		
Accrued interests	153	215
Accrued taxes	116	27
Wages, salaries and other indirect employee costs	88	105
Other short-term accruals and deferred income	37	144
Total	394	491

Issuing year	Maturity year	2004	2003
22. Bonds, debentures and other notes			
Fortum Oyj			
1999 EUR loan	2006	499	499
2000 EUR loan	2005	250	250
2001 EUR loan	2008	498	498
2000 EUR loan	2007	10	10
2000 EUR loan	2008	20	20
2000 SEK loan	2008	22	22
2003 SEK loan	2006	166	165
2003 EUR loan	2010	498	498
2003 EUR loan	2013	498	498
Fortum Power and Heat Oy			
1991 USD loan	2002–2011	43	49
1991 USD loan	2011	31	31
1992 USD loan	2005	39	38
1993 USD loan	2007	48	48
Fortum Power and Heat AB			
1999 SEK loan	2004	-	6
1999 SEK loan	2004	-	76
1999 SEK loan	2004	-	9
1999 SEK loan	2004	-	32
1999 SEK loan	2005	6	6
1999 SEK loan	2004	-	39
1999 SEK loan	2004	-	33
1999 SEK loan	2004	-	11
1999 SEK loan	2004	-	11
1999 SEK loan	2004	-	4
1999 SEK loan	2004	-	11
2000 SEK loan	2004	-	11
2000 SEK loan	2006	44	44
2000 SEK loan	2004	-	11
2000 SEK loan	2004	-	11
AB Aroskraft			
1994 SEK loan	2004	-	2
Mellansvensk Kraftgrupp AB			
1998 SEK loan	2005	6	6
1998 SEK loan	2005	26	25
1998 SEK loan	2006	2	3
2001 SEK loan	2004	-	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
Total		2,732	3,094

Notes, contingent liabilities

23. Contingent liabilities

EUR million	2004		2003	
Collaterals and other undertakings on own behalf	Debt	Value of collateral	Debt	Value of collateral
Own debt secured by pledged assets				
Loans from financial institutions	228	79	232	82
Pension loans	4	5	5	7
Trade payables	-	2	-	1
Other liabilities	436	74	420	59
Total	668	160	657	149
Own debt secured by real estate mortgages				
Bonds	-	20	-	-
Loans from financial institutions	5	6	1	5
Pension loans	46	42	42	42
Trade payables	-	27	-	27
Other liabilities	-	18	-	17
Total	51	113	43	91
Collaterals for other own commitments				
Pledges		2		-
Real estate mortgages		57		55
Total		59		55
Collaterals given on behalf of associated companies				
Pledges		9		9
Real estate mortgages		3		3
Total		12		12
Collaterals total		344		307
Liability for nuclear waste disposal		596		570
Share of reserves in the Nuclear Waste Disposal Fund		-581		-560
Liabilities in the balance sheet		15 *)		10 *)

*) Mortgaged bearer papers as security

	2004	2003
Other contingent liabilities		
Operating leasing liabilities		
Due within a year	78	75
Due after a year	99	103
Total	177	178
Sale and leaseback	-	8
Other contingent liabilities given on own behalf	76	101
Other undertakings given on behalf associated companies		
Guarantees	335	562
Other contingent liabilities	182	182
Total	517	744
Other contingent liabilities given on behalf of others		
Guarantees	3	15
Other contingent liabilties	5	7
Total	8	22
Other contingent liabilities total	778	1,053

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

EUR million	2004			2003		
Interest and currency derivatives	Contract or notional value	Fair value	Not recognised as an income	Contract or notional value	Fair value	Not recognised as an income
Forward rate contracts	-	-	-	330	-	-
Interest rate swaps	3,435	-45	-18	4,253	-97	-69
Forward foreign exchange contracts [1)]	8,176	-32	-5	8,396	129	49
Currency swaps	310	-23	-6	333	-3	-1
Purchased currency options	438	17	17	-	-	-
Written currency options	438	6	6	-	-	-

1) Includes contracts used for equity hedging.

Oil futures and forward instruments	Volume 1,000 bbl	Fair value	Not recognised as an income	Volume 1,000 bbl	Fair value	Not recognised as an income
Sales contracts	44,588	26	26	22,304	-11	-11
Purchase contracts	70,258	7	7	37,239	14	14
Purhased options	4,797	2	2	150	-	-
Written options	6,784	-2	-2	600	-	-

Electricity derivatives	Volume TWh	Fair value	Not recognised as an income	Volume TWh	Fair value	Not recognised as an income
Sales contracts	70	204	186	58	-100	-65
Purchase contracts	42	-53	-39	50	136	101
Purhased options	1	-1	-	-	-	-
Written options	1	-	-	-	-	-

Natural gas derivatives	Volume Mill.th.	Fair value	Not recognised as an income	Volume Mill.th.	Fair value	Not recognised as an income
Sales contracts	-	-	-	8	-	-
Purchase contracts	-	-	-	8	-	-

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. Financing, interest and currency rate 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 financial risks. A specific financial risk policy, in line with the Corporate Financial Risk Policy, is submitted to the CEO for approval by each business unit.

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

The corporate risk management is organised within the Corporate Finance unit, headed by the Chief Financial Officer. Risk control functions at the business unit level are responsible for reporting their risks to the Corporate Risk Management function where Group-wide consolidation and analysis is performed. The Chief Financial Officer reports the Group's consolidated risk exposure to the CEO and the Board of Directors.

Fortum steers the Group through business units, which each have their own targets defined by Group management. The risk management strategies employed to achieve these targets are decided upon within each business unit. However, in order to ensure an efficient and harmonised financial risk management process within the Group, there is a need for a co-operation between the business units and corporate functions. This process is facilitated through a Corporate Risk Committee, headed by the Chief Financial Officer, which meets on a regular basis to discuss risk related issues from a corporate perspective.

Financial risk management is a core element of Fortum's business operations, and has continued to be improved during the past year. Focus has been on harmonising a market risk quantification model across different products and business units. 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 volume risks

Fortum manages risks in assets for power generation separately from customer sales. Price risks in power generation are managed by entering into electricity derivatives and sales contracts in order to hedge the cash flows generated by production assets. The objective of hedging is to reduce the effect of electricity price volatility on Fortum's earnings and to secure the achievement of defined targets. Strategies for achieving these targets are defined for several years, and are continuously evaluated as market prices or hydrological and other situations change.

The effects of potential changes in electricity prices and volumes on Fortum's earnings are monitored on a continuous basis. The hedge ratio on 31 December 2004 was approximately 65% for the year 2005. Assuming no changes in generation volumes or cost structure, a EUR 1/MWh change in the market price of electricity would therefore affect Fortum's 2005 pre-tax earnings by approximately EUR 20 million.

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. Cash flows generated from customer sales contracts are subject to uncertainty because 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.

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. 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 2005 pre-tax earnings by approximately EUR 10 million.

The oil refining business is exposed to changes in refining margins, which affect cash flow generation. At the end of 2004, the oil refining position was basically unhedged, and a change of USD 0.1/bbl in the company's total refining margin would affect Fortum's 2005 pre-tax earnings by approximately EUR 10 million.

Freight rate risks

Changes in freight rates affect Fortum's shipping and oil refining businesses. Freight rates can be volatile, and high prices, especially for Russian crude freights, are beneficial for Fortum. The freight rate market in the Baltic region is relatively undeveloped, and due to this, hedging of freight rates is difficult. A change of 10 Worldscale points in freight rates would affect Fortum's 2005 pre-tax earnings by approximately EUR 10 million.

Liquidity and refinancing risks

Financing and liquidity management within the Group are managed centrally at parent company level by Group Treasury. External loan financing is primarly raised on parent company level. The operating companies are primarily financed via internal loans from the parent company and excess cash positions are centralised to the parent company either through internal cash-pools arrangements or by internal deposits. See Financing, page 77.

Fortum has received credit ratings by Standard and Poor's (BBB+, stable outlook) and Moody's (Baa1, stable outlook).

Counterparty risks

Counterparty risks arise when entering into external contracts, and occur in all normal business operations. 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 collateral. Especially important are the counterparty risks that arise in conjunction with hedging market risks through derivatives contracts. Exposures in these contracts are often volatile since the market prices move on a daily basis. The majority of commodity derivatives are traded through exchanges such as Nord Pool for electricity derivatives, but there are a number of contracts which are entered into directly with other counterparties. It is therefore important at all times for Fortum to have control 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. Corporate policies set a Group-wide limit to the maximum amount of exposure allowed with any single counterparty, and these limits are then delegated to the business unit level. The policies ensure that wholesale and retail sales are made to customers with an appropriate credit history. Cash and derivatives transactions are limited to high credit-quality companies in the financial or energy markets. Corporate Credit Control continuously monitors and reports counterpart exposures against the approved limits.

Financing

Fortum has a diversified loan portfolio primarily consisting of long-term bond financing but also a variety of other long- and short-term funding sources. As per year end the total interest bearing debt was EUR 5,042 million.

In 2005 EUR 785 million of the Group's interest bearing debt matures, and the majority of the remaining debt matures gradually over the next ten years. As per year end the average life time of the total loan portfolio was approximately 5 years.

In order to secure liquidity and financing at all times, Fortum has the policy to cover the coming 12 months of maturing debt by at least the same amount of undrawn committed credit facilities. As per year end the total amount of undrawn committed credit facilities was EUR 1,362 million. On top of the committed credit facilities Fortum had at year end access to EUR 3,025 million of uncommitted credit facilities.

Funding sources as per 31 December 2004

EUR million	Parent company	Group companies	Total Group
Bonds issued under EMTN Program	2,295	-	2,295
Other long term bonds	166	271	437
Loans from financial institutions	357	310	667
Other long term interest bearing debt	776	445	1,221
Total long term interest bearing debt *)	3,594	1,026	4,620
Commercial paper	343	-	343
Other short term interest bearing debt	53	26	79
Total short term interest bearing debt *)	396	26	422
Total interest bearing debt	3,990	1,052	5,042

*) Includes the current portion of the long-term interest-bearing liabilities.

Loan maturities and instalments per year

	EUR million
2005	785
2006	1,055
2007	304
2008	590
2009	50
2010 and later	2,258
Total	5,042

Major credit lines and debt programs as of 31 December 2004

EUR million	Total facility	Drawn amount	Undrawn amount
Committed credit lines			
EUR 1,200 million syndicated credit facility	1,200	-	1,200
Bilateral overdraft facilities	214	52	162
Total committed credit lines	1,414	52	1,362
Debt programs			
Fortum Corporation, CP programme EUR 500 million	500	150	350
Fortum Corporation, CP programme SEK 5,000 million	554	193	361
Fortum Corporation, MTN programme SEK 7,000 million	776	166	610
Fortum Corporation, EMTN programme EUR 4,000 million	4,000	2,296	1,704
Total debt programs	5,830	2,805	3,025

Interest rate risks

Fortum's debt portfolio consists of loans based on fixed and floating rate basis, as well as interest rate derivatives (mainly interest rate swaps, cross currency interest rate swaps and forward rate agreements (FRAs)). According to the Group's Treasury Policy, the modified duration of the total interest bearing net debt (including interest rate derivatives) is allowed to vary between one and two years. As per year end the modified duration of the Fortum loans portfolio including interest rate derivatives was 1.3 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 2004 was EUR 69 million. The flow risk, calculated as the effect of an interest rate increase of one percentage point on the interest bearing net debt for the coming 12 months, was EUR 18 million.

Currency rate risks

Fortum has cash flows and investments in currencies other than EUR. 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 to some extent 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 are normally hedged for periods up to 12–18 months. Investments in foreign subsidiaries and associated companies (translation exposures) are hedged according to the approved Treasury policy.

Group Treasury's transaction exposure as of 31 December 2004

EUR million	Net position	Hedge	Open
SEK	4,204	4,205	+1
USD	659	660	+1
NOK	958	958	-
Other	128	127	-1
Total	5,949	5,950	1

Group Treasury's translation exposure as of 31 December 2004

EUR million	Investment	Hedge	Open	Hedge %
SEK	1,443	747	696	52
USD	12	9	3	75
GBP	36	18	18	50
CAD	79	55	24	70
Other	136	-	136	-
Total	1,706	829	877	49

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 stage where the decision is being considered by the Court. According to the company's senior management, the court ruling will not have any material impact on Fortum's results or financial position.

The Swedish Competition Authority has filed a case at the Stockholm District Court in December 2004 against AB Nynäs Petroleum, from which Fortum has a 50% shareholding. The case concerns alledged price fixing and market sharing and limitation and alledged abuse of a dominant position in Swedish bitumen markets. The amount of fines claimed from AB Nynäs Petroleum is SEK 205,000,000. Furthermore the European Commission is investigating alleged infringemets of article 81 EC regarding AB Nynäs Petroleum and its subsidiaries in Belgium, Netherlands and Spain. According to the company's senior management, the results of these proceedings will have no material adverse effect on Fortum's results or financial position.

Fortum has 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	Shares pcs	Group holding %		Nominal value 1,000 curr.	Book value 31 Dec 2004 EUR 1,000
Group shares (book value over EUR 2 million)						
Power Generation						
AB Aroskraft	Sweden	37,125	82.5	SEK	3,713	2,884
Brännälven Kraft AB	Sweden	26,805	35.4	SEK	6,701	26,938
Bullerforsens Kraft AB	Sweden	264,000	88.0	SEK	26,400	91,786
Fortum Energiantuotanto Oy	Finland	27,035	100.0	EUR	2,704	13,486
Fortum Energy Ltd	Great Britain	5,362,000	100.0	GBP	5,362	3,139
Fortum Gas Ltd	Great Britain	3,030,000	100.0	GBP	3,030	4,298
Fortum Generation AB	Sweden	88,311,286	100.0	SEK	441,556	2,136,908
Fortum Holding B.V.	The Netherlands	61,062	100.0	EUR	6,106	164,099
Fortum Holding Norway AS	Norway	6,326,000	100.0	NOK	632,600	152,380
Fortum Kraft AB	Sweden	100,000	100.0	SEK	100,000	128,284
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	17,759
Fortum Service AS	Norway	5,000	100.0	NOK	25,000	3,035
Fortum Service Deutschland GmbH	Germany	1	100.0	EUR	25	32,087
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	6,984
Fortum Sverige AB	Sweden	8,046,868	100.0	SEK	8,046,868	1,173,687
IVO Energy Limited	Great Britain	47,382,000	100.0	GBP	47,382	40,000
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	777,447
Kopparkraft Intressenter AB	Sweden	1,000,000	100.0	SEK	100,000	193,286
Kotkan Putkityö Oy	Finland	100	100.0	EUR	17	2,102
Ljunga Kraft AB	Sweden	10,177,625	100.0	SEK	284,974	187,701
Mellansvensk Kraftgrupp AB	Sweden	66,513	86.9	SEK	66,513	30,541
Nybroviken Kraft AB	Sweden	100,000	52.9	SEK	10,000	25,338
Parteboda Kraft AB	Sweden	1,000	52.9	SEK	100	35,579
Stockholm Energi Vattenkraft AB	Sweden	1,000	100.0	SEK	100	527,496
Uddeholm Kraft AB	Sweden	5,953,332	100.0	SEK	595,333	79,603
Voxnan Kraft AB	Sweden	1,000	52.9	SEK	100	142,917
Värmlandskraft OKG-delägarna AB	Sweden	308	73.3	SEK	308	10,094
Älvkraft i Värmland AB	Sweden	3,146,960	100.0	SEK	314,696	168,505
Heat						
AB Fortum Värme Holding samägt med Stockholms stad	Sweden	9,010	50.1	SEK	901	110,857
AB Fortum Värme samägt med Stockholms stad	Sweden	12,199,970	50.1	SEK	1,219,997	1,317,872
AS Fortum Tartu	Estonia	60,240	60.0	EEK	60,240	5,133
AS Tartu Keskkatlamaja	Estonia	150,000	60.0	EEK	150,000	4,876
Baerum Fjernvarme AS	Norway	70,000	100.0	NOK	70,000	22,381
Fortum Czestochowa S.A.	Poland	4,948,250	87.6	PLN	4,948	9,346
Fortum DZT S.A.	Poland	5,326	83.2	PLN	788	6,510
Fortum Heat AS	Norway	80,000	100.0	NOK	80,000	22,606
Fortum Lämpö Oy	Finland	2,000	100.0	EUR	1,682	8,399

	Domicile	Shares pcs	Group holding %		Nominal value 1,000 curr.	Book value 31 Dec 2004 EUR 1,000
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	3,129
Fortum Värme Nynäshamn AB	Sweden	2,000	100.0	SEK	2,000	2,106
Distribution						
Ekerö Energi AB	Sweden	19,799	81.7	SEK	1,287	25,880
Fortum Distribution AB	Sweden	30	100.0	SEK	300	798,173
Fortum Distribution AS	Norway	20,000	100.0	NOK	100,000	83,671
Fortum Distribution Ryssa AB	Sweden	1,000	100.0	SEK	100	22,949
Fortum Distribution Yngeredsfors AB	Sweden	800,000	100.0	SEK	80,000	215,461
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	253,992
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 Energy Securities AB	Sweden	53,168	100.0	SEK	53,168	3,877
Fortum Markets AB	Sweden	250,000	100.0	SEK	250,000	142,883
Fortum Markets Oy	Finland	20,520	100.0	EUR	20,520	84,361
Oil Refining						
Fortum Oil AB	Sweden	2,000,000	100.0	SEK	200,000	23,972
Fortum Oil Finance B.V	The Netherlands	26,088	100.0	EUR	26	15,763
Fortum Oil N.V.	Belgium	60,389	100.0	EUR	14,970	13,641
Neste MTBE S.A.	Portugal	60,000	100.0	EUR	3,000	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	31,336
Oil Retail						
AS Estonian Transoil	Estonia	400	100.0	EEK	400	3,766
Best Chain Oy	Finland	112,800	100.0	EUR	11,280	45,413
Fortum Oil Markets Oy	Finland	2,280	100.0	EUR	2,280	6,609
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 St. Petersburg OOO	Russia	10	100.0	RUR	1,052,821	58,427
SIA Neste Latvija	Latvia	180	100.0	LVL	11,318	2,450
Tehokaasu Oy	Finland	7,200	100.0	EUR	3,027	3,900
UAB Neste Lietuva	Lithuania	709,830	100.0	LTL	70,983	15,650
Shipping and other Oil						
Fortum Oil Insurance Ltd	Great Britain	2,000,000	100.0	EUR	2,000	2,000
Other operations						
Fortum Assets Oy	Finland	400,000	100.0	EUR	6,728	22,979
Fortum Finance B.V.	The Netherlands	237,001	100.0	EUR	107,546	134,209
Fortum Holding AB	Sweden	596,000	100.0	SEK	59,600	6,478
Fortum Investments Ltd	Ireland	3,091,001	100.0	USD	3,091	38,425
Fortum Power and Heat AB	Sweden	20,000,000	100.0	SEK	2,000,000	3,484,702

	Domicile	Shares pcs	Group holding %		Nominal value 1,000 curr.	Book value 31 Dec 2004 EUR 1,000
Fortum Power Finance CV	The Netherlands	-	100.0	EUR	-	2,100
Fortum Project Finance S.A.	Luxemburg	154,000	100.0	EUR	38,177	179,171
Värmlandsenergi AB	Sweden	53,613,270	100.0	SEK	536,133	72,376
Group companies consolidated using the pooling-of-interests method						
Fortum Heat and Gas Oy	Finland	98,523,082	100.0	EUR	98,523	1,485,812
Fortum Oil Oy	Finland	100,000,000	100.0	EUR	40,000	1,139,893
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 Generation						
Biomasse-Heizkraftwerk Herbrechtingen GmbH	Germany	-	33.3	EUR	50,000	3,500
Blåsjön Kraft AB	Sweden	6,000	38.2	SEK	6,000	16,215
Enprima Oy	Finland	406,667	40.7	EUR	204	3,078
Forsmarks Kraftgrupp AB	Sweden	76,500	22.2	SEK	76,500	8,481
Hafslund ASA	Norway	66,559,449	34.1	NOK	66,559	267,457
Horrmundsvalla Kraft AB	Sweden	1,000	50.0	SEK	1,000	4,102
Karlshamn Kraft AB	Sweden	45,000	30.0	SEK	4,500	2,477
Kemijoki Oy	Finland	427,424	17.5	EUR	7,189	293,774
OAO Lenenergo	Russia	275,618,658	30.7	RUR	54,345,000	151,155
OKG AB	Sweden	409,500	43.4	SEK	40,950	62,507
Panjin Liaohe Fortum Thermal Power Company Co.	China	1	50.0	EUR	-	12,638
Stensjön Kraft AB	Sweden	220,000	26.5	SEK	11,000	47,558
Teollisuuden Voima Oy [1]	Finland	213,065,978	26.4	EUR	213,066	149,112
Tåsans Kraft AB	Sweden	960	40.0	SEK	960	9,002
Ångefallen Kraft AB	Sweden	5,000	50.0	SEK	500	8,659

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) is 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 2004 Fortum's ownership in Teollisuuden Voima Oy was 26.4%. When the total equity of Olkiluoto 3 is subscribed in 2009, Fortum's ownership in Teollisuuden Voima Oy will be 25.8%.

Heat						
Drammen Fjernvarme KS	Norway	-	50.0	NOK	17,550,000	2,131
Gasum Oy	Finland	16,430,000	31.0	EUR	55,205	83,714
Hofors Energi AB	Sweden	2,000	24.4	SEK	2,000	2,075
Nova Naturgas AB	Sweden	510,201	20.4	SEK	24,490	23,377
Riihimäen Kaukolämpö Oy	Finland	50	50.0	EUR	67	3,556
Distribution						
Fingrid Oyj	Finland	834	25.1	EUR	14,027	28,054
Fredrikstad Energi AS	Norway	7,554	49.0	NOK	755	25,867
Fredrikstad Energi Nett AS	Norway	393,856	66.9	NOK	393,856	30,731
Härjeåns Kraft AB	Sweden	31,643	46.3	SEK	3,164	7,314
Karlskoga Energi & Miljö AB	Sweden	26,950	49.0	SEK	26,950	38,024
Keuruun Sähkö Oy	Finland	1,754	35.1	EUR	88	2,458

	Domicile	Shares pcs	Group holding %		Nominal value 1,000 curr.	Book value 31 Dec 2004 EUR 1,000
Sallilan Energia Oy	Finland	27,250	46.0	EUR	229	8,174
Trogstad Elverk AS	Norway	4,096	49.0	NOK	410	4,492
Markets						
Energiapolar Oy	Finland	349,259	30.8	EUR	349	2,188
Ishavskraft AS	Norway	7,105	49.0	NOK	7,105	6,926
Oil Refining						
AB Nynäs Petroleum	Sweden	33,765	50.0	SEK	33,765	43,972
CanTerm Canadian Terminals Inc.	Canada	50	50.0	CAD	10,000	6,092
Oil Retail						
Pikoil Oy	Finland	200	50.0	EUR	2,000	2,000
Shipping and other Oil						
SeverTEK ZAO	Russia	50,000	50.0	USD	10,000	8,668
Other operations						
Enermet Group Oy	Finland	301,947	27.2	EUR	5,078	5,078

Other shares and holdings (book value over EUR 2 million)

Power Generation						
Lapin Sähkövoima Oy	Finland	183,534	13.0	EUR	31,000	11,004
Heat						
Eesti Gaas AS	Estonia	1,212,632	17.7	EEK	27,506	5,246
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						
Saudi European Petrochemical Company Ibn Zahr	Saudi Arabia	98,832	10.0	SAR	98,832	14,851
Other operations						
Sea Containers Ltd	Bermuda	160,759	-	EUR	-	2,324

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

Key financial indicators 2000–2004

		2000	2001	2002	2003	2004
Income statement						
Net sales	EUR mill.	10,614	10,410	11,148	11,392	11,665
- change	%	28.9	-1.9	7.1	2.2	2.4
Share of profits (losses) of associated companies	EUR mill.	46	36	31	41	70
Other operating income	EUR mill.	140	203	370	151	121
Depreciation, amortisation and write-downs	EUR mill.	-571	-623	-694	-538	-511
Other operating expences	EUR mill.	-9,323	-9,112	-9,566	-9,626	-9,431
Operating profit	EUR mill.	906	914	1,289	1,420	1,914
- of net sales	%	8.5	8.8	11.6	12.5	16.4
Financial income and expenses	EUR mill.	-273	-212	-281	-236	-259
Profit before extraordinary items	EUR mill.	633	702	1,008	1,184	1,655
- of net sales	%	6.0	6.7	9.0	10.4	14.2
Extraordinary items	EUR mill.	-10	-	-	-	-
Profit before taxes	EUR mill.	623	702	1,008	1,184	1,655
- of net sales	%	5.9	6.7	9.0	10.4	14.2
Income taxes	EUR mill.	-154	-160	-269	-325	-397
Minority interest	EUR mill.	-46	-83	-73	-90	-31
Net profit for the period	EUR mill.	423	459	666	769	1,227
Balance sheet						
Fixed assets and other long-term investments	EUR mill.	11,712	11,328	14,869	14,172	14,598
Current assets						
Inventories	EUR mill.	746	598	504	551	659
Receivables	EUR mill.	1,933	1,766	1,995	1,400	1,301
Cash and marketable securities	EUR mill.	437	602	592	439	146
Shareholders' equity	EUR mill.	5,022	5,485	5,896	6,406	7,394
Minority interest	EUR mill.	1,281	1,270	1,432	232	261
Provisions for liabilities and charges	EUR mill.	197	144	233	207	237
Deferred tax liabilities	EUR mill.	1,177	1,122	1,866	1,843	1,842
Interest-bearing liabilities	EUR mill.	5,063	4,276	6,440	6,065	5,042
Interest-free liabilities	EUR mill.	2,088	1,997	2,093	1,809	1,928
Total assets	EUR mill.	14,828	14,294	17,960	16,562	16,704
Profitability						
Return on shareholders' equity	%	8.6	8.3	10.5	12.3	17.6
Return on capital employed	%	9.4	8.7	11.1	11.4	15.6
Financing and financial position						
Interest-bearing net debt	EUR mill.	4,626	3,674	5,848	5,626	4,896
- of the net sales	%	43.6	35.3	52.4	49.4	42.0
Gearing [1)]	%	73	54	80	85	64
Equity-to-assets ratio	%	43	48	41	40	46
Net cash from operating activities	EUR mill.	424	1,145	1,351	1,577	1,748
Cash flow before financing activities	EUR mill.	-685	844	-27	1,759	1,010
Dividends	EUR mill.	194	220	262	357	[2)] 506

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

		2000	2001	2002	2003	2004
Net interest expenses	EUR mill.	243	215	277	244	238
Interest coverage		3.7	4.3	4.7	5.8	8.0
Other indicators						
Capital employed	EUR mill.	11,365	11,032	13,765	12,704	12,697
Investments	EUR mill.	3,131	713	4,381	1,136	833
- of net sales	%	29.5	6.8	39.3	10.0	7.1
Research and development expenditure	EUR mill.	58	53	33	35	26
- of net sales	%	0.5	0.5	0.3	0.3	0.2
Average number of employees		16,220	14,803	14,053	13,343	12,859

2) Board of Directors' proposal

Calculations of the key financial indicators are presented on page 86.

Calculation of key figures

Calculation of key financial indicators

Return on shareholders' equity, %	=	100x	$\frac{\text{Profit before taxes – taxes}}{\text{(Shareholders' equity + minority interests) average}}$
Return on capital employed, %	=	100x	$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Capital employed average}}$
Return on net assets, %	=	100x	$\frac{\text{Operating profit}}{\text{Net assets average}}$
Capital employed	=		Total assets – interest-free liabilities – deferred tax liabilities – provisions for liabilities and charges
Segment's 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	$\frac{\text{Interest-bearing net debt}}{\text{Shareholders' equity + minority interests}}$
Equity-to assets ratio, %	=	100x	$\frac{\text{Shareholders' equity + minority interests}}{\text{Total assets – advances received}}$
Interest coverage	=		$\frac{\text{Operating profit}}{\text{Net interest expenses}}$

Calculation of key share ratios

Earnings per share (EPS)	=		$\frac{\text{Profit before taxes – taxes on regular business operations – minority interests}}{\text{Adjusted average number of shares during the period}}$
Cash flow per share	=		$\frac{\text{Cash from operating activities}}{\text{Adjusted average number of shares during the period}}$
Shareholders' equity per share	=		$\frac{\text{Shareholders' equity}}{\text{Adjusted average number of shares at the end of the period}}$
Dividend per share	=		$\frac{\text{Dividends for the financial period}}{\text{Adjusted average number of shares at the end of the period}}$
Dividend per earnings, %	=	100x	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield, %	=	100x	$\frac{\text{Dividend per share}}{\text{Share price at the end of the period}}$
Price per earnings ratio	=		$\frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$
Average share price	=		$\frac{\text{Amount traded in euros during the period}}{\text{Adjusted number of shares traded during the period}}$
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	2004	2003
Net sales	1	85	69
Other operating income	2	8	5
Depreciation, amortisation and write-downs	3	-9	-7
Other operating expenses	4	-125	-119
Operating profit		-40	-52
Financial income and expenses	5	1,238	6
Profit before extraordinary items		1,198	-46
Group contributions		838	1,098
Profit before appropriations and taxes		2,036	1,052
Appropriations	6	-	-1
Income taxes	7	-589	-310
Net profit for the period		1,448	743

Balance sheet

EUR million	Note	2004	2003
ASSETS			
Fixed assets and other long-term investments	8		
Intangible assets		14	6
Tangible assets		10	16
Other long-term investments		16,293	10,797
		16,318	10,819
Current assets			
Short-term receivables	9	905	1,263
Cash and cash equivalents		22	240
		927	1,503
		17,245	12,322
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	11	2,948	2,886
Share issue		13	5
Additional paid-in capital		2,811	2,785
Retained earnings		1,024	638
Net profit for the period		1,448	743
		8,243	7,057
Provisions for liabilities and charges		1	1
Long-term liabilities	12		
Interest-bearing		7,953	3,765
Interest-free		67	1
		8,020	3,766
Short-term liabilities	12		
Interest-bearing		860	1,274
Interest-free		121	224
		981	1,498
		17,245	12,322

Cash Flow Statement

EUR million	2004	2003
Operating activities		
Profit before extraordinary items	1,198	-46
Depreciation, amortisation and write-downs	9	7
Financial income and expenses	-1,238	-6
Divesting activities, net	1	2
Change in obligatory provisions	-1	-
Operating profit before change in working capital	-31	-43
Change in working capital		
Decrease (+)/ increase (-) in interest-free trade and other short-term receivables	-	-10
Decrease (-)/ increase (+) in interest-free trade and other short-term payables	-1	7
	-1	-3
Funds generated from operations	-32	-46
Interest and other financial expenses paid, net	-310	-24
Interest and other financial income	318	231
Dividend income	862	-
Group contribution received	1,098	662
Income taxes paid	-252	-347
Realised foreign exchange gains and losses	72	44
Net cash from operating activities	1,756	519
Investing activities		
Capital expenditures	-15	-23
Proceeds from sales of fixed assets	4	-
Acquisition of shares in subsidiaries net of cash disposed	-343	-
Investments in associated companies	-1	-
Investments in other shares	-	-1
Proceeds from sales of shares in subsidaries net of cash disposed	-	50
Proceeds from sales of other shares	1	-
Change in other investments, increase (-), decrease (+)	-515	-3,939
Cash flow from investing activities	-869	-3,913
Cash flow before financing activities	887	-3,394
Financing activities		
Payment of (-)/Proceeds from (+) short-term borrowings	-712	313
Proceeds from long-term liabilities	323	3,750
Payment of long-term liabilities	-454	-549
Dividends paid	-357	-262
Share issue	95	22
Cash flow from financing activities	-1,105	3,274
Net increase (+)/decrease (-) in cash and marketable securities	-218	-120
Cash and marketable securities at the beginning of the period	240	360
Cash and marketable securities at the end of the period	22	240
Net increase (+)/ decrease (-) in cash and marketable securities	-218	-120

Notes to the Financial Statements

EUR million	2004	2003
1. Net sales by market area		
Finland	81	68
Sweden	4	1
Total	85	69
2. Other operating income		
Gains on the sales of fixed assets	1	-
Rental income	8	5
Total	9	5
3. Depreciation, amortisation and write-downs		
Depreciation and amortisation according to the plan	9	7
4. Other operating expenses		
Personnel expenses		
Wages, salaries and remunerations	35	28
Indirect employee costs		
Pension costs	8	5
Other indirect employee costs	3	11
Other personnel expenses	3	2
Other operating expenses	76	73
Total	125	119
Salaries and remunerations		
President and CEO and members of the Board of Directors	2	1
Average number of employees	717	630

EUR million	2004	2003
5. Financial income and expenses		
Income from group companies	1,214	-
Other interest and financial income from Group companies	293	210
Other interest and financial income	8	26
Exchange rate differences	-9	-49
Write-downs on other long-term investments	-4	-
Interest and other financial expenses to Group companies	-96	-89
Interest and other financial expenses	-170	-92
Total	1,238	6
Total interest income and expenses		
Interest income	296	234
Interest expenses	-258	-177
Net interest income	39	57
6. Appropriations		
Change in depreciation above the plan	-	1
7. Income taxes		
Taxes on regular business operations	589	310

8. Fixed assets and other long-term investments

Intangible assets

EUR million	Intangible assets	Other intangible assets	Total
Acquisition cost as of 1 Jan 2004	1	9	10
Increases	-	13	13
Decreases	-	2	2
Acquisition cost as of 31 Dec 2004	1	20	21
Accumulated depreciation, amortisation and write-downs as of 1 Jan 2004	-	3	3
Depreciation and amortisation for the period	-	3	4
Accumulated depreciation, amortisation and write-downs as of 31 Dec 2004	-	6	7
Balance sheet value as of 31 Dec 2004	1	13	14
Balance sheet value as of 31 Dec 2003	1	6	6

Tangible assets

EUR million	Buildings and structures	Machinery and equipment	Advances paid and construction in progres	Total
Acquisition cost as of 1 Jan 2004	-	16	5	21
Increases	1	5		6
Decreases	-	2	4	7
Acquisition cost as of 31 Dec 2004	1	19	1	21
Accumulated depreciation, amortisation and write-downs as of 1 Jan 2004	-	6	-	6
Depreciation and amortisation for the period	-	4	-	4
Accumulated depreciation, amortisation and write-downs as of 31 Dec 2004	-	10	-	10
Balance sheet value as of 31 Dec 2004	1	9	1	10
Balance sheet value as of 31 Dec 2003	-	11	5	16

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 2004	5,750	6,793	5	16	4	16	12,584
Increases	343	7,466	1	11	-	98	7,919
Decreases	-	4,078	-	14	3	113	4,208
Balance sheet value as of 31 Dec 2004	6,093	10,181	6	13	1	1	16,295
Accumulated write-downs as of 1 Jan 2004	-	-	-	-	1	-	1
Increases	-	-	-	-	-	1	1
Decreases	-	-	-	-	1	-	1
Acquisition cost as of 31 Dec	-	-	-	-	-	1	1
Balance sheet value as of 31 Dec 2004	6,093	10,181	6	13	1	-	16,294
Balance sheet value as of 31 Dec 2003	5,750	5,007	5	16	3	16	10,797

9. Short-term receivables

	2004	2003
Receivables from Group companies		
Trade receivables	13	5
Other receivables	840	1,098
Accrued income and prepaid expenses	34	48
Total	887	1,151
Accrued income and prepaid expenses from associated companies	4	3
Trade receivables	-	1
Other receivables	2	3
Accrued income and prepaid expenses	13	105
Total	905	1,263

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

	2004	2003
Share capital as of 1 January	2,886	2,876
Options registered	62	10
Share capital as of 31 December	2,948	2,886
Share issue as of 1 January	5	-
Transfer from share issue	-5	-
Options excercised	13	5
Share issue as of 31 December	13	5
Share premium as of 1 January	2,785	2,778
Options registered	26	7
Share premium as of 31 December	2,811	2,785
Retained earnings as of 1 January	1,381	900
Dividends paid	-357	-262
Net profit for the period	1,448	743
Retained earnings as of 31 December	2,472	1,381
Distributable funds as of 31 December	2,472	1,381

Notes to the Financial Statements

EUR million	2004	2003
12. Liabilities		
Long-term liabilities		
Bonds	2,212	2,459
Loans from financial institutions	355	557
Other long-term liabilities	5,452	750
Total	8,020	3,766
of which interest-bearing	7,953	3,766
Short-term liabilities		
Bonds	250	-
Loans from financial institutions	2	3
Trade payables	7	7
Liabilities to Group companies		
Trade payables	1	1
Other liabilities	212	392
Accruals and deferred income	12	14
Total	225	407
Liabilities to associated companies		
Accruals and deferred income	3	3
Total	3	3
Other short-term liabilities	398	878
Accruals and deferred income	97	200
Total	981	1,498
of which interest-bearing	860	1,274
Interest-bearing and interest-free liabilities		
Interest-bearing liabilities	8,813	5,040
Interest-free liabilities	188	224
Total	9,001	5,264
Short-term accruals and deferred income		
Interests	83	191
Taxes	-	5
Other short-term accruals and deferred income	29	19
Total	111	216

EUR million	2004	2003
Maturity of long-term liabilities		
Year		
2005	252	
2006	937	
2007	211	
2008	542	
2009	-	
2010 and later	6,263	
Total	8,205	
Liabilities due after five years		
Bonds	996	
Loan from financial institutions	97	
Other long-term liabilities	5,170	
Total	6,263	
13. Contingent liabilities		
Undertakings on behalf of Group companies		
Guarantees	455	365
Undertakings on behalf of associated companies		
Guarantees	98	128
Other contingent liabilities	6	2
Total	103	130
Undertakings on behalf of others		
Guarantees	-	12
Contingent liabilities total	558	507

Derivatives

Interest and currency derivatives EUR million	2004 Contract or notional value	Fair value	Not recog-nised as an income	2003 Contract or notional value	Fair value	Not recog-nised as an income
Interest rate swaps	957	39	37	1,023	-4	-6
Forward foreign exchange contracts [1), 2)]	11,460	-26	-	11,482	87	-
Purchased currency options	877	10	-	-	-	-
Written currency options	877	-10	-	-	-	-

1) Includes also closed forward and future positions

2) Includes equity hedges against shareholders equity in foreign Group companies

Shares and shareholders

Share capital

Fortum has one class of shares. By the end of 2004, a total of 867,083,905 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. All shares entitle holders to an equal dividend. The amount of shares used when calculating the dividend for 2004 is the amount of registered shares at the end of January 2005.

In accordance with the Articles of Association, at the end of 2004, 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 2004, paid in its entirety and entered in the trade register, was EUR 2,948,085,277.

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

Share capital 1998–2004

	Number of shares	Share capital, EUR
Fortum established on 7 Feb 1998	500,000	1,681,879
Rights issue in 1998	782,282,635	2,631,409,886
Employee issue in 1998	2,000,000	6,727,517
Share capital on 31 Dec 1998	784,782,635	2,639,819,282
Share capital on 31 Dec 1999	784,782,635	2,639,819,282
Scrip issue in 2000	-	28,441,677
Rights issue in 2000	60,825,940	206,808,196
Share capital on 31 Dec 2000	845,608,575	2,875,069,155
Share capital on 31 Dec 2001	845,608,575	2,875,069,155
Subscriptions in 2002		
- under bond loan with warrants 1999	148,380	504,492
- under management share option scheme 1999	3,000	10,200
Share capital on 31 Dec 2002	845,759,955	2,875,583,847
Subscriptions in 2003		
- under bond loan with warrants 1999	159,520	542,368
- under management share option scheme 1999	2,913,000	9,904,200
Share capital on 31 Dec 2003	848,832,475	2,886,030,415
Subscriptions in 2004		
- under bond loan with warrants 1999	4,560,730	15,506,482
- under management share option scheme 1999	7,154,000	24,323,600
- under share option scheme for key employees 2002A	6,536,700	22,224,780
Share capital on 31 Dec 2004	867,083,905	2,948,085,277

Quotation and trading of shares, warrants and options

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

At the end of 2004, Fortum Corporation's lot size was 200 shares. The highest quotation of Fortum Corporation's shares on the Helsinki Exchanges in 2004 was EUR 13.99, the lowest EUR 7.45, and the average quotation EUR 10.29. The closing quotation on the last trading day of the year was EUR 13.62.

During 2004, a total of 478.8 million shares for a total of EUR 4,927 million were traded. Fortum's market capitalisation, calculated using the closing quotation on the last trading day of the year, was EUR 11,810 million.

Relating to the bond loan with warrants to employees 1999, a total of 5.1 million warrants for a total of EUR 31.2 million was traded during 2004. Relating to the management share option scheme 1999, a total of 6,767 options for a total of EUR 33.9 million was traded during 2004. Relating to the share option scheme for key employees 2002, a total of 8.6 million options for a total of EUR 61.9 million was traded during 2004.

Key share ratios 2000–2004

		2000	2001	2002	2003	2004
Earnings per share (EPS)	EUR	0.55	0.57	0.79	0.91	1.44
Fully diluted earnings per share	EUR	0.55	0.57	0.78	0.90	1.42
Cash flow per share	EUR	0.54	1.43	1.60	1.86	2.05
Shareholders' equity per share	EUR	6.32	6.49	6.97	7.55	8.50
Dividend per share	EUR	0.23	0.26	0.31	0.42	0.58 1)
Dividend per earnings	%	41.9	45.6	39.3	46.2	40.3 1)
Dividend yield	%	5.3	5.5	5.3	5.1	4.3 1)
Price/earnings ratio (P/E)		7.9	8.3	7.5	9.0	9.5
Share prices						
At the end of the period	EUR	4.35	4.75	6.25	8.18	13.62
Average share price	EUR	4.18	4.79	5.87	6.94	10.29
Lowest share price	EUR	3.50	4.05	4.75	5.66	7.45
Highest share price	EUR	4.94	5.70	6.52	8.75	13.99
Market capitalisation at the end of the period	EUR mill.	3,456	4,017	5,286	6,943	11,810
Trading volumes						
Number of shares traded	1,000	93,900	134,499	251,216	270,278	478,832
In relation to the weighted average number of shares	%	11.9	16.8	29.7	31.9	56.2
Number of shares	1,000	845,609	845,609	845,776	849,813	867,084
Number of shares excluding own shares	1,000	794,571	845,609	845,776	849,813	867,084
Adjusted average number of shares	1,000	787,223	798,346	845,642	846,831	852,625
Diluted adjusted average number of shares	1,000	787,223	798,308	851,482	858,732	861,772

1) Board of Directors' proposal.

For calculation, please see page 86.

State ownership

At the beginning of 2004, the Finnish State owned 60.53% 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 and the share option scheme for key employees 2002, the Finnish State owned 59.26% 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 2004, the members of the Supervisory Board of Fortum Corporation owned a total of 4,031 shares or 0.00% of the shares and voting rights. The members of the Board of Directors and the President and CEO owned a total of 151,187 shares, which corresponds to 0.02% of the company's shares and voting rights.

More information on management shareholding on page 46.

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 2004, a total of 10,070,000 shares were subscribed for and entered into the trade register. A total of 1,698,000 shares can still be subscribed for such that the share capital is increased by a maximum of EUR 5,773,200, which corresponds to 0.2% of the share capital at the end of 2004. 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 installment 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 2004, a total of 4,868,630 shares were subscribed for and entered into the trade register. A total of 1,290,670 shares can be subscribed for such that the share capital is increased by a maximum of EUR 4,388,278, which corresponds to 0.1% of the share capital at the end of 2004.

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. The subscription price may not, however, be reduced below EUR 3.40, which is the nominal value of Fortum Corporation share. At the end of 2004, the subscription price was EUR 3.63. 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. 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% 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 2004, a total of 4,950,00 share options marked with the letter A and a total of 6,800,000 share options marked with the letter B were distributed to key employees. The remaining 525,000 share options marked with the letter A and and 987,500 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 determination of the subscription price and 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 1.5% of the share capital at the end of 2004. 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 2004, a total of 10,767,000 share options marked with the letter A and 10,129,000 share options marked with the letter B were distributed to the key employees of the Fortum Group. The remaining 1,733,000 share options marked with the letter A and and 2,371,000 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.

The total number of share options marked with a letter A listed on 1 October 2004 was 10,767,000. Each share warrant entitles the holder to subscribe for one share. The warrants are exercisable during the period from 1 October 2004 through to 1 May 2007. By the end of 2004, a total of 6,536,700 shares were subscribed for and entered into the trade register with the share options marked with a letter A. A further total of 4,230,300 shares can be subscribed for with the share options 2002A such that the share capital is increased by a maximum of EUR 14,383,020, which corresponds to 0.5% of the share capital at the end of 2004. At the end of 2004, the subscription price of the share options marked with the letter A was EUR 4.74.

A total of 16,730,300 shares can be subscribed for pursuant to the share options (with either letter A or B) such that the share capital is increased by a maximum of EUR 56,883,020, which corresponds to 1.9% of the share capital at the end of 2004.

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. Shares subscribed for with share warrants give entitlement to a dividend and other shareholder rights once the increase of share capital has been entered in the Trade Register. At the end of 2004, this scheme (either with letter A or B) 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. 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 2004

Shareholder	No. of shares	Holding %
Finnish State	513,832,988	59.26
Ilmarinen Mutual Pension Insurance Company	11,654,424	1.34
Social Insurance Institution	10,593,696	1.22
The municipality of Kurikka	6,203,500	0.72
Fortum Pension Foundation	5,034,952	0.58
State Pension Fund	4,900,000	0.56
OP-Delta Investment Fund	3,867,708	0.45
Fennia Mutual Pension Insurance Company	2,047,567	0.24
Etera Mutual Pensions Insurance Company	1,972,683	0.23
Varma Mutual Pension Insurance Company	1,780,000	0.20
Nominee registrations	217,739,992	25.11
Other shareholders in total	87,456,395	10.09
Total number of shares	867,083,905	100.00

Breakdown of share ownership on 31 December 2004

By number of shares owned

No. of shares	No. of share-holders	% of share-holders	No. of shares	% of share capital
1–100	3,200	6.30	208,266	0.03
101–500	21,411	42.13	5,657,758	0.65
501–1,000	14,374	28.28	9,570,664	1.10
1,001–10,000	11,198	22.03	28,065,135	3.24
10,001–100,000	540	1.06	13,907,426	1.60
100,001–1,000,000	78	0.15	24,542,871	2.83
1,000,001–10,000,000	14	0.03	34,270,975	3.95
over 10,000,000	6	0.01	750,777,514	86.59
	50,821	100.00	867,000,609	99.99
Unregistered/uncleared transactions on 31 December 2004			83,296	0.01
Total number of shares			867,083,905	100.00
of which nominee registrations			217,739,992	25.11

By shareholder category

	% of share capital
Finnish shareholders	
Corporations	1.0
Financial and insurance institutions	2.1
General government	65.1
Non-profit organisations	1.3
Households	5.3
Non-Finnish shareholders	25.2
Total	100.0

Proposal for the distribution of earnings

The Group's non-restricted equity and distributable equity as of 31 December 2004 amounted to EUR 4,371 million. The parent company's distributable equity as of 31 December 2004 stood at EUR 2,471,614,749.28.

The Board of Directors proposes that Fortum Corporation should pay a dividend of EUR 0.58 per share for 2004, totalling EUR 505.7 million.

Espoo, 2 February 2005

Peter Fagernäs

Heikki Pentti

Birgitta Johansson-Hedberg

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 records, the financial statements and the corporate governance of Fortum Corporation for the period of 1.1.–31.12.2004. 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 Managing Director. 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 Managing Director 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 Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies Act.

Espoo, 2 February 2005

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Tuomala
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, the review by the Board of Directors 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 can 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, 3 February 2005

Timo Kalli

Klaus Hellberg	Satu Hassi	Lasse Hautala
Rakel Hiltunen	Jorma Huuhtanen	Mikko Immonen
Kimmo Kalela	Kimmo Kiljunen	Jari Koskinen
Juha Mikkilä	Ben Zyskowicz	

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