Fortum Annual Report 2005

Annual Report 2005

Fortum

Investor information

Annual General Meeting

The Annual General Meeting (AGM) of Fortum Corporation will be held on Thursday, 16 March 2006, at 1:00 pm, at Finlandia Hall, Mannerheimintie 13 e, Helsinki. Registration of shareholders who have notified the Company of their attendance will begin at 11:45 am.

A shareholder who wishes to attend the AGM must give a prior notice to Fortum. The notice to attend may be given through Fortum's website at www.fortum.com/agm, by telephone at +358 10 452 9460, by fax at +358 10 262 2727 or by mail to Fortum Corporation, Rita Lagerstedt, POB 1, 00048 FORTUM, Finland. The notice and any powers of attorney must arrive by 4:00 pm (Finnish time), 13 March 2006.

Payment of dividends

The Board of Directors will propose to the AGM that a cash dividend of EUR 1.12 per share be paid for the financial period 2005. The record date for dividend payment is 21 March, 2006, and the expected dividend payment date is 28 March 2006 onwards.

Publication of results

- Interim Report January–March will be published on 25 April 2006
- Interim Report January–June will be published on 19 July 2006
- Interim Report January–September will be published on 19 October 2006

The Annual Report and Interim Reports are available in Finnish, Swedish and English and can be read online at www.fortum.fi, www.fortum.se and www.fortum.com.

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

Fortum observes a silent period of 30 days prior to publishing its results. Additional information about shares and shareholders in the Financials.

Investor Relations at Fortum

Mika Paloranta, Vice President, Investor Relations, tel. +358 10 452 4138, fax +358 10 452 4176, e-mail: mika.paloranta@fortum.com

Rauno Tiihonen, Manager, Investor Relations, tel. +358 10 453 6150, fax +358 10 452 4176, e-mail: rauno.tiihonen@fortum.com

Financial documents can be obtained from Fortum Corporation, Mail Room, POB 1, 00048 FORTUM, Finland, tel. +358 10 452 4454, e-mail: juha.ahonen@fortum.com

Investor information is available online at www.fortum.com/investors

Share information for 2005

Highest share price	EUR 16.90
Lowest share price	EUR 10.45
Average share price	EUR 13.87
Total number of shares traded	900.1 million pcs
Market capitalisation 31 Dec 2005	EUR 13.9 billion

Largest registered shareholders

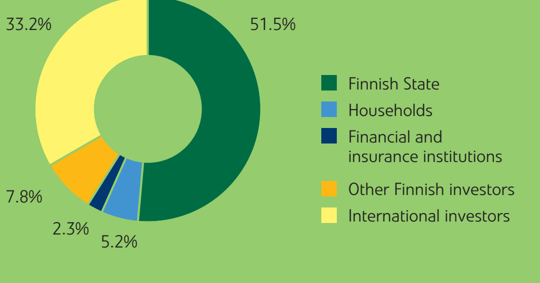
31 December 2005

Finnish State	51.52%
Ilmarinen Mutual Pension Insurance Company	1.25%
Social Insurance Institution	1.02%
The municipality of Kurikka	0.71%
The State Pension Fund	0.57%
Varma Mutual Pension Insurance Company	0.44%
Etera Mutual Pension Insurance Company	0.37%
OP-Delta Investment Fund	0.33%
Fennia Mutual Pension Insurance Company	0.33%
Neste Oil Pension Foundation	0.27%

Trading code: FUM1V. Type: Utilities.

Distribution of ownership

31 December 2005

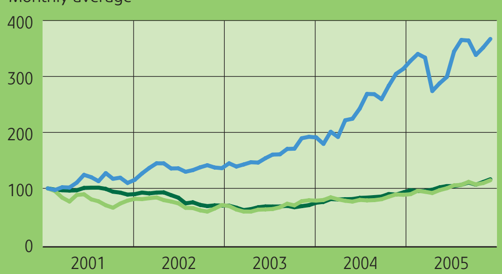


Equity analysts covering Fortum in 2005

- ABG Sundal Collier, Oslo
- Alfred Berg Finland Oy, Helsinki
- Carnegie Investment Bank AB, Finland Branch, Helsinki
- Citigroup Smith Barney, London
- Crédit Agricole Indosuez Cheuvreux Nordic AB, Stockholm
- Danske Equities, Copenhagen
- Deutsche Bank AG, Helsinki Branch, Helsinki
- Dresdner Kleinwort Wasserstein Securities, London
- Enskilda Securities AB, Helsinki
- Evli Bank Plc, Helsinki
- EQ Bank Ltd., Helsinki
- FIM Securities Ltd, Helsinki
- Handelsbanken Securities, Helsinki
- Kaupthing Sofi, Helsinki
- Kepler Equities, Frankfurt
- Mandatum Stockbrokers Ltd, Helsinki
- Merrill Lynch, London
- Morgan Stanley Dean Witter & Co, London
- Opstock Investment Banking, Helsinki
- Raymond James Euro Equities, Paris
- Societe Generale, London
- Standard & Poor's Equity Research, London
- Valuatum, Helsinki
- E. Öhman J:or Fondkomission AB, Finland Branch, Helsinki

Share quotations 2001–2005

Monthly average



Fortum
Dow Jones STOXX 600 Utilities Index
HEX Portfolio Index

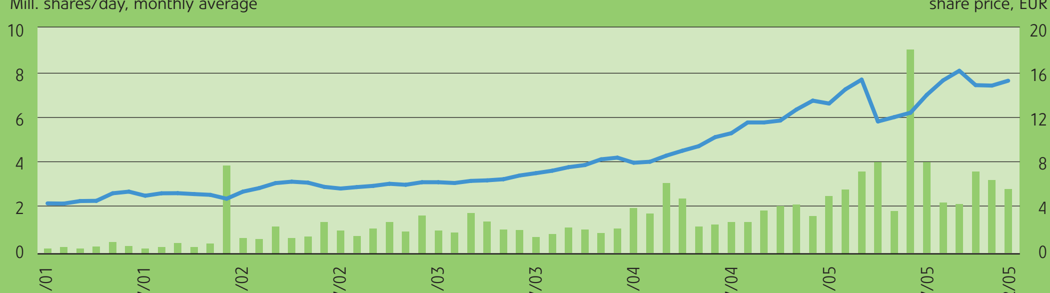
Market capitalisation 2001–2005

EUR 1,000 mill.

Number of shares traded 2001–2005

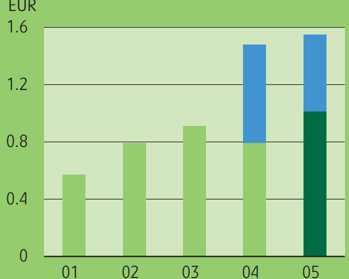
Mill. shares/day, monthly average

share price, EUR



Earnings per share

EUR

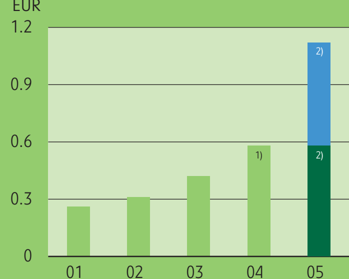


Continuing operations 2004 and 2005
Discontinued operations

2004 and 2005 under IFRS.
Years 2001–2003 presented according to Finnish Accounting Standards (FAS).

Dividend per share

EUR



Continuing operations 2004 and 2005
Discontinued operations

1) In addition to cash dividends, Fortum distributed approximately 85% of Neste Oil Corporation shares as dividends, in 2005.
2) Board of Directors proposal for the Annual Meeting in March 2006.

Koivuniemen Puutarha, a leading commercial rose grower in Finland, is Fortum's electricity customer.

Tapio Aronen (left), Koivuniemen Puutarha
Tor Manngård, Fortum

Fortum's Annual Report 2005 consists of two separate volumes: the Review of Operations and the Financials. Sustainable development is reported in the Review of Operations.

Contents

Fortum Corporation Annual Report 2005

Fortum in brief

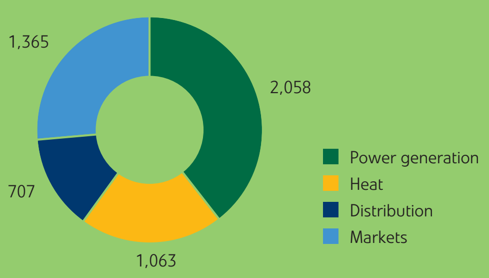
2 Fortum is a leading energy company in the Nordic countries and other parts of the Baltic Rim area. Our activities cover the generation, distribution and sale of electricity and heat, the operation and maintenance of power plants as well as energy related services. Our main products are electricity, heat and steam.

Our competitiveness is based on a pan-Nordic concept. It is also characterised by a high level of operational efficiency and a broad customer base. In all our operations we aim at benchmark business performance. Our goal is to create the leading power and heat company and become the energy supplier of choice in the chosen market areas.

In 2005, sales were EUR 3,877 million and operating profit was 1,347 million. The number of employees at the end of the year was 8,955. Fortum's shares are quoted on the Helsinki Stock Exchange.

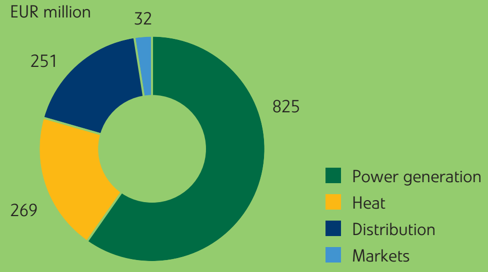
Group net sales

EUR million



Group operating profit

EUR million



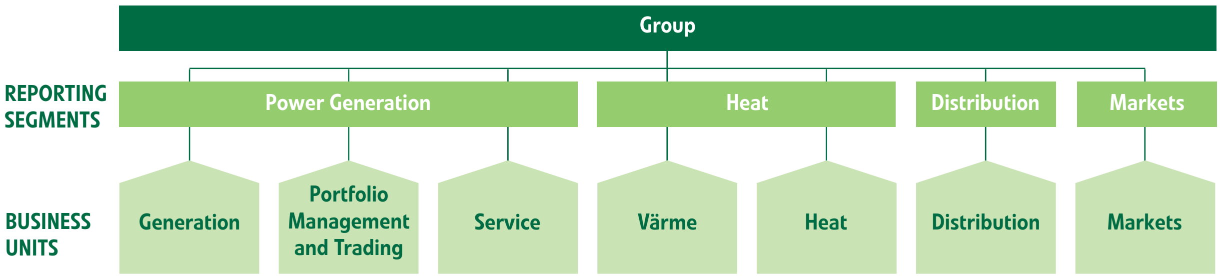
Position in the Nordic market

Electricity distribution	#1
District heating	#1
Power generation	#2
Number of electricity customers	#2

Customer base

million	
Electricity customers	1.2
Electricity distribution customers	1.4

Corporate structure



Power Generation

The Power Generation segment generates and sells power mainly to the Nordic electricity market. It is also responsible for the risk management operations within power generation. The Portfolio Management and Trading business unit within the segment is responsible for optimising the operating of power plants and for selling power to the Nordic power exchange Nord Pool. The Service business unit provides operation and maintenance services for the Nordic and selected international markets. Power Generation employed 4,330 people at the end of 2005.

Distribution

Distribution is responsible for a reliable and secure electricity supply to its customers in the Nordic countries and Estonia. Fortum owns and operates distribution and regional networks in Sweden, Finland, Norway and Estonia and distributes electricity to a total of 1.4 million customers. Distribution employed 946 people at the end of 2005.

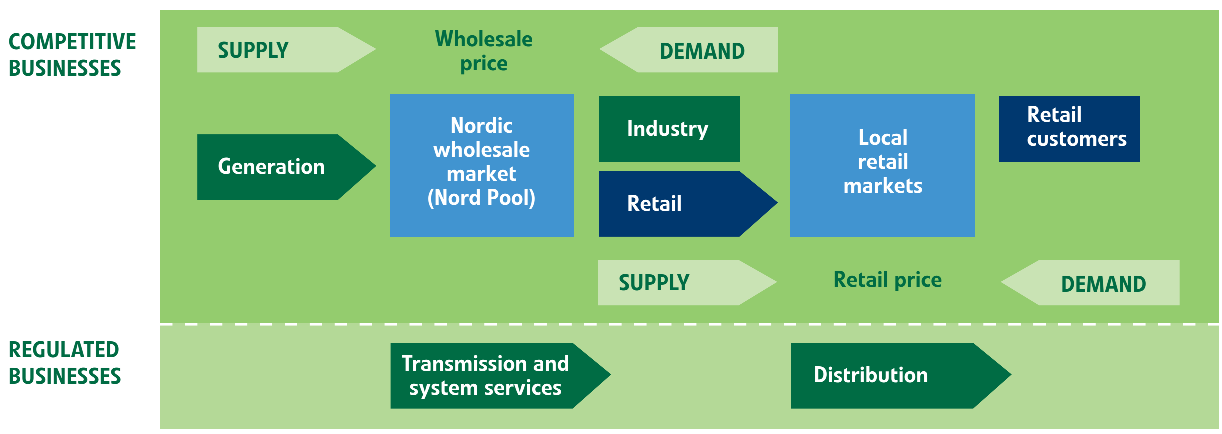
Heat

Heat provides district heating and cooling, industrial steam and energy produced in waste-to-energy production to industrial companies, municipalities and end-users. The Heat segment also sells electricity from its combined heat and power production (CHP) to the Nordic power exchange Nord Pool. Heat employed 2,393 people at the end 2005.

Markets

Markets is responsible for offering energy solutions to its customers in Finland, Sweden and Norway. The segment buys its electricity from the Nordic power exchange Nord Pool and sells it further to household and business customers as well as to other electricity retailers in the Nordic countries. In addition to the actual sale of electricity, Markets provides comprehensive risk and portfolio management solutions to its business customers. Markets employed 769 people at the end of 2005.

The Power Value Chain



2005 operational highlights and financial summary

Create the leading power and heat company

- Oil businesses separated and Neste Oil listed on the Helsinki Stock Exchange
- Agreement with the city of Espoo over its E.ON Finland shares
- Increased stake to over 33% in Lenenergo, acquired a 25% stake in Kolenergo in Russia
- Two new district heating companies in Poland
- District heating company in Lithuania
- New waste fuel-based CHP plant inaugurated and preparations for construction of a new biofuel based power plant started in Sweden

Become the energy supplier of choice

- EUR 700 million investment plan to further upgrade the reliability of the electricity distribution networks
- Automatic meter management project proceeded
- Customer guarantee and customer ombusdman functions implemented
- New digital services and new electricity products

Key ratios	2004 IFRS	2005 IFRS
Continuing operations:		
Sales, MEUR	3,835	**3,877**
EBITDA, MEUR	1,583	**1,754**
Operating profit, MEUR	1,195	**1,347**
Comparable operating profit, MEUR	1,148	**1,334**
Profit before income tax, MEUR	962	**1,267**
Profit for the period from continuing operations, MEUR	703	**936**
- of which attributable to equity holders, MEUR	670	**884**
Capital employed, MEUR	12,890	**11,357**
Capital employed continuing, operations, MEUR	10,739	**11,357**
Interest-bearing net debt, MEUR	5,095	**3,158**
Capital expenditure and investments in shares, continuing operations, MEUR	514	**479**
Capital expenditure, continuing operations, MEUR	335	**346**
Funds from operations, MEUR	1,205	**1,364**
Net cash from operating activities, continuing operations, MEUR	1,232	**1,271**
Return on capital employed, %	15.8	**16.6**
Return on capital employed, continuing operations, %	11.4	**13.5**
Return on shareholders' equity, %	18.2	**18.7**
Gearing, %	67	**43**
Net debt/EBITDA	2.1	**1.4**
Net debt/EBITDA, continuing operations	-	**1.8**
Average number of employees, continuing operations	8,592	**8,939**

Key ratios	2004 IFRS	2005 IFRS	
Earnings per share, total Fortum, EUR	1.48	**1.55**	
Earnings per share, continuing operations, EUR	0.79	**1.01**	
Earnings per share, discontinued operations, EUR	0.69	**0.54**	
Equity per share, EUR	8.65	**8.17**	
Dividend per share, total Fortum, EUR [1]	0.58	**1.12**	[2]
Dividend per share, continuing operations, EUR		**0.58**	[2]
Dividend per share, discontinued operations, EUR		**0.54**	[2]
Payout ratio, total Fortum, %	39.2	**72.3**	[2]
Payout ratio, continuing operations, %		**57.4**	[2]
Market capitalisation at the end of the period, MEUR	11,810	**13,865**	
Power Generation, TWh	55.5	**52.3**	
Heat Generation, TWh	25.4	**25.1**	
Electricity sales, TWh	62.3	**59.7**	
Heat sales, TWh	23.8	**23.8**	

[1] In addition to a cash dividend Fortum distributed approximately 85% of Neste Oil Corporation shares as dividends in 2005

[2] Board of Directors proposal for the Annual General Meeting in March 2006. The total amount is calculated based on the number of registered shares as of 31 December 2005.

Definitions of the key ratios are presented in the Consolidated Financial Statements.

Key figures by segment

	Sales		Comparable operating profit		Comparable RONA% 2)	
EUR million	2004	2005	2004	2005	2004	2005
Power Generation	2,084	**2,058**	730	**854**	11.5	**14.5**
Heat	1,025	**1,063**	207	**253**	9.3	**11.0**
Distribution	707	**707**	240	**244**	8.3	**8.6**
Markets	1,387	**1,365**	23	**30**	17.1	**16.4**
Other	90	**91**	-52	**-47**		
Eliminations 1)	-1,458	**-1,407**				
Continuing operations	3,835	**3,877**	1,148	**1,334**		
Discontinued operations	7,909	**2,061**	18	**30**		
Eliminations	-85	**-20**	29	**-17**		
Group	11,659	**5,918**	1,195	**1,347**		

1) Eliminations include sales and purchases with Nord Pool that is netted on Group level on an hourly basis and posted either as revenue or cost.

2) Return on net assets (RONA) is calculated by dividing the sum of operating profit and share of profit of associated companies and joint ventures with average net assets.

Group financial targets	Target	2004	2005
ROCE	12%	15.8	**16.6**
ROCE continuing operations		11.4	**13.5**
ROE	12%	18.2	**18.7**
Net debt / EBITDA	3.0-3.5	2.1	**1.4**
Net debt / EBITDA continuing operations		-	**1.8**

Ratings	S&P	Moody's
Fortum Corporation	A- (Stable) / K1	A2 (Stable)

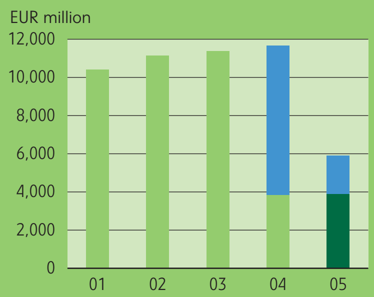
Key sensitivities during 2006

Approximate effect on the Group's full -year operating profit

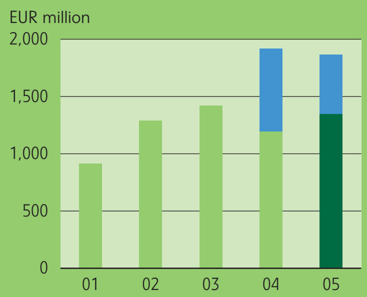
Change in	EUR million
Market price of electricity, hedging included, EUR 1/MWh *	15
Achieved Nordic generation power price, EUR 1/MWh	50

* Based on hedge levels at the end of 2005

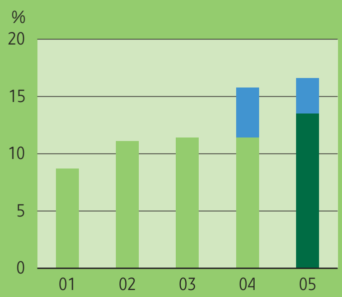
Sales



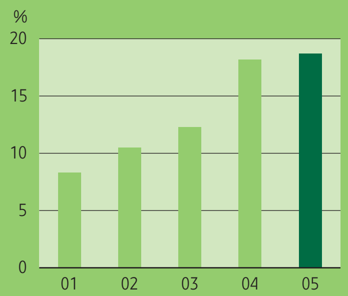
Operating profit



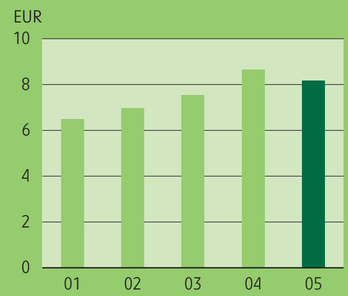
Return on capital employed



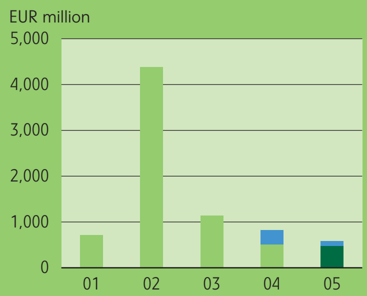
Return on shareholders' equity



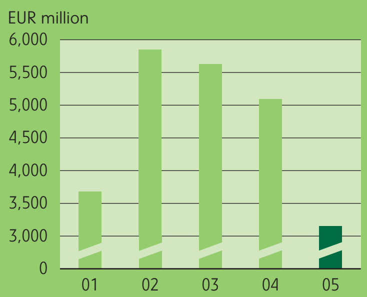
Shareholders' equity per share



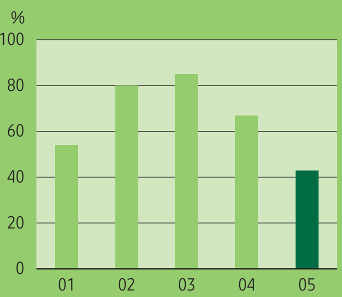
Investments



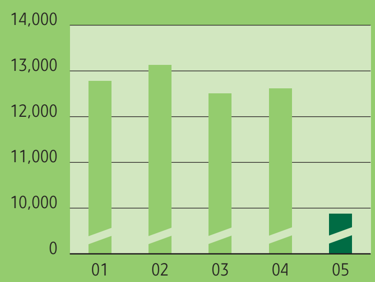
Interest-bearing net debt



Gearing



Number of permanent employees



2004 and 2005 under IFRS. Years 2001–2003 presented according to Finnish Accounting Standards (FAS).

Continuing operations 2004 and 2005
Discontinued operations

2005 – an outstanding year

2005 was a year of changes. Fortum executed its biggest transaction ever by separating the oil businesses. CO_2 emissions trading started adding a new cost component.

As also the fuel prices were high, the price for electricity rose, triggering a lively public debate over the functioning of the Nordic power market. In a challenging operational environment, Fortum performed outstandingly – we reached nearly all our targets with excellent results.

A one-industry company

Growth in the chosen markets

We continued to deliver on our strategy that covers the Nordic countries and the Baltic Rim area, making significant progress on several fronts.

In Finland we signed an agreement with the city of Espoo in December over its share in E.ON Finland, and on 2 February 2006 an agreement was signed regarding E.ON Nordic's stake in the company. Acquiring E.ON Finland was strategically an important step. This transaction makes Fortum stronger in the Nordic electricity market and paves the way for further growth.

In Russia we increased our ownership in OAO Lenenergo to over 33% and agreed to acquire 25% of the shares in Kolenergo. Through Lenenergo, Fortum is also a part-owner of TGC-1, Territorial Generation Company No. 1, which began operations in October. As the company's generation capacity is largely hydro power, TGC-1 is a good addition to our generation portfolio. In 2005, Fortum was still the only foreign strategic investor on the Russian power market.

During 2005, we also continued to grow in Poland, where the privatisation of the heat sector proceeded. After starting three years ago practically from zero, we now have a Polish heat business with a turnover of 130 MEUR and a personnel of some 1,200 people. This forms a strong platform for further growth in the Polish market.

In Lithuania we created a sound basis for growth by acquiring the district heating company UAB Suomijos.

Separation of the oil businesses and refocused goals

A crucial strategic step was the separation of the oil businesses and listing of Neste Oil on the Helsinki Stock Exchange. The preparations took almost two years and were a huge undertaking internally. Now both companies successfully pursue their own strategies.

After separating the oil businesses, we revised our strategy: the Nordic countries remain our main market area, but the Baltic Rim markets were given a stronger emphasis. We also defined Fortum's Core Purpose: *Our energy improves life for present and future generations*. It reflects our desire to make responsible choices in order to meet the long-term needs of the people and communities in which we operate. Another outcome of the strategy work was the launching of Fortum's renewed brand strategy.

Operational environment under scrutiny

From the very beginning, we have based our strategy on the EU decision to move to one common European electricity market through regional markets. The premise of the Commission is that real competition will set prices at the right level and thus benefit consumers. Hence, the further development of the Nordic power market and European integration is of utmost importance and strongly endorsed by Fortum. We welcome increased competition as long as it happens on equal terms. Although short term price peaks may trigger criticism against the system, it should not be allowed to hamper market driven development.

Consequently, we have, and will continue to promote a market-driven development of the electricity market, i.e. cross-border transmission and system services, market places for electricity trade, and handling of bottlenecks between the grid areas. Also the decision-makers have supported this development; the Nordic energy ministers adopted a co-operation plan for 2006–2009 and have requested the market actors to submit an action plan by March 2006. More uniform responsibilities of grid companies, harmonised national rules and practices, and making it easier to change electricity suppliers are other important measures that are necessary for the creation of a single common Nordic electricity retail

All in all, to make investment decisions extending over 40–60 years calls for both stability and predictability in the regulatory framework and trust in the political willingness to continue market liberalisation. Therefore, the recent speculation around windfall profits is a cause of concern.

market and for paving the way towards an integrated European market.

Sustainable development and people development for the future

Good handling of sustainable development (SD) means investing in efficient production processes, good environmental and social performance, and a reputation as both a reliable business partner and an ethical corporate citizen.

At Fortum, sustainable development is part of everyday work and the responsibility of line management. It's governed through the Sustainable Development Policy adopted in 2005. One concrete outcome is reducing CO_2 emissions: Over the past 6 years, we have increased the share of CO_2-free generation in our production portfolio from 29 to 49 TWh. This shows that we have taken the Kyoto Protocol seriously and steer our production to be more climate benign.

We continued people development with good results through leadership training programmes and a continued safety programme to mitigate lost workday injuries. By the end of 2006, the whole personnel will have participated in safety training.

Ensuring future supply of electricity

The security of supply is a concern. To do our part in securing the future supply, our investment programme covers e.g. a 25% share in the new Finnish nuclear power unit Olkiluoto 3 and upgrading of all the automation systems in our Loviisa plant to extend its lifetime. In January 2006, a decision was made to invest in capacity upgrading at the Swedish Oskarshamn nuclear unit, where Fortum is part-owner. In Sweden, we inaugurated a new waste fuel based CHP plant and began preparations for a new biofuel based CHP plant in Stockholm. Our investment plans contain many additional projects to increase e.g. hydro power capacity and build waste-to-energy plants. They can be implemented only if all permits are in place. Ensuring a smooth permitting process is crucial to all new investment decisions and thus good co-operation with authorities is needed also in this respect.

In 2005, we announced a EUR 700 million investment plan to further improve our electricity distribution networks and a project to develop meter reading management, allowing customers to monitor their real time electricity consumption. Most of our Nordic grid customers will have the new system installed during 2009. These are important steps as they also make it possible to adjust individual consumption according to price fluctuations in the Nordic power exchange and thus avoid the sharpest price peaks. But to make this a reality, the regulators need to agree on common Nordic-wide rules.

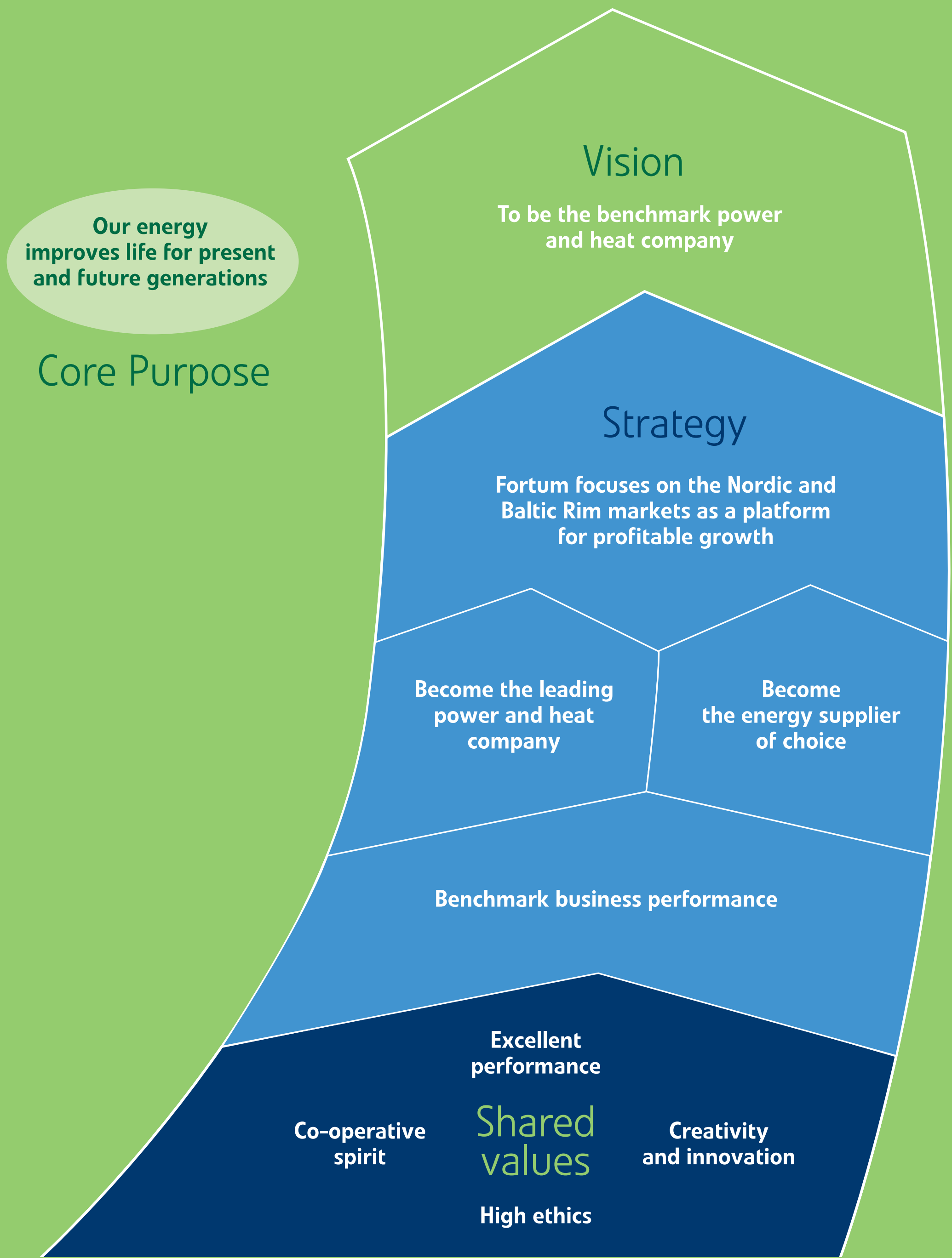
The continued success of Fortum will be dependent on our ability to grow and to leverage further on our core competencies and performance excellence. Growth is sought through Nordic consolidation and in the Russian and Baltic Rim markets, and also by leveraging our existing skills for instance by expanding our trading activities. Our actions to further increase customer loyalty are continuing also in 2006 with new offerings, further improved customer service, and improved reliability of the grids. Our proven skills of successfully integrating new units will be repeated, for example regarding E.ON Finland, and we will continue to be the benchmark company regarding plant availability.

The year 2005 was a big success for Fortum. I want to take this opportunity to thank all our stakeholders for their support and in particular our employees for an outstanding job. With a team like this we have a competitive edge that is of significant value to the future of Fortum.

Mikael Lilius

The essence of Fortum

The essence of Fortum is captured in the Fortum Compass. This management tool describes the key elements that are needed to steer individuals, teams and the whole company with the same purpose towards the same vision. Implementing a common strategy is based on shared values.



The benchmark power and heat company

The Compass is the link between the group and the business Units' strategies. All businesses have their own adapted versions of the Compass. This cascading ensures consistency in targets and actions, and serves to guide and direct the whole company.

Fortum's vision is to be the benchmark power and heat company. On our chosen markets we aim for a leading position in our businesses, whilst securing performance excellence in all operations.

With this aim the focus is on

Becoming the energy supplier of choice

- Driving a customer focused sales culture in all our customer interfaces
- Creating the best customer experience for all our customers

Growth

- Profitable growth in chosen market areas, the Nordic countries, north-west Russia, Poland and the Baltic countries
- Leveraging organic growth opportunities in all our businesses
- Actively participating in further Nordic consolidation

Promoting market-driven development of the electricity market

- Supporting and driving further Nordic harmonisation
- Supporting Nordic infrastructure development and TSO co-operation
- Working for effective competition within the integrating European electricity market

Performance excellence – aiming for world-class performances

- Ensuring performance excellence in key areas
- Efficiency, sustainability and reliability in the whole energy chain
- Continuous people development

Core Purpose and Shared Values: the fundamentals

Fortum has defined its Core Purpose as: **"Our energy improves life for present and future generations."** This statement reflects our desire to make responsible choices in order to meet the long-term needs of the people and communities in which we operate.

Fortum's shared values guide the way we work at Fortum, as well as how we interact with each other and with people outside the company.

Excellent performance

- We know our customers' needs and act to meet them.
- We achieve set targets.

Co-operative spirit

- We respect and support one another.
- We bring up and discuss issues openly and actively.

Creativity and innovation

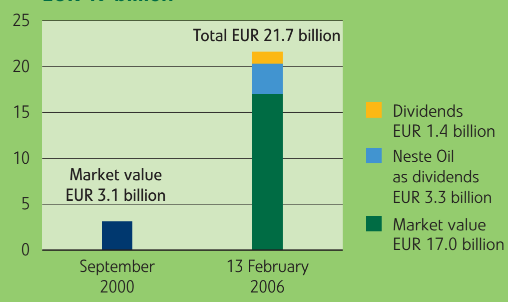
- We take individual initiative and encourage one another to find new solutions.
- We continuously develop ourselves and are ready for change.

High ethics

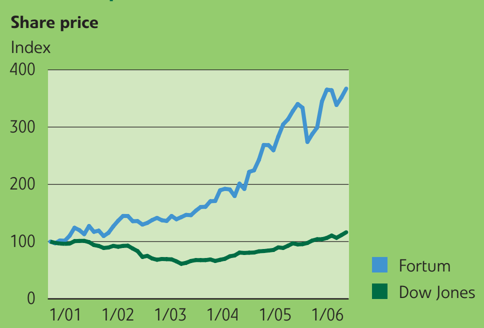
- We are honest and we act with integrity.
- We work for sustainable development.

Major restructuring

Total shareholder value added EUR 19 billion



Share performance



- Fortum was established in 1998
- First major acquisition was 50% of Birka in 1999

	2000–2001	2002–2004	2005–	
Growth in core business and geographical focus	• Stora Enso's hydro and nuclear generation assets, Sweden and Finland • Länsivoima, Finland • Wesertal, Germany	• Decision to participate in the Olkiluoto 3 nuclear power plant unit • 30% stake in Lenenergo, Russia • 34% Stake in Hafslund, Norway • 50% of Birka, Sweden • Shares in district heating companies in Estonia, Lithuania, Latvia and Poland	• E.ON Finland • > 33% stake in Lenenergo • 25%, stake in Kolenergo in Russia • District heating in Poland and Lithuania * Starting TGC-1	EUR 7.8 billion
"Become the benchmark power and heat company"	• Strategic focus on the Nordic and Baltic Rim area • Start restructuring non-core businesses • Strong focus on financial performance • Participation in World Bank Prototype Carbon Fund	• Pan-Nordic organisation • Birka transformation programme • Focus on leadership development • Included in the Dow Jones Sustainability Index	• Separation of oil businesses • Strategy revision: stronger emphasis on Russia and the Baltic Rim	
Divesting non-core business and non core-geographical areas	• Power and heat in Hungary	• Power plant and transmission engineering • Power and Heat in Germany, UK, Hungary and Thailand • Oil in Oman and Norway • Wesertal, Germany	• North Transgas	EUR 6.2 billion

Moving towards an open European electricity market

Europe is moving towards a single liberalised electricity market. This integration aims at enhanced competition and improved efficiencies in the use of capital and natural resources that will bring both customer and environmental benefits.

Fortum believes the benefits of a liberalised market will be reached when supported by a stable regulatory framework. Therefore, Fortum is committed to developing the industry framework, and working towards an effective and competitive European electricity market.

The June 2003 EU Directive sets 1 July 2007 as the date for the opening of the market, and the date when all customers can freely choose their electricity supplier. Furthermore, the regulation on cross-border exchanges in electricity aims at setting fair rules, thus enhancing competition within the internal electricity market. This will involve a compensation mechanism for cross-border flows of electricity, harmonised principles on cross-border transmission charges and the allocation of available interconnection capacities between national transmission systems.

In its 2004 strategy, the EU Commission set a target of integrating the European electricity markets. This is expected to be reached by first developing integrated and harmonised regional markets, and then integrating these regional markets into one European power market. The resulting competition will lead to price convergence within the regional markets, and finally across the EU.

Eurelectric, the European power industry organisation, has defined its position and goals in relation to this process. At its annual congress in Vienna in June 2005, Eurelectric approved its "road map" outlining a parallel approach to reach the Commission's target. In Eurelectric's view, regional development could end up in structures that may complicate or even hinder European-level integration. The "road map" suggests that the most efficient means of meeting the goal of integrating the European power market is to develop regional markets in parallel with co-ordination between regions.

In power market integration, a well-functioning wholesale market is crucial. In 2005, the Nordic market was still the only regional market in Europe, and as such a forerunner towards European integration. It is also often referred to as the best functioning power market globally. Political commitment at an early stage enabled a functional market design, highlighted by co-operation in transmission and system services, and a well-functioning regional power exchange, Nord Pool, that provides high market transparency. Especially financial power markets in Europe have started to expand beyond national and regional boundaries, and power exchanges are increasingly competing in product variety, including the newly established CO_2 emissions allowance trading.

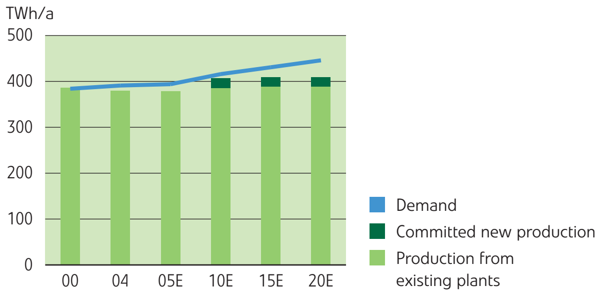
Integration is a challenge

Further integration of the Nordic market, however, remains a challenge, and discussions on further harmonisation of the power market by the Nordic energy ministers and the Nordic Council of Ministers continued in 2005. The energy ministers adopted a four-year plan for the Nordic energy policy co-operation 2006–2009, and asked Nordel, the Nordic co-operation body for Transmission System Operators (TSOs), and the authorities for an action plan by March 2006.

The vision paper for 2010 by the Nordic energy regulators, given in 2005, stated: "All customers in the Nordic electricity market will enjoy free choice of supplier, efficient and competitive prices and reliable supply through the common Nordic electricity market which also interacts smoothly with other regional electricity markets in the EU." As strategic priorities, the regulators point to a truly common Nordic retail market with free choice of supplier, a well-functioning Nordic wholesale market with competitive prices, reliable supply, and efficient regulation of the TSOs.

Evolving European integration combines the Nordic

Electricity demand and supply in the Nordic market



A holding in the local power company in north-west Russia increases the share of hydropower in Fortum's generation portfolio.

market with Continental Europe. Integrating the continental thermal power-dominated and Nordic hydro power-dominated markets serves to increase efficiency and decrease price peaks. As the physical interconnections and cross-border trading develop, price convergence will gradually increase and price volatility decrease. In October 2005, Nord Pool launched a German spot bidding area KONTEK, to facilitate market coupling, i.e. market-based use of transmission capacity of the Kontek cable between Denmark and Germany. Commissioning of the NorNed cable between Norway and the Netherlands by 2008, and the Estlink cable between Estonia and Finland by 2007, will further enhance European cross-regional integration.

Despite a reasonably well functioning wholesale market, the Nordic retail markets still remain national. The goal set by Nordic regulators is to establish a Nordic retail market. This will require harmonisation and agreement by key procedures related to, for example, balance settlement, standardising of data structures and handling, supplier switching, metering, and billing components.

Market functionality questioned

During 2005, the functionality of the power markets was under frequent public discussion in Europe. Sharp global increases in oil and gas prices, the price of CO_2 as a new cost component, and the transposition of these costs from the wholesale market to customer prices fuelled the debate. The structure of the Nordic market and the trustworthiness of Nord Pool were questioned.

Several studies published in 2005 concluded that the Nordic market functions rather well. However, to further develop its functionality, actions are needed in the following areas:

- reduction of grid bottlenecks
- deeper co-operation between TSOs
- harmonisation of regulation
- equal treatment of market actors
- further development of the Nord Pool power exchange

Nord Pool took measures to improve trustworthiness for example by increasing maximum penalties for rule violations. The Nordic and other European financial derivative product volumes grew in 2005, compared to 2004, and the liquidity of the markets showed continuous improvement.

Increases in the price of electricity and gas also prompted the European Commission Directorate-General for Competition to initiate an inquiry into the functioning of the European electricity and gas markets. The inquiry focused on the behaviour of companies, the use of market power, and the functioning of the retail markets. The inquiry's preliminary report from November 2005 identified a number of impediments to power sector competition in Europe. These included the high level of market concentration in generation in most member states, vertical foreclosure and its negative effect on the wholesale market liquidity, as well as insufficient integration of the EU electricity market. Also listed as impediments was the lack of wholesale market transparency and fact that large consumers doubt that wholesale spot and forward prices result from fair competition. A report by the Directorate-General for Transport and Energy in November 2005 also called for further progress. The main criticism concerned the lack of integration between national markets, the absence of price-convergence across the EU, and the low level of cross-border trade. The Nordic wholesale market was, however, found relatively well developed in regional integration.

Emissions allowance prices higher than expected

In 2005, EU emissions trading began impacting power prices. This development had been foreseeable well before the beginning of 2005 when actual emissions allowance trading started. However, the high CO_2 prices were a surprise. A key driver was the high price of gas resulting from high oil prices, making the price of coal-to-gas switches expensive. Furthermore, the market remained immature during the full year 2005. All sellers were not yet on the market; some lacked the finalisation of National Allocation Plans, e.g., or to didn't have the required allowance registers in place.

In implementing emissions trading, the EU has taken a leading global role in the mitigation of climate change. However, such measures applied in the EU only impact negatively on European competitiveness, a fact that emerged as a key concern in 2005. In particular, the goals set for the Kyoto period 2008–2012 will heavily impact the power sector in EU countries, as it is made responsible for the major part of the emissions reductions. Climate change policies after 2012 remain unclear even though the current Kyoto countries agreed in November 2005 in Montreal to start preparing new targets for the future emissions reductions. Countries outside the Kyoto Protocol including the USA, will not enter into these preparations, but will continue their dialogue with other nations. This uncertainty is severely affecting decisions on power generation investments, as most of the currently planned new capacity will only come into operation after the Kyoto period.

Despite a functioning wholesale market, the Nordic retail markets still remain national.

Need for new capacity

Total Nordic installed capacity was approximately 91.000 MW at year end 2005, while Nordic generation totalled 394 TWh. In addition to modernising the existing generation fleet, new generation capacity is needed to cover increasing demand and potential capacity closures.

In Sweden the closure of the Barsebäck 2 nuclear unit took place in May 2005, whilst significant nuclear upgrading plans progressed. Construction of the Olkiluoto 3 nuclear unit in Finland began, with commissioning planned for 2009. Plans for new gas-fired generation proceeded in both Norway and Sweden. In addition, plans for other new CHP (combined heat and power) production were made. Plans for new wind power capacity were introduced in the Nordic market. Altogether, more than 20 TWh of new power generation by the year 2020, has been committed to.

Demand in the Nordic market is estimated to grow by approximately 1% annually during the coming years. By 2020 it is estimated that annual Nordic demand will be around 450 TWh/a. Despite ongoing projects plans to increase capacity, a significant gap still remains in meeting this demand. New capacity will require a long-term electricity price of 35+ €/MWh to cover the capital and operating costs over the lifetime of the investment. In order to secure future investments, the regulatory framework needs to be stable and predictable.

Restructuring continued

Restructuring continued in the Nordic market, however, at a slow pace. The Nordic market remained highly fragmented on a European scale, with more than 350 generators and 500 distributors and some 450 retail companies. In Finland Fortum has agreed to acquire E.ON Finland. An agreement was signed with the city of Espoo over its share in E.ON Finland in December and, on February 2, 2006, an agreement was signed regarding E.ON Nordic's stake in the company. The Danish power sector consolidation by DONG and Vattenfall was cleared by the European Commission regarding Vattenfall's entry to the Danish electricity market.

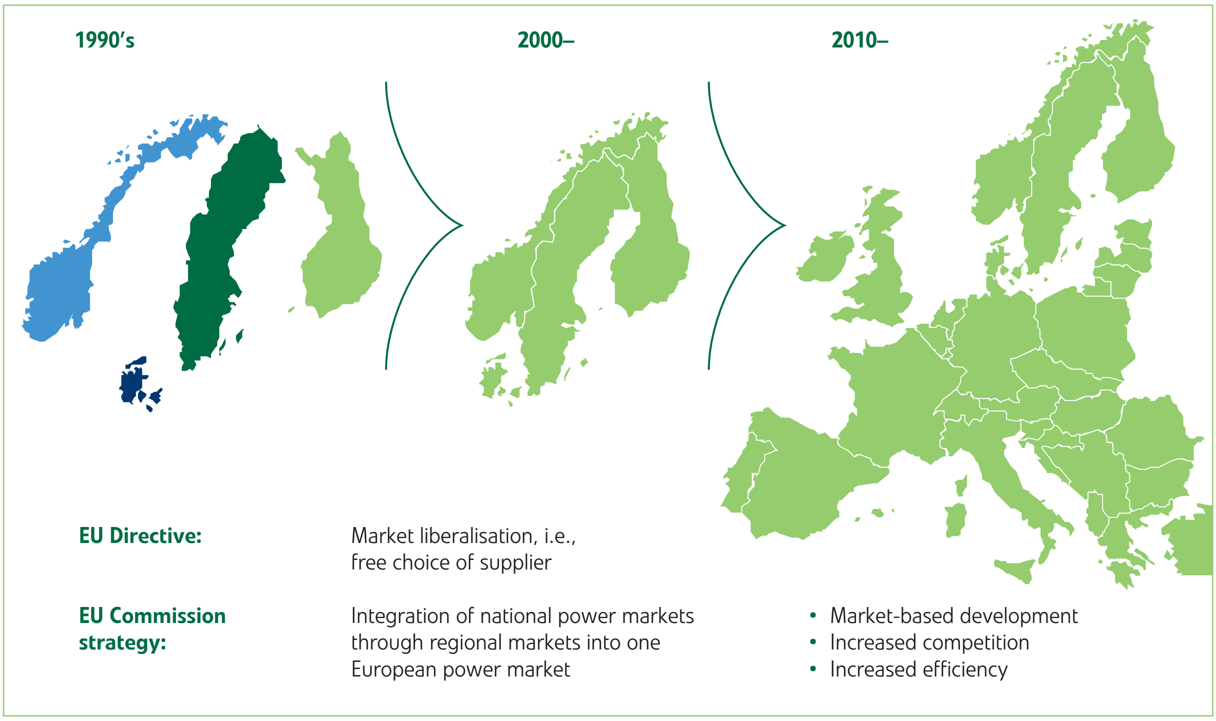
The European Commission's approval regarding DONG was still pending at the end of the year. Statkraft acquired generation assets in Sweden and Finland. E.ON consolidated its Swedish operations under the E.ON brand. Divestment of Statkraft's stake in TEV in Norway was cancelled against the earlier demand by Norwegian Competition Authority.

According to the Russian energy strategy to 2020, the demand for electricity will grow from the current somewhat more than 900 TWh per year to 1,215–1,365 TWh by 2020. It is estimated that more than 100,000 MW of new and replacement generation capacity, and more than EUR 100 billion in investments will be needed. The need for investments together with the need to enhance industry efficiency were the initial key drivers for the ongoing power sector reform. The Russian power sector liberalisation is scheduled for 2008 with much similarity in market design to the Nordic market.

The Russian power sector restructuring has broadly proceeded according to plan and establishment of the territorial generation companies continued in 2005. About half of the total Russian generation capacity will be in the new privatised territorial generation and federal thermal wholesale generating companies. TGC-1, comprising the generation assets of Lenenergo, Kolenergo and Karelenergo in north-west Russia, started its operations on 1 October 2005 based on a leasing agreement. With its 26% share in TGC-1, Fortum remained the sole foreign strategic investor in the Russian power and heat sector.

The national economies of Poland and the Baltic countries the national economies are on a strong growth track. Poland has the largest heat market of all the Baltic Rim countries: its size corresponds to that of the Nordic and Baltic countries combined. The privatisation of Polish heat and power generation companies continued in 2005.

Towards an open European power market



R&D focus on core businesses

Research and development is vital for Fortum's technological competitiveness. The company forms research networks and focuses its own R&D activities on selected key areas.

R&D objective

Fortum applies various technologies in its core power and heat businesses. Technology know-how is inherent and significant in striving for efficient, safe, reliable power and heat generation, high plant availabilities, and low environmental impact of operations. Fortum also seeks to improve the reliability of its electricity distribution networks and to invest in top-class customer services and interfaces, thereby applying the most recent technologies in these areas. Fortum monitors the development of new energy technologies in order to have the capability to apply them in its core businesses in the future. From these perspectives, the objective of R&D in Fortum is to secure the company's technological competitiveness.

R&D profile and approach

Fortum engages in R&D to support its current operations, to enable growth, to support its sustainable development agenda, and to secure its long-term technology base. The company's R&D function has undergone a significant restructuring since 2001. Currently, the role of R&D can be defined as building well functioning networks with research organisations, engineering companies, vendors and other partners, while at the same time actively conducting R&D in selected key areas.

Fortum has a business unit-centered approach to R&D, meaning that during 2005 R&D was a function of, and financed by, the individual business units. A Corporate Technology function was reinstated in the first half of the year. The goal is to continuously improve the balance between internal activities and the company's participation in national and international R&D programmes, together with suitable partners.

R&D expenditure

The total R&D expenditure in 2005 was EUR 14 million (EUR 26 million in 2004). This amounts to 0.24% of net sales (0.22% in 2004). In 2004, the expenditure included that of the oil businesses. Excluding oil, the R&D expenditure in 2005 was at the same level as the year before.

Advanced CFD modelling provides a versatile tool for design analysis

Fortum continuously conducts research in order to find new and innovative ways to lower emissions and enhance operational safety of its heat and power plants. One of the methodologies employed is Computational Fluid Dynamics (CFD), an approach for detailed mathematical modelling of fluid flow in different spaces.

CFD calculations are often used to simulate modifications in nuclear power plants prior to implementation, in order to ensure the feasibility of the planned approaches. CFD is also an invaluable tool in nuclear safety-related analyses where real, or even experimental, testing is not possible. In co-operation with VTT Technical Research Centre of Finland, Fortum has also used CFD to design burners that would reduce nitrogen oxide emissions from the Haapavesi peat-fired power plant. Six new burners were installed in 2005, reducing the boiler's nitrogen oxide emissions by over 40%.


A strategic partnership with the energy supplier is essential for energy intensive industry to be competitive.

To be the benchmark power and heat company

Fortum reinforced its position as a leading Nordic power and heat company and made significant progress in strengthening its foothold in other parts of the Baltic Rim during 2005.

93% of generation is CO_2-free

Fortum's businesses are divided into four reporting segments. Power is generated in plants owned or partly owned by Fortum in the Power Generation segment and in combined heat and power plants in 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 it to private and business customers as well as to other electricity retailers. The Heat segment sells steam and district heating mainly to industrial and municipal customers as well as to real estate companies. Fortum's distribution and regional network transmissions are reported in the Distribution segment.

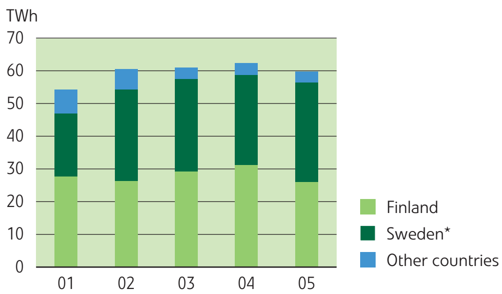
Fortum's power generation capacity, 31 Dec 2005

MW	Finland	Sweden	Other	Total
Hydropower	1,432	3,158		4,590
Nuclear power	1,428	1,661		3,089
Combined heat and power	567	531	145	1,243
Condensing power	1,595	639		2,234
Other	10	115		125
Total	5,032	6,104	145	11,281

Fortum's power generation by source

TWh	2004	2005
Hydropower	19.1	**21.2**
Nuclear power	25.8	**25.8**
Thermal power	10.6	**5.3**
Total	55.5	**52.3**

Fortum's electricity sales by area



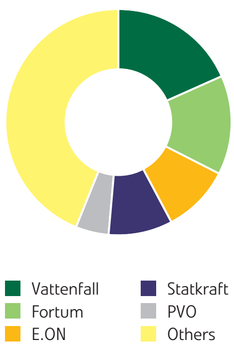
* Sweden 2002, Birka Energi is 100% March–Dec. and 50% Jan.–Feb.

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

Still a highly fragmented Nordic electricity market

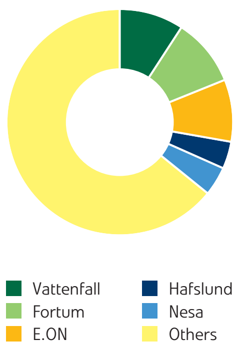
Generation

379 TWh
> 350 companies



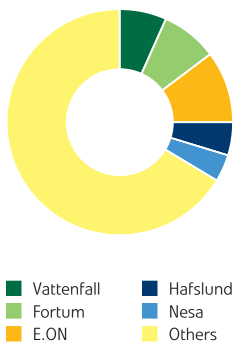
Distribution

14 million customers
> 500 companies



Retail

14 million customers
~ 450 companies



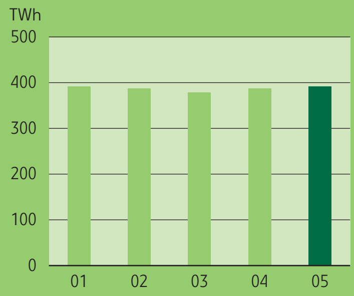
Source: Fortum, Company data; Shares of the largest actors, 2004 figures

Electricity generation and consumption in the Nordic countries

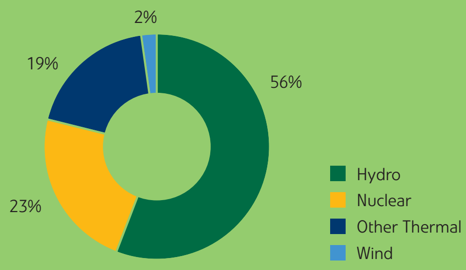
Electricity consumption

TWh	2004	2005
Finland	87	**85**
Sweden	146	**147**
Norway	122	**126**
Denmark	35	**36**

Total electricity consumption



Total electricity generation by source in 2005



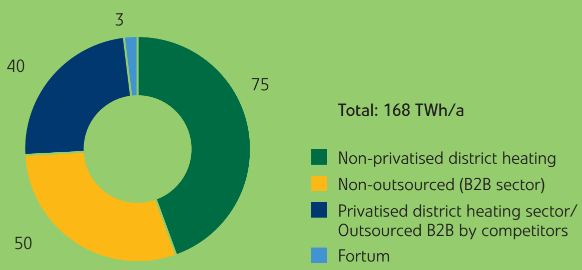
Electricity generation by source

TWh	2002	2003	2004	2005
Hydro	206	168	182	**222**
Nuclear	87	87	96	**92**
Other thermal	83	101	91	**73**
Wind	5	6	7	**8**
	381	362	376	**395**
Net exchange *	5	17	12	**-1**

* import-export

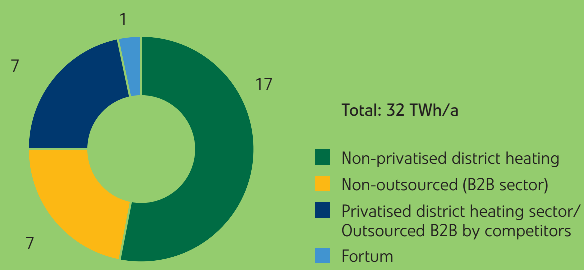
The heating markets in Poland and in the Baltic countries

Heat markets in Poland



Source: National statistics, 2004

Heat markets in Baltics

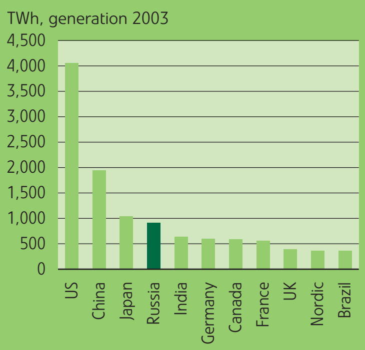


Source: National statistics, 2004

The Russian power market

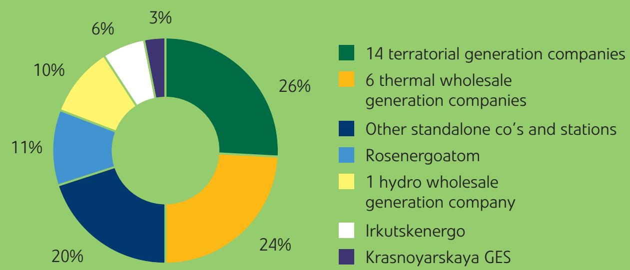
- Fortum's strong foothold in north-west Russia originates from stakes in Lenenergo and Kolenergo.
- Lenenergo owns 63% and Kolenergo 25% of Territorial Generation Company No. 1 in north-west Russia.
- The generation capacity of TGC-1 is approximately 5,750 MW, of which Fortum's calculated share is 26%.

The large Russian power market is undergoing a major change



Source: IEA

The emerging new structure of Russian generation ownership



Operational efficiency improved

In 2005, 93% of Fortum's total power generation was CO_2-free, which is a significant asset after the commencing of emissions trading. Fortum's generation represents 13% of Nordic consumption, and the company's position in Russia was strengthened with new acquisitions.

Power Generation generates and sells power, mainly on the Nordic electricity market. It is also responsible for the risk management operations in power generation. Power is sold by this business segment to the Nord Pool power exchange and the OTC* market. Additionally, the segment provides operation and maintenance services for the Nordic area and for selected international markets. Generation, Portfolio Management and Trading (PMT), and Service are the business units within Power Generation.

Power Generation plays a key role in Fortum's strategy of becoming the leading power and heat company in the Nordic and Baltic Rim areas, a strategy that emphasises performance excellence in all Fortum operations. In Power Generation, the focus is on securing a high level of power plant availability, upgrading production assets, and on operational excellence in physical and financial portfolio management. In addition to a long-term investment plan reaching to 2010, Fortum is looking for new investment opportunities in order to secure future capacity needs. As the Russian electricity market is being liberalised, north-west Russia is seen as having interesting growth possibilities in power generation.

The main performance driver in the power generation business is the market price for electricity. The main factors affecting the market price are the inflow to the Nordic water reservoirs, and prices for emission allowances and fuels in the international markets. The main factors affecting the price development in 2005 have been a strong hydrological situation and the EU emissions trading scheme.

Key figures

EUR million	2004	2005	Change %
Net sales	2,084	**2,058**	-1
power sales	1,695	**1,682**	-1
other sales	389	**376**	-3
Operating profit	763	**825**	+8
Comparable operating profit	730	**854**	+17
Net assets (at end of period)	6,218	**5,954**	-4
Return on net assets, %	12.1	**14.0**	+16
Comparable return on net assets, %	11.5	**14.5**	+26
Investments	210	**129**	-39
Average number of employees	4,588	**4,374**	-5

The segment's power generation by source

TWh	2004	2005
Hydropower	19.1	**21.2**
Nuclear power	25.8	**25.8**
Thermal power	6.0	**1.3**
Total	50.9	**48.3**

* OTC: Over the counter. A contract conducted via a broker or between two companies. In the electricity market almost all OTC trading is cleared in the power exchange.

Outokumpu Tornio plant uses 5% of Finland's entire industrial energy.

A reliable energy supply is critical to Outokumpu's business operations. Even a one-second cut in supply can have a huge impact on costs. The price paid for energy should be competitive to that being paid by our competitors. We expect our partners to be professional and to be able to react quickly to the needs of their customers.

Risto Liisanantti, Vice President, Administration
Outokumpu Stainless Steel, Tornio

High fuel and emissions allowance prices

After a two-year period with lower than normal inflows, 2005 started with a surplus in the Nordic water reservoirs and the inflows remained at a high level. At the end of the year, the water reservoirs were 7 TWh above the average and 5 TWh above the 2004 level.

The price for emission allowances was affected by high gas prices – resulting partly from high oil prices. During 2005, the market price for CO_2 emission allowances increased from around EUR 7 per tonne at the beginning of the year to nearly EUR 30 per tonne by mid-July. During the rest of the year, the price was rather stable at EUR 20–24 per tonne. Coal prices decreased compared to the historically high 2004 levels but were still above the 2003 average. This kept the production costs for coal condensing power at a high level.

The average spot price for power in the Nordic power exchange was EUR 29.3 (28.9) per megawatt-hour, or 1% higher than in 2004. In Continental Europe the spot price was higher, resulting in exports from the Nordic countries to Germany.

Power prices in the forward market had an increasing trend until mid-July due to the increasing CO_2 emissions allowance prices. During the rest of the year, the forward prices stabilised below the July peak due to stabilised CO_2 emissions allowance prices and a strengthened hydrological situation.

Increased hydropower generation – successful hedging

The segment's power generation was 48.3 (50.9) TWh, of which 47.2 (49.8) TWh originated in the Nordic countries. Of the segment's power generation in the Nordic countries, 21.2 (19.1) TWh, or 45% (38%), was hydropower-based, 25.8 (25.8) TWh, or 55% (52%), nuclear power-based, and 0.2 (4.9) TWh, or 0.4% (10%), thermal power-based.

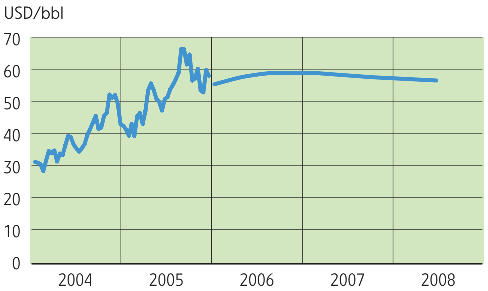
The increase in hydropower generation was due to a strengthened hydrological situation compared to the previous year. The decrease in thermal power generation was due to high hydro production volumes in the Nordic area together with higher fuel and CO_2 allowance prices in the international markets. The availability of Fortum's own and partly owned nuclear power plants remained high. Furthermore, Fortum's Loviisa nuclear power plant made a production record with a net production of 8.14 TWh.

In 2005, 93% (83%) of Fortum's power generation was CO_2-free. The amount of CO_2-free power generation has increased from 29 TWh to 49 TWh during the past six years.

At year end, the segment's power generating capacity totalled 10,003 (10,030) MW, of which 9,863 (9,890) MW was in the Nordic countries and 140 (140) MW in other countries.

Fortum's average achieved Nordic Generation power price (excluding pass-through sales) was EUR 31.2 (29.2) per MWh, 7% higher than the year before mainly, due to improved hedging prices. The average spot price for power

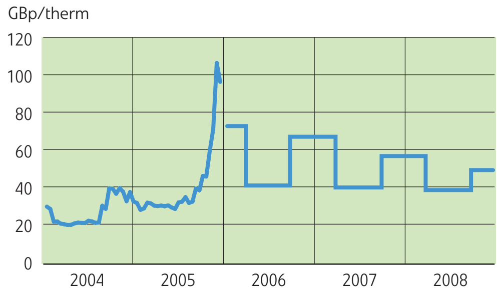
Oil price



Source: Reuters, Market prices on 2 January 2006; 2006–2008 future quotations

REUTERS

Gas price



Source: Reuters, Market prices on 2 January 2006; 2006–2008 future quotations

REUTERS

in Nord Pool was 1% higher than the year before. The related sales volume was 48.1 (51.0) TWh.

Improved efficiency through new and refurbished capacity

Fortum has an investment plan to increase its hydro and nuclear power generation in the Nordic area by some 10% by 2010. Additional power generation investment possibilities within the market area are being monitored. Fortum wants to keep all production methods available when making decisions on future capacity investments.

During 2005, Fortum made small capacity increases, both in hydro and nuclear power generation, and four hydropower plant refurbishment projects were completed. In addition, the refurbishment of the old Månsbo hydropower plant in Sweden was started and will be completed in 2007.

In order to ensure that the Loviisa nuclear power plant in Finland remains at a high technical level for the foreseeable future, Fortum began modernising the plant's automation systems in January 2005. All new automation systems will be implemented by 2014.

Fortum is engaged in the building of Teollisuuden Voima's new nuclear power plant unit, Olkiluoto 3, in Finland through a 25% share. This entitles Fortum to approximately 400 MW of the 1,600 MW pressurised water reactor unit's capacity. The Finnish government granted a construction licence in February 2005, and the unit is expected to begin operating in 2009.

In Sweden, there are plans to increase generating capacity in the existing nuclear power plants. Proposed capacity increases in Ringhals units 1 and 3 have already been given approval by the Swedish government. Fortum, as a part owner, will participate in possible plant upgrades of the Oskarshamn and Forsmark power plants. Fortum's share of added generation capacity is estimated to be 200 MW. These upgrades are planned for completion during the next ten years.

Increased presence in the Russian market

During 2005, Fortum increased its ownership in OAO Lenenergo to 33.2%. In November, Fortum agreed to acquire 24.8% of the shares in the Russian company Kolenergo and will obtain 23.3% of the voting shares of Kolenergo and its incorporated companies. The transaction is estimated to take place during the first quarter of 2006.

In February, Lenenergo, Kolenergo and Karelenergo agreed on the formation of Territorial Generation Company No. 1, TGC-1, the regional power generation company of north-west Russia. TGC-1 began operations in October based on a leasing model whereby TGC-1 leases and operates the generation and heat assets of its three owners. TGC-1's power generation capacity is 5,750 MW, of which 2,874 MW is hydropower, the rest being mainly natural gas-based generation. Heat production capacity is 14,688 MW. Fortum owns approximately 26% of TGC-1 through its stakes in Lenenergo and Kolenergo.

Emphasis on growth in O&M business

Fortum Service offers operation and maintenance (O&M) services for industry and energy companies, as well as for electricity distribution companies. At Fortum, Service is the competence centre for the company's own power plant operation and maintenance, ensuring high availability and cost-efficient utilisation of the company's generation assets. Fortum also operates in the Nordic industrial maintenance market and is looking for growth in selected international O&M markets, e.g. in Russia.

The availability and efficiency of Fortum's own power plants as well as that of those operated globally by Fortum is

Nordic sales volume

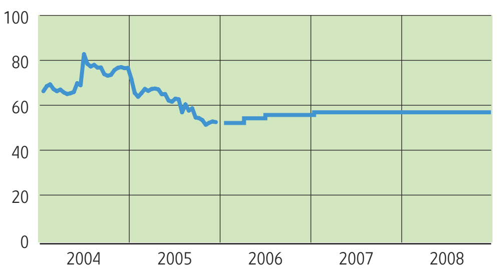
TWh	2004	2005
Sales	55.7	**52.6**
of which pass-through sales	4.7	**4.5**

Nordic sales price

EUR/MWh	2004	2005
Nordic Generation power price*	29.2	**31.2**

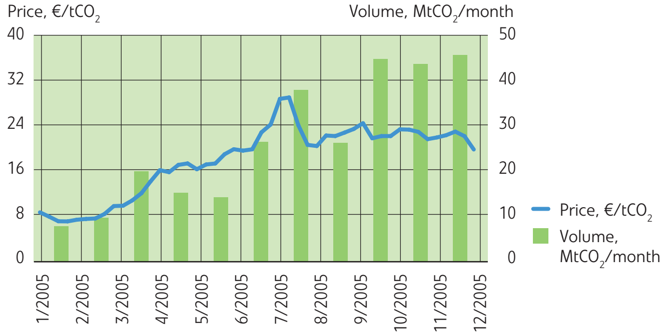
* For the Power Generation segment in the Nordic area, excluding pass-through sales.

Coal price



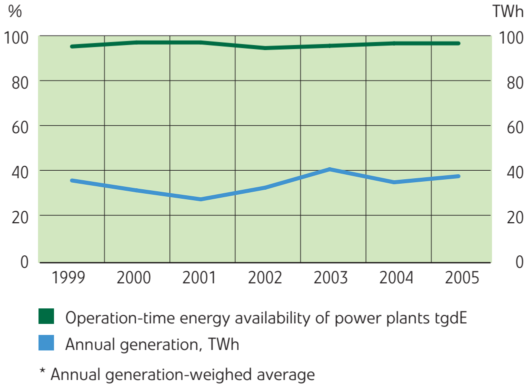
Source: Reuters, Market prices on 2 January 2006; 2006–2008 future quotations

EU emissions trading scheme CO_2 emissions allowance prices and volumes 2005



Source: Point Carbon, www.pointcarbon.com. Reproduced with permission.

Operation time availability (tgdE)*



very good by international standards. In 2005, the operation-time energy availability (tgdE) of power plants in Fortum's O&M fleet excluding hydropower was 96.9 tgdE.

During 2005, Fortum signed an agreement with Russian companies RAO UES of Russia and Kes-holding (IES, Integrated Energy Systems), aimed at developing a joint operating model for improving the competitiveness of the territorial generation companies. Additionally, Fortum signed a co-operation agreement with Interros, a leading Russian investment company, concerning future expertise and operation and maintenance services of the wholesale power companies acquired by Interros.

A 15-year operation and maintenance agreement was signed in Germany with Trianel Energie covering an 800 MW combined cycle gas turbine power plant.

The continuously improving trend in occupational safety was supported by a comprehensive safety training programme initiated during the year. The programme involves all Fortum Service employees in the Nordic countries and will continue throughout 2006.

R&D to boost competitiveness

The segment's research and development work is aimed at securing the continuous and successful operation of Fortum's power plants, and maintaining know-how that supports power plant operations and maintenance. Future technologies are closely evaluated to assess their potential for efficient power generation. Specific R&D projects in nuclear, hydro and thermal power production are on-going. Fortum is also involved in research on nuclear waste management and nuclear safety. In addition to its own projects, Fortum works in co-operation with different research organisations and institutes to study different production technologies such as large-scale wind power production and fuel cell technologies. R&D expenditures were approximately EUR 12 (10) million in the Power Generation segment.

Fortum is committed to sustainable power generation and aims to increase its CO_2-efficient production. All of Fortum's Nordic power generation operations have an ISO 14001 environmental certification. Emissions reduction opportunities at Fortum's own facilities have been systematically reviewed. Fortum has consistently made investments in CO_2-free power generation and has taken part in emissions trading since its beginning.

At the Finnish Haapavesi peat-fired plant, a project is in place to change all burners to low-NO_x burners in order to meet tightening NO_x emission limits. Half of the burners were changed in 2005, and the remaining burners will be changed during 2006.

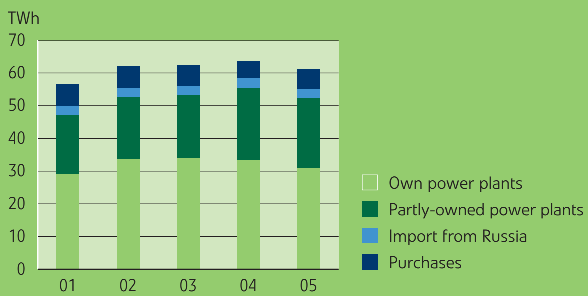
About 4 TWh, 19%, of Fortum's annual hydro production has been certified by Finnish and Swedish societies for nature conservation. Furthermore, Fortum has obtained Guarantees of Origin in the European energy certificate system to be sold to the European market.

Fortum to continue investment activities

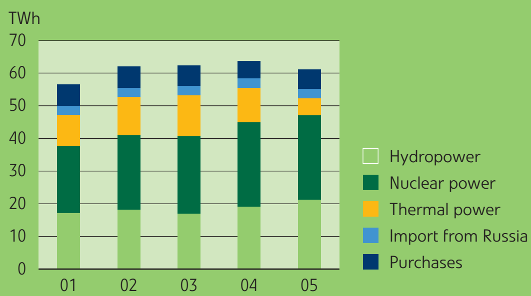
In 2006, Fortum will continue investments in power generation. Operational improvements include power generation optimisation and further development of core processes in power generation business.

In the beginning of February 2006, the Nordic water reservoirs were about 4 TWh or 6% above the average and 0.4 TWh above the 2005 level. At the same time, the market price for emission allowances for 2006 was around EUR 28 per tonne of CO_2 and the market price for coal for the rest of 2006 was around EUR 50 per tonne. Forward quotations give reason believe that price levels for oil and gas will remain relatively high. The electricity price in the Nordic forward market for the rest of 2006 was in the range of EUR 40–44 per MWh.

Fortum's total electricity procurement by type



Fortum's total electricity procurement by source



Continued growth

Heat's presence in the Baltic Rim area was strengthened through acquisitions. Capacity was also increased in the Nordic countries as a new waste fuel-based CHP plant was inaugurated in Sweden.

Biofuel use on the increase

Heat concentrates on district heating and cooling, industrial steam and waste-to-energy production, and on energy outsourcing services to industry. It owns and operates 23 (24) combined heat and power plants (CHP) and several hundred heat plants in the Nordic countries, the Baltic countries and Poland. The segment consists of two business units, Heat and Värme. In the latter, the City of Stockholm has a 50% economic interest.

The goal is to become the benchmark for the heat industry in the Nordic countries and the Baltic Rim area. Today Heat is the leading heat provider in the Nordic countries and it is the main district heat provider for the city of Stockholm in Sweden. Heat is the competence centre for CHP production and waste incineration as well as for district heating and outsourced energy services for local communities and industries.

During the past few years, Heat has successfully established growth platforms in the Baltic countries and Poland. In the Nordic countries it seeks both organic and consolidation-driven growth. Also the market potential in north-west Russia is being evaluated.

Fortum's heat sales totalled 21.7 (21.8) TWh, with Sweden and Finland accounting for 9.5 (9.6) TWh and 9.8 (10.5) TWh, respectively. In other countries, total heat sales amounted to 2.4 (1.7) TWh. In the Nordic countries, industrial steam accounted for 5.1 (5.7) TWh and district heating for 14.3 (14.4) TWh. Power generation at CHP plants was 4.0 (4.6) TWh.

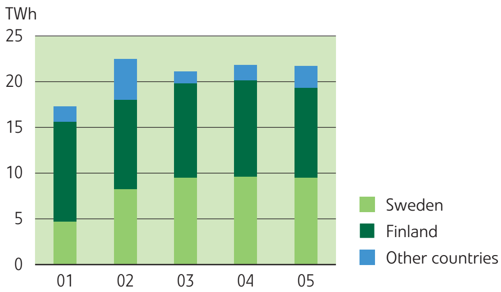
Key figures

EUR million	2004	2005	Change %
Net sales	1,025	**1,063**	+4
heat sales	779	**834**	+7
power sales	159	**145**	-9
other sales	87	**84**	-3
Operating profit	218	**269**	+23
Comparable operating profit	207	**253**	+22
Net assets (at end of period)	2,440	**2,551**	+5
Return on net assets, %	9.8	**11.6**	+18
Comparable return on net assets, %	9.3	**11.0**	+18
Investments	175	**212**	+21
Average number of employees	1,605	**2,186**	+36

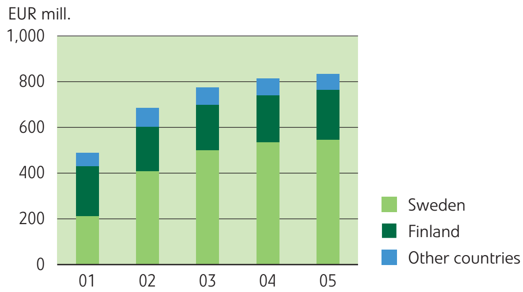
Acquisitions strengthen Baltic Rim operations

The privatisation of the Polish heat market offers potential for growth. Fortum acquired two new heat companies in Poland during the year. In October, Fortum signed an agreement to purchase a majority share of MPEC Wroclaw, a district heating company based in Poland's fourth biggest city, Wroclaw, with annual net sales of EUR 70 million and heat sales of 2,100 gigawatt-hours. In December, Fortum acquired a district heating company in the city of Plock. The annual net sales of the company totals approximately EUR 13 million, with heat sales amounting to 500 GWh. As a result of these acquisitions,

Heat sales by area



Heat sales by area



The co-operation between Fortum and Outokumpu includes, amongst other things, the supply of electricity in Sweden, electricity supply and emissions trading in Finland, electricity distribution to the Degerfors factory, as well as the delivery of heat to the Avesta plant.

Fortum has four heat companies in Poland with aggregate net sales of EUR 130 million and annual heat sales of 3,900 GWh.

In April, Heat acquired UAB Suomijos Energija, a Lithuanian district heating company with annual heat sales of 60 GWh and fuel sales of 62 GWh. The acquisition of this company creates a growth platform for Fortum in the Lithuanian heat market.

In Finland, Fortum acquired E.ON Finland. An agreement was signed with the city of Espoo over its share in E.ON Finland in December and, on 2 February 2006, an agreement was signed regarding E.ON Nordic's stake in the company. The acquisition will increase Fortum's combined heat and power generation capacity by approximately 2.5 TWh.

Fortum has shareholdings in gas companies in Finland, Sweden and Estonia. As part of the company's continued restructuring of gas assets, Fortum sold its 50% stake in North Transgas Oy to OAO Gazprom in May.

In Sweden, the new waste fuel-based CHP plant in Högdalen, Stockholm, was inaugurated in October. Fortum also began preparations for building a new biofuel-based CHP plant in Värtan, Stockholm, designed to meet 25% of the district heating demand and 10% of the electricity needs in the Stockholm area. During the year, Fortum took part in a number of waste-to-energy tenders in Finland. The company will continue to promote the utilisation of waste-to-energy production also in the future.

Effective energy utilisation

Fortum has committed to acquiring environmental certificates for its heat operations in the Baltic Rim area by the end of 2006.

Effective energy usage in heat production was enhanced by investing in a flue gas scrubber in Tarto, Estonia, and by making energy savings analyses at the biggest CHP plants located in Naantali and Rauhalahti in Finland.

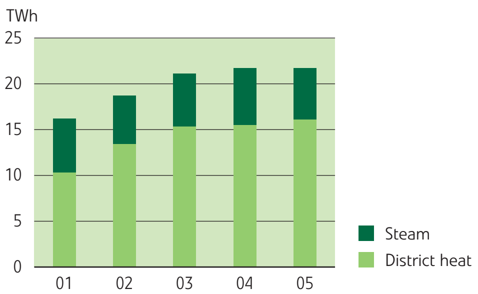
Heat is continuously enhancing the use of biofuels in its plants. New plants are designed to utilise biofuels and waste, and technical modifications have been made to those already in use.

2004 had been an exceptionally good year in terms of biofuel usage in Fortum's heat production. In 2005, however, the amount was somewhat lower due to the lock-out in the Finnish paper industry that lasted over two months. The amount of heat produced with biofuels and thus meeting the "Nordic Seal Recommends" criteria, was 2,031 GWh, which exceeds the licence requirements by 1,245 GWh.

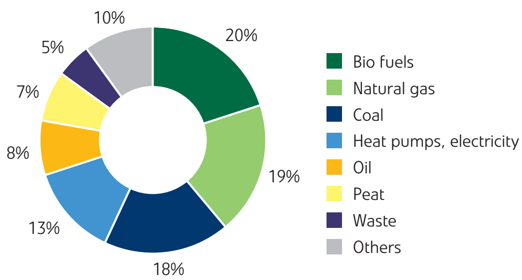
Further utilisation of growth platforms

Profitable business growth continues to be one of the focal points of Fortum's heat business. Emphasis will be put on integrating and further developing the acquired businesses. Heat will continue to look for new opportunities for both organic and consolidation-driven growth in the Nordic countries and around the Baltic Rim. The segment will also continue to utilise opportunities arising from the privatisation of the Russian energy sector in north-west Russia.

District heat and steam sales



Heat production 25.1 TWh in 2005



Fortum's heat production capacity 10,007 MW

Investing in reliability

Fortum launched an additional EUR 200 million investment programme to further improve the reliability of its electricity distribution networks. A project to develop meter reading management allowing customers to be billed according to actual electricity consumption was also started.

Committed to customer service

Distribution is responsible for a reliable and secure electricity supply. Fortum owns and operates distribution and regional networks in Sweden, Finland, Norway and Estonia and distributes electricity to a total of 1.4 million customers.

By ensuring a continuous electricity supply and providing high-quality customer service in all conditions, Distribution plays a central role in helping Fortum to achieve its strategic goal of becoming the benchmark power and heat company.

The market share of electricity distribution, based upon the volume transmitted in distribution networks, was 14% (14) in Finland, 14% (14) in Sweden, 3% (3) in Norway and 3% (3) in Estonia.

Upgrading grid reliability

Distribution is committed to continuous improvement of its network reliability. The Fortum Reliability Programme launched in September 2005 aims at further improving the security of supply. The first scheduled phase of the programme will last three years, after which further detailed planning will be implemented. Fortum's current grid availability is 99.9%. The Reliability Programme's aim is to halve the average yearly outage time. During the coming five years, a total of EUR 700 million will be invested in the Nordic networks. Of this amount, EUR 200 million is to be used in the Reliability Programme.

Key figures

EUR million	2004	2005	Change %
Net sales	707	**707**	-
distribution network transmission	593	**592**	-
regional network transmission	83	**82**	-1
other sales	31	**33**	+6
Operating profit	234	**251**	+7
Comparable operating profit	240	**244**	+2
Net assets (at end of period)	3,091	**3,021**	-2
Return on net assets, %	8.1	**8.8**	+9
Comparable return on net assets, %	8.3	**8.6**	+4
Investments	106	**115**	+8
Average number of employees	995	**1,008**	+1

In Estonia, Fortum's reliability of supply has improved steadily. The network's quality is approximately twice as good as the country average. Another long-term aim of Distribution in Estonia is to minimise energy losses in the distribution network.

In March 2005, the centralisation of Fortum's Swedish grid supervision was finalised. The Swedish control centre and all connected activities are now located in Karlstad. In Norway, Fortum's Elsikkerhet AS subsidiary was sold in September 2005 to Hafslund Elsikkerhet AS.

New regulatory challenges

Electricity distribution is considered and accepted as a strictly regulated business, and is therefore supervised by national energy authorities. Models and principles for supervision differ from country to country. Considerations as to whether the tariffs applied are reasonable can be made either before

Number of electricity distribution customers by area, 31 December 2005

1,000	2004	2005
Sweden	860	**860**
Finland	405	**410**
Norway	93	**97**
Estonia	22	**23**
Total	1,380	**1,390**

Volume of distributed electricity in distribution networks

TWh	2004	2005
Sweden	14.2	**14.4**
Finland	6.2	**6.3**
Norway	2.1	**2.2**
Estonia	0.2	**0.2**
Total	22.7	**23.1**

implementation (ex-ante), or afterwards (ex-post). The EU directive states that regulation should move towards ex-ante where this is not yet the case.

In Sweden, the Energy Authority (EMI) has made several decisions about claimed overpricing during 2003 in various distribution areas across the country. Fortum owns one of these areas itself and one through an associated company. Two other Fortum areas are being investigated by EMI. For 2004, EMI has initiated supervision of 55 areas including five owned by Fortum and one owned via an associated company.

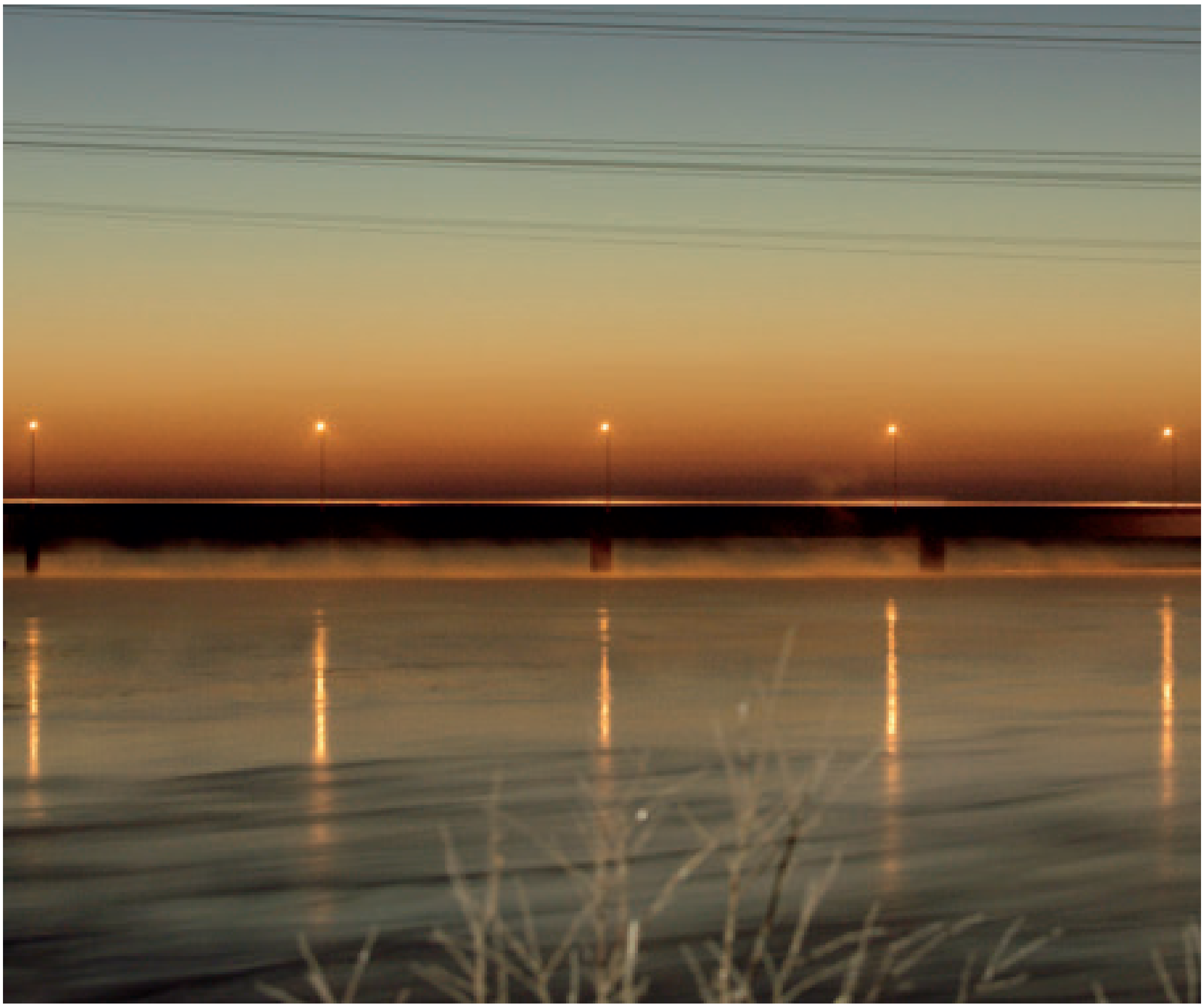
Furthermore, following the severe storms that hit the country in January 2005, the Swedish government has imposed a new law covering security of the network supply. The law includes a functional demand on the networks, according to which from 2011 onwards no outage shall exceed 24 hours. The January 2005 storms affected Fortum's grid areas in Sweden and Norway, leaving tens of thousands of customers without electricity and parts of the grid damaged. The total costs to Fortum amounted to EUR 11 million.

As from 1 July 2005, grid prices in Finland have been identical throughout all Fortum network areas. This is in accordance with the Electricity Market Act, which requires grid companies to have harmonious grid prices in their geographically integrated network areas. As a final step in this price integration, the fixed fee rose for 65,000 customers in southern Finland. For the majority, the rise was 2 EUR/month.

In Finland, the Electricity Market Authority has applied a new rate of return model for the period 2005–2007. A longer supervisory period of 3–4 years will make investment planning more feasible. However, the industry thinks the model still needs to be further improved because of the lack of investment incentives. Some 70 companies, including Fortum, have appealed the ex-ante methodology decision made by the Energy Market Authority to the Market Court.

In Norway, the regulator has proposed a new model effective from 2007 based on a maximum limit for revenues. This will depend upon the actual costs of the company as well as best practice costs. The model includes some investment and quality incentives.

In Estonia, ex-ante price regulation is valid with the rate of return as the basis. Starting from 2005, the Energy Market Inspectorate has introduced 3-year regulation periods with



CPI-x regulation where the prices are allowed to increase by inflation less an assumed productivity improvement. The new law stipulates new standards on reliability of supply.

Improved services to customers and other stakeholders

Distribution is constantly working to improve its services to customers and other stakeholders, such as the media and authorities, during outage situations. This includes, for example, a new nation-wide fault information telephone number in Finland, and a real-time internet service on the outage and maintenance situation in Sweden and Finland.

During 2005, Fortum launched a project aimed at providing an Automatic Meter Management system to all its distribution customers, enabling them to be billed based on their actual electricity consumption. The system will be implemented in phases starting in 2006. The target is to have all customers in Sweden within the system by 2009.

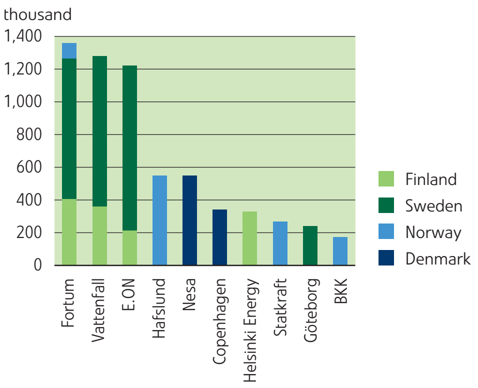
Working for a better environment

Distribution's practices support Fortum's sustainable development policy. For example, as a part of Distribution's Nordic environment programme, contaminated soil in old pole impregnation facilities will be cleaned up by the end of 2006, and substations situated in groundwater areas are equipped with leakage tanks.

In Paimio, south-west Finland, Distribution cleaned up the contaminated soil from an impregnation facility that had been unused since the mid-sixties. A total of 250 m^3 of contaminated soil was removed from the area and taken care of by appropriate waste management facilities.

Distribution's overall principle is to avoid the use of the greenhouse gas, Sulphur Hexafluoride (SF6) as an insulation material in switchgear, and use alternative solutions instead. Additionally, maintenance of distribution transformers and active reuse of demolished materials are considered a sustainable and efficient alternative to building new facilities.

Number of Nordic distribution customers



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: 136,400 km, 0.4–20 kV cables, overhead lines and 51,900 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 2005, Fortum's share stood at 15% .

Distribution has also stepped up its activities to improve occupational safety and awareness of environmental affairs internally. As part of this development work, the majority of Fortum Distribution employees in Finland and Sweden took part in environmental training during 2005. Safety and environmental training continues in 2006.

Focus on network reliability continues in 2006

In 2006 Fortum will support a harmonised Nordic approach to regulation, based on the principles set forth in the EU directive on common rules for the European internal electricity market. The ongoing investment programmes will continue in 2006 with the aim of further securing network reliability and building a system for automatic meter reading.

Efforts to meet customer expectations continued

During 2005, Markets implemented numerous concrete actions to develop its offerings and to provide customers with the best overall experience on the market. The efforts were successful and Markets secured a positive inflow of customers.

Service backed by customer guarantee

Markets is responsible for offering energy solutions for its customers in Finland, Sweden and Norway. The segment buys its electricity from the Nordic power exchange Nord Pool and sells it further to household and business customers as well as to other electricity retailers in the Nordic countries. In addition to the actual sale of electricity, Markets provides comprehensive risk and portfolio management solutions to its business customers.

Markets' ambition is to become the supplier of choice within the Nordic market. In order to achieve this goal, the segment focuses on providing customers with a superior level of service, and managing costs and risks efficiently.

In 2005, the margins remained low and the competition for electricity customers continued to be tough. Nevertheless, Markets was successful in securing a positive inflow of both private and business customers in every country of operation. The segment sold electricity to a total of 1.2 (1.1) million customers in the Nordic countries. However, electricity sales in 2005 were some 7.6% lower than in 2004 and amounted to 40.2 (43.5) TWh, mainly due to the termination of some large customer contracts at the end of 2004.

Price fluctuations and increased competition

Retail price levels fluctuated throughout the year. During the first half of 2005, both current prices and offers for new fixed price contracts averaged lower than in 2004. During the second half of the year, however, retail prices increased due to the increase in future wholesale prices.

At the same time, customer activity to change suppliers continued to increase both in Sweden and Finland. This activity is expected to further increase in 2006. It is estimated that approximately 15% of consumers have changed suppliers since market deregulation in Finland. In Sweden this figure is in the region of 35%. The number of customers in Norway switching from one supplier to another has decreased, but with some 50,000 consumers changing suppliers each quarter, the level remains fairly high. Conversely, the number of customers not buying electricity from the local supplier in Norway has remained stable at about 25% for almost two years.

Wide product range and flexible service

The different needs of various private and business customer segments guide the development of Markets' offerings. Private customers can choose, for example, between an easy and environmentally friendly current-priced contract, a safe fixed-price contract, or a contract based on pricing directly from the Nordic power exchange. For business customers, the focus is more on various solutions aimed at securing both electricity procurement and price, in accordance with the customer's own risk profile. Such solutions range from easy mechanisms to divide the procurement, to professional risk management services.

Both private and business customers are offered a number of advanced online solutions. These include the possibility to sign electricity contracts, monitor consumption, review invoices and to obtain electricity market information via the Internet. The importance of online solutions to customers is clearly growing, and Markets' efforts to improve its digital interface towards customers have increased the use of its online services.

In 2005, Markets introduced a new partnership concept for companies and associations in Finland and Sweden. In the partnership programme, both parties receive added value;

Key figures

EUR million	2004	2005	Change %
Net sales	1,387	**1,365**	-2
Operating profit	34	**32**	-6
Comparable operating profit	23	**30**	+30
Net assets (at end of period)	194	**228**	+18
Return on net assets, %	25.3	**17.4**	-31
Comparable return on net assets, %	17.1	**16.4**	-4
Investments	6	**10**	+67
Average number of employees	682	**745**	+9

We expect our partners to have the capability to act in a flexible and customer oriented way in the Nordic area.

Mikko Rintamäki, Outokumpu

Outokumpu has worked in partnership with Fortum since 1933.

Kari Vessonen, Fortum (right)

the employees and customers of the partner are offered attractive electricity products, and correspondingly, Fortum's Nordic customers receive valuable offerings from the partner.

Customer guarantee

Markets' goal is to have the most satisfied and loyal customers, and consequently customer satisfaction is regularly monitored. Feedback is obtained from various channels and a Nordic customer satisfaction survey is conducted annually. Compared with the previous year, satisfaction in particular among business customers improved in 2005.

Fortum's retail electricity customers are served by Markets' sales representatives as well as by the staff of Fortum's shared customer service unit. This unit manages Fortum's Customer Centre, provides billing and back office services, meter reading management and technical customer service. The consumers' interest is looked after by the Customer Ombudsman, function that is independent and reports directly to corporate management. The Ombudsmen in Finland, Sweden and Norway follow-up customer service issues and help individual customers if they are not satisfied with the company's normal service and feedback processes.

The company's promise of customer service quality is expressed in the Customer Guarantee. It includes financial compensation if the service is not up to standard. Services covered include meter readings, billing, change of suppliers and overall customer service. To further improve customer services, Markets actively works together with industry organisations to simplify and speed up communications between the customer and supplier.

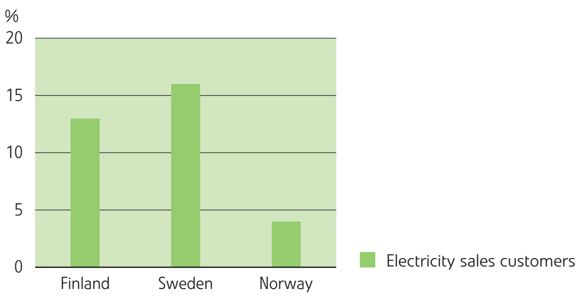
A big supplier of eco-labelled electricity

An increasing number of consumers and businesses buy ecologically sound electricity. In 2005, Markets promoted via its core offerings eco-labelled electricity certified by national societies for nature conservation. Markets also governs a Nordic-wide environmental fund. The fund's capital is based on the sale of electricity with Bra Miljöval eco-label in Sweden. In 2005, the fund financed two ongoing projects in Sweden to mitigate the impacts of hydropower generation, while new Nordic projects are currently under review.

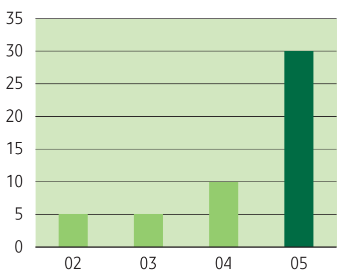
Increasing competition in the Nordic retail market

Markets continues to develop its operations and improve the service quality. The development work is guided by regular customer satisfaction surveys and interviews as well as the testing of new products and services by customer boards. Competition on the Nordic electricity retail market seems to be intensifying as customers compare electricity suppliers to an increasing degree. Markets' response to the intensifying competition is to develop competitive and customer friendly offerings and electricity procurement solutions that are promoted through effective sales and service channels.

Market share by Nordic country



Number of new offerings



In Stockholm's Hammarby area, the aim is to cut emissions in half through use of environmentally friendly energy solutions.

Anders Finnson, Stockholm Vatten

Good for business, good for societies

Fortum is committed to sustainable development and believes that it gives the company a competitive edge in the market.

Good corporate citizenship

In an era of rising fuel prices and volatile costs of CO_2 emissions, efficient production processes utilising low-carbon energy sources form a sound basis for business. Good environmental and social performance, together with a reputation as a reliable business partner and good corporate citizen, help in achieving Fortum's strategic goal to become the energy supplier of choice. It also strengthens the corporate image as a desired employer, capable of attracting talented individuals to ensure the continued success of the business into the future.

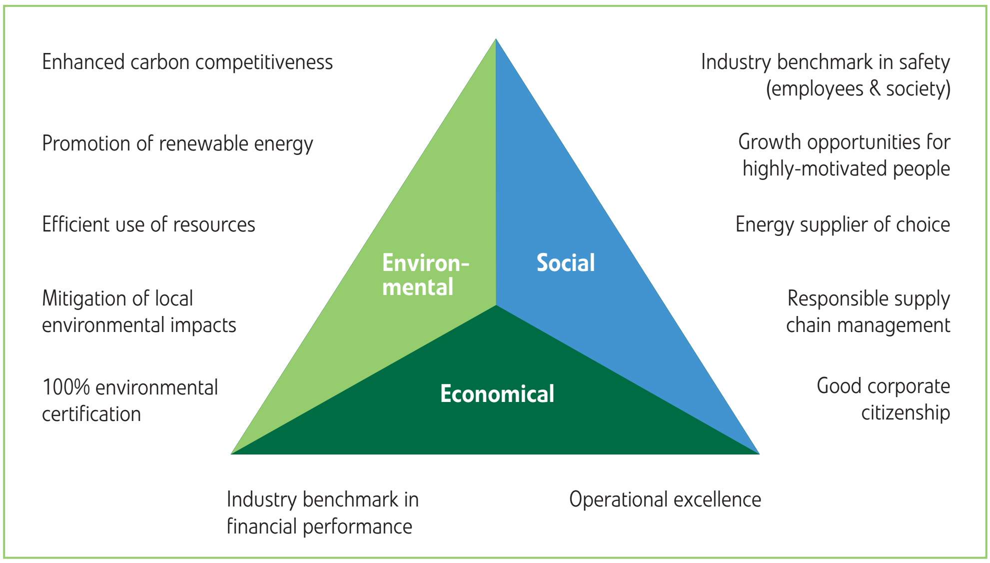
Policy guides our actions

Fortum has adopted a Sustainable Development Policy to be applied throughout the entire Group.
The policy is based on our core purpose:
Our energy improves life for present and future generations.
To live up to this aim, we

- contribute to the responsible use of natural resources and the abatement of climate change
- actively engage with our employees and stakeholders to continuously improve our environmental, social and safety performance
- share high standards of business ethics and integrity, care for the environment and respect human rights with our business partners, wherever we operate

We strictly comply with legal and regulatory requirements in all our operations. Our commitment to sustainable development is further elaborated in our guiding principles. We turn the principles into action by setting development targets on Fortum's Sustainable Development Agenda.

Sustainable Development Agenda



A responsible environmental approach

Fortum takes its environmental responsibility seriously and constantly strives to improve its performance in accordance with the environmental objectives in its Sustainable Development Agenda.

Power and heat production inevitably creates various impacts on the environment. Sustainable development calls for proper control of these impacts to ensure good living conditions today and for future generations.

Objective 1 – Enhanced carbon competitiveness

Fortum formulates its goal with regard to climate change as "enhanced carbon competitiveness." The aim is to outperform competitors in greenhouse gas management in order to gain a competitive edge in the company's core business. One of the cornerstones of this strategy is the focus on renewable and low-carbon energy sources. In 2005, 93% of the electricity was generated without carbon dioxide emissions, the highest share of carbon-free generation in the last five years. CO_2 emissions from Fortum's own power plants in 2005 totalled 6.5 million tonnes, some 45% lower than the previous year. The specific CO_2 emissions of the company's total electricity generation, including wholly and partly-owned power generation, dropped to 38 g/kWh, which is among the lowest of all major European power companies.

Fortum was an early mover in applying Kyoto mechanisms, having invested USD 6 (EUR 5.12) million in the World Bank's Prototype Carbon Fund (PCF) during 2000 and 2002. By the end of 2005, Fortum's PCF investments had yielded verified emission reductions of ca. 20,000 tonnes of CO_2 equivalent. During the Kyoto target period 2008–2012, the emission reduction credits are expected to rise to nearly 200,000 tonnes of CO_2 annually.

Objective 2 – Promotion of renewable energy

Future energy sustainability implies an increasing use of renewable energy sources. Fortum's goals are to continuously develop hydropower generation and to increase the use of biomass and waste-derived fuels whenever technically and economically viable. In 2005, hydropower and biomass fuels accounted for 43% of Fortum's electricity generation. Biomass fuels and heat pumps accounted for 39% of Fortum's total heat generation. The total use of biomass rose to 7.4 TWh, representing an increase of 2.3 % from the previous year.

Objective 3 – Efficient use of resources

The responsible use of natural resources is fundamental to sustainable development. Fortum promotes resource efficiency through systematic identification and implementation of measures to improve energy efficiency. The company also promotes the re-use and recycling of by-products and waste materials, as well as the use of waste-derived fuels in power and heat generation. CHP and heat plants with high energy efficiency accounted for 98% of the total fuel usage in 2005, while overall efficiency in fuel use improved slightly because of the decreased use of condensing power plants. The utilisation of gypsum from flue gas desulphurisation remained at a high level, whereas the utilisation of ash dropped clearly. The use of waste-derived fuels rose by 11% to 1,500 GWh, representing 4.9% of Fortum's total fuel use.

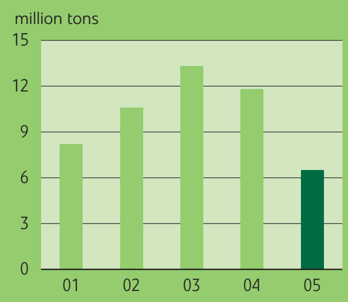
Objective 4 – Mitigation of local environmental impacts

Through the use of proven technology as well as advanced operating and maintenance procedures, Fortum strives to mitigate the local impact on the environment when building and operating its power plants. All of the company's major power plants are equipped with technologies to reduce sulphur dioxide, nitrogen oxides and particulate emissions into the environment. In hydropower generation, restoration projects are implemented in river systems to improve habitats for endangered species and to support the recreational use of waterways.

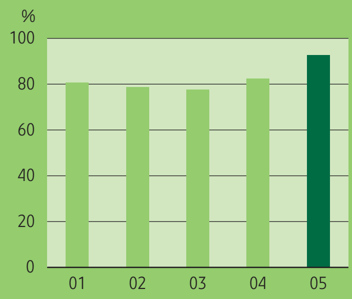
Objective 5 – 100% environmental certification

All business units have developed and certified their environmental management systems in accordance with the ISO 14001 standard. Today this covers more than 90% of Fortum's business volume. The newly acquired businesses will develop readiness for certification within two years of their acquisition.

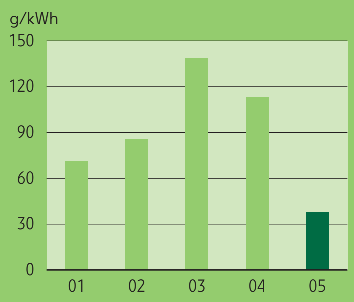
Carbon dioxide emissions



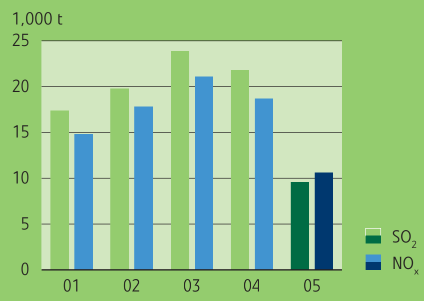
Share of carbon-free energy sources in power generation at own and partly-owned power plants



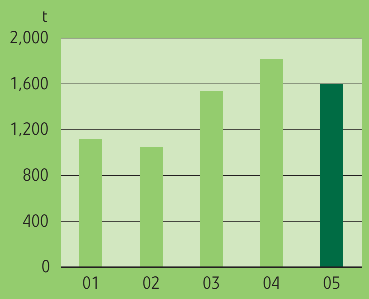
CO_2 emissions from Power generation at own and partly-owned power plants



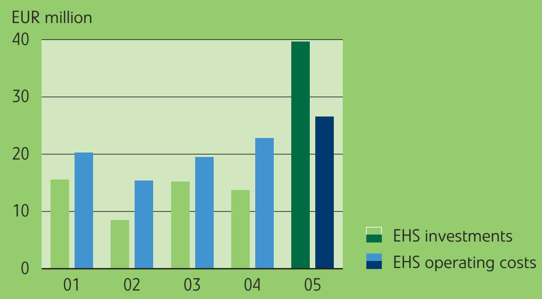
Sulphur and nitrogen emissions



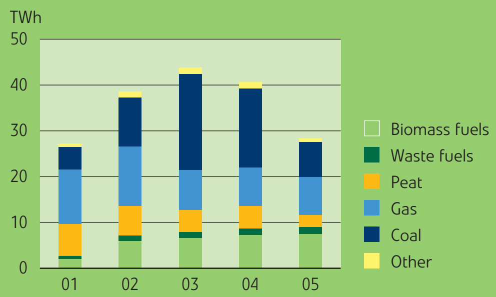
Particulate emissions



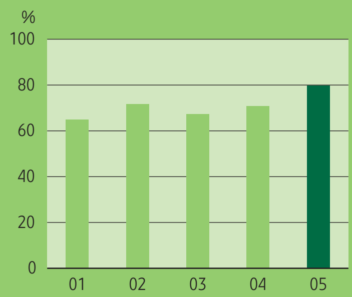
EHS investments and operating costs



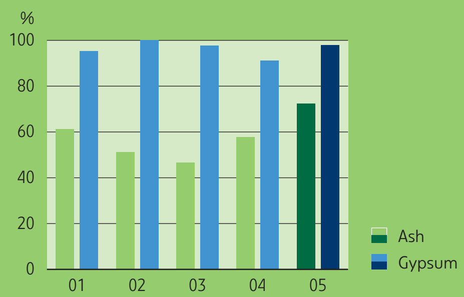
Fuel use



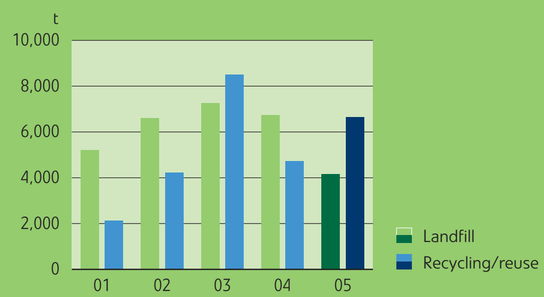
Fuel use efficiency



Utilisation of by-products



Conventional waste



Environmental indicators for 2005 are unverified and may change a bit during a later assurance process. Compared to 2004, the figures for 2005 do not include Kohtlajärve power plant, which was sold in 2005. On the other hand, the figures cover Fortum Czestochowa, which was acquired at the end of 2004. **More information is available at www.fortum.com/environment.**

Investing in the environment

In 2005, Fortum invested a total of EUR 40 (14) million in improving environmental and safety performance. These investments mainly relate to air-pollution control, dam safety and radioactive waste management. EHS-related operating costs amounted to EUR 27 million.

Environmental liabilities under control

Fortum strives to systematically identify environmental and safety risks. An internal EHS assessment procedure is applied to all significant acquisitions and other projects. Fortum has evaluated the liabilities relating to past operations and made the necessary provisions for any future remedial costs concerning environmental damage. Fortum's management is not aware of any cases that might have a material impact on the company's financial position. Of the provisions for liabilities and charges included in the financial statements for 2005, EUR 21 million is for environmental liabilities. Such liabilities primarily relate to contaminated soil cleanup projects.

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

In 2005, Fortum recorded only one case of non-compliance with environmental regulations. This case did not incur any significant liabilities to Fortum.

Shops and offices throughout the Hammarby area utilise district cooling. Cold water, taken from the effluent of the heat plant's production process, is channelled to the district cooling system.

Competent people are key to competitive performance

Making people management and development processes an integral part of business is a key success factor in reaching Fortum's strategic goals.

Special areas of development include efficient human resource planning, developing a benchmark employer image, leadership development and building a strong performance culture. All these activities are guided by Fortum's shared values.

Close monitoring of Fortum's employer image

The image of Fortum as an employer is very important for attracting new people to and retaining competent employees in the company and for maintaining a high level of job satisfaction. Increasing focus is given to developing the company's employer image from both an internal and external viewpoint. The image is monitored continuously through internal job satisfaction surveys, the results of which are used to direct actions towards a pleasant working atmosphere.

The employee response rate in the annual internal job satisfaction survey was an excellent 82% (76% in 2004), and the results showed improvement in many areas. The areas showing the most improvement included encouraging a supportive climate for new ideas as well as social responsibility. Fortum employees would also, more often than before, recommend Fortum as an employer to a friend.

Key figures

	2004	2005	Change %
Average number of employees	8,592	**8,939**	4.0
Number of employees at 31 Dec.	8,891	**8,955**	0.7
of whom permanently employed	8,664	**8,769**	1.2
Female, %	25	**22**	
Women in management positions, %	20	**20**	
Training days per person	3.0	**3.7**	23.3
Training expenditure, EUR mill.	7.0	**10.8**	54.3
Health care expenditure*, EUR per person	425	**452**	6.4
Expenditure on recreation and leisure activities* % of salaries paid on working time	0.4	**0.4**	
Lost workday injury frequency (number of injuries resulting in absence of more than one day per million hours worked)	5.9	**4.8**	-18,6
Fatalities	2	**2**	

* Finland

Note: Figures for 2004 are excluding oil businesses.

An identified area for improvement is the quality of Performance and Development Discussions. Improvement plans based on the survey results are done and monitored thoroughly also at the corporate level. Further improvement in utilising of the survey results is a key target in 2006.

Internal job rotation plays a key role in vitalising the organisation and offering Fortum's employees new challenges. In 2005, internal recruitment had 229 (305) vacancies, and there were some 176 (120) transfers between units. Approximately 9,000 applications were received via Fortum's recruitment pages on the internet. Some 6,300 applications were for summer trainee positions. During the year, Fortum participated in 11 recruitment events.

Continuous focus on people development

The development of people continues to be a priority in safeguarding Fortum's competitiveness. Fortum Leader Profile, a development tool to improve leadership skills, will be gradually extended to include all superiors. It provides feedback on individual leadership behaviour to enable self-improvement.

Fortum Challenger, a middle-management development programme concentrating on business strategy, profitability and renewal, and Fortum Manager, a programme focused on the development of basic leadership and management skills, were both continued in 2005. Fortum Manager was held in Finnish, English, and in 2005 for the first time also in Swedish. A two-day meeting, Fortum Summit, was held for the second year for senior management to discuss and evaluate past achievements, and to build a common understanding concerning future challenges. A total of 335 Fortum employees participated in these programmes.

To facilitate a smooth induction for new employees, an eLearning programme, Fortum Passport, was introduced in 2004. The programme has been well-received and was used by 300 new employees and trainees in 2005.

Within the business units, the focus during 2005 was on communication and interaction skills, and on safety training. Altogether, investments in people development during 2005

In Hammarby, Fortum works together with the City of Stockholm and property owners to develop new energy technology. This work is benefitting local communities in developing energy solutions to meet a growing and imminent demand.

Fortum Project Manager Kristin Ekbom

amounted to EUR 10.8 (7.0) million. Each Fortum employee spent an average of 3.7 (3.0) days in training.

Benchmark people management

Since 2000, Fortum has run an internally established evaluation and development process for key personnel known as Management Review. In 2005, a benchmark study was carried out amongst a group of leading Nordic and other European listed companies. Fortum scored very high in most assessment areas. The main strengths were strong top management commitment and participation, standardised tools and systematic processes, and an emphasis on discussion rather than formal procedures.

To support the targeted benchmark-level people management, a new HR IT-system was taken into use at the end of 2005. The full implementation of this project will be realised in the beginning of 2007.

A compensation model rewarding excellent performance

The majority of Fortum employees are covered by an annual performance bonus system aimed at strengthening the performance culture. The annual bonus is based on the financial result of the Fortum Group, each business unit as well as the performance of the individual employee or a team. Performance targets are mutually agreed between each employee and superior in an annual performance discussion. Due to the strong link between the financial results of the Fortum Group, each unit and the individual or team performance, the average bonus payments in 2004 (paid in 2005) varied between units and individuals. Approximately 3–10% of the annual salary of an average Fortum employee was paid in 2005.

In the spring of 2005, the Fortum Personnel Fund paid a total of EUR 8.7 million in shared profit to its 7,061 members (figure includes oil business employees), based on the financial result of 2004.

Separation of oil businesses changed the organisation

In 2005, Fortum employed an average of 8,939 (8,592) persons. At the end of the year, the number of personnel was 8,955 (8,891), of which 8,769 (8,664) were permanently employed. Women represented 22% (25%) of the total workforce, while women accounted for 20% (20%) of corporate and business unit management. The average age of Fortum employees was 45 (46) years. As a result of separating the oil businesses, more than half, 61%, of employees are now located outside Finland. Sweden is home to the second largest number of employees after Finland. Recent acquisitions in the Baltic Rim area have brought more diversity into the organisation as well.

Emphasising safety culture

The promotion of a strong safety culture in Fortum continued in 2005 with the aim of reducing the number of occupational accidents towards zero. A comprehensive safety development programme has been implemented to help achieve this aim.

Number of employees by segment, 31 Dec 2005

	2004	2005	Change %
Power Generation	4,377	**4,330**	-1.1
Heat	2,146	**2,393**	11.5
Distribution	1,076	**946**	-12.1
Markets	709	**769**	8.5
Other operations	583	**517**	-11.3
Total	8,891	**8,955**	0.7

Number of employees by country, 31 Dec 2005

	2004	2005	Change %
Finland	3,605	**3,476**	-3.6
Sweden	3,412	**3,463**	1.5
Poland	924	**1,187**	28.5
Estonia	427	**300**	-29.7
Norway	286	**268**	-6,3
Other countries	237	**261**	10.1
Total	8,891	**8,955**	0.7

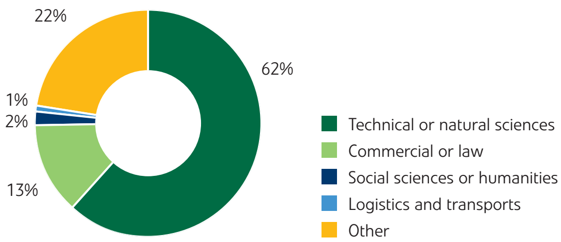
Note: Figures for 2004 are excluding oil businesses.

In Fortum, the line organisation is responsible and accountable for safety management and is supported by safety experts and organisations. To highlight the line management's responsibility and accountability, safety is being introduced as a standard issue on the management team meeting agenda, throughout the organisation. Safety matters are to be integrated as part of everyday team work as well.

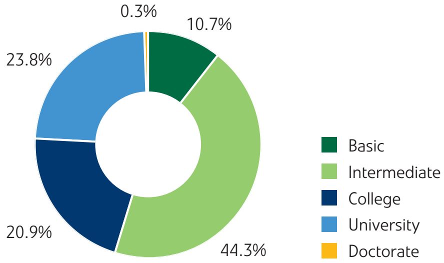
A safety handbook has been developed specifying corporate-level requirements and procedures in safety management. Additionally, 11 corporate-level development groups prepared more detailed guidelines for safety management, risk assessment, incident investigation, and other vital issues. Procedures defined in these guidelines will be implemented throughout the company during 2006 and safety training given to all employees. 1,100 managers participated in 2–3 days of safety training and one day of training was given to 1,500 employees in Finland and Sweden during 2005; the aim is to train all Fortum employees during 2006. Safety observation tours were also introduced at Fortum sites in 2005. All company management, including the President and CEO, take regular observation tours. Approximately 1,500 such tours were completed at various levels of the organisation during the year.

In 2005, there were 68 occupational accidents leading to an absence of more than one working day. This means 4.8 injuries per one million working hours or 18.6 % fewer than in 2004 and below our target value of 5 for 2005. The target for 2006 is less than 4 injuries per million working hours. Although the injury frequency decreased, two fatal accidents occurred in 2005. A Fortum employee died in a boiler explosion in Estonia, and a contractor's employee died while emptying an ash storage silo in Finland. Improving risk assessment practises and adherence to given instructions are key challenges in meeting the zero accidents goal.

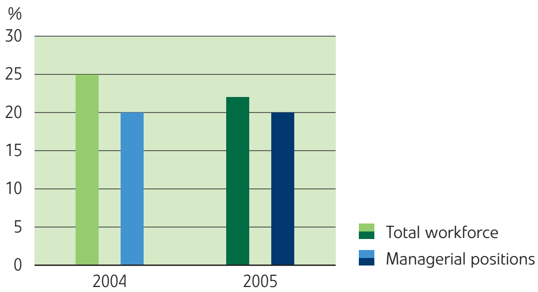
Field of education, 31 Dec 2005



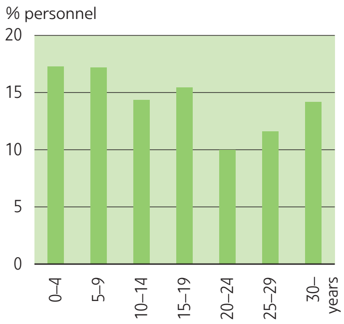
Level of education, 31 Dec 2005



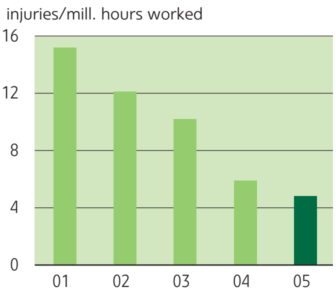
Share of women



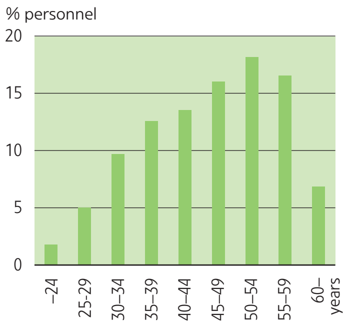
Duration of employment, 31 Dec 2005



Lost workday injury frequency



Age distribution, 31 Dec 2005



The economic impacts

The impacts that Fortum businesses have on the welfare of societies can be measured by monetary flows between the company and its stakeholders.

Such monetary flows include sales revenues from customers, payments to suppliers, salaries and remunerations to the employees, dividends to shareholders, and investments in the future growth of the industry.

Direct monetary flows generate various indirect economic impacts which, whilst equally important from society's point of view, are nonetheless difficult to measure. Fortum's indirect impacts are related to the businesses of its customers and suppliers, the use of natural resources, the development of know-how and competencies, and new innovations.

Serving 1.4 million customers

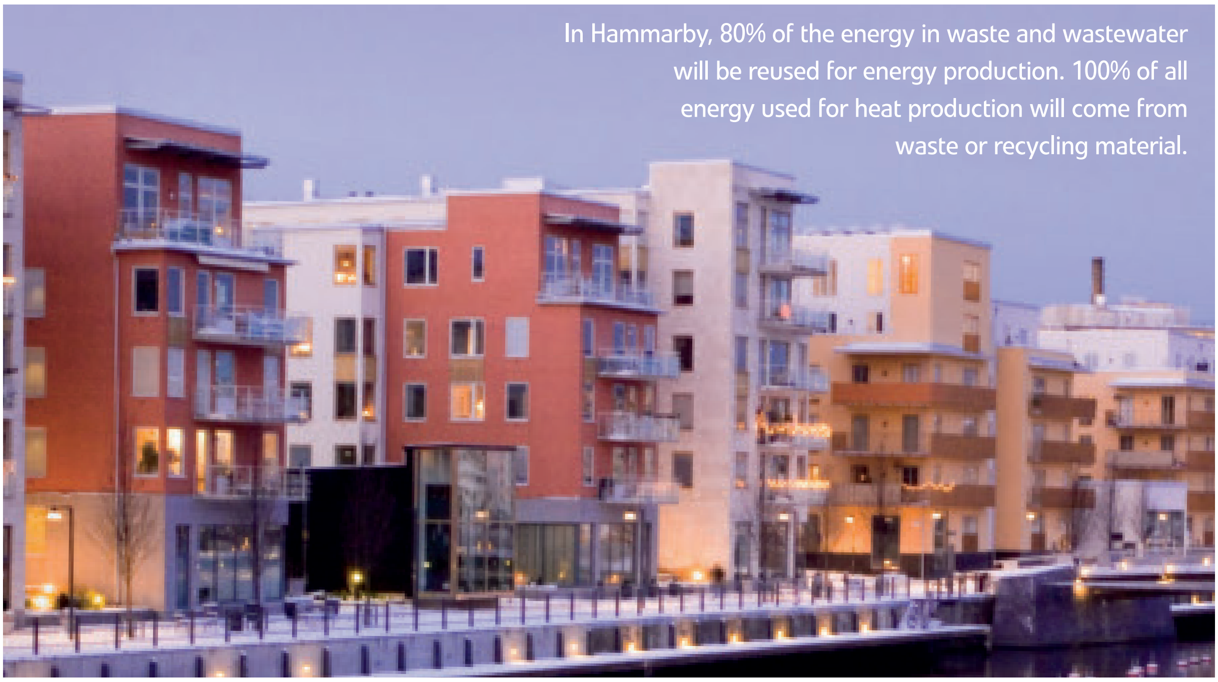
Fortum serves more than 1.4 million customers in its market area. The company provides direct end-customers with electricity, heating and cooling and related services. In Stockholm, Fortum also provides town gas. Income from customers from continuing operations in 2005 amounted to EUR 3,983 (4,087) million. Electricity sales in Finland represented 31% (36%) of the national consumption, while in Sweden the corresponding figure was 21% (19%). The percentage was considerably lower in all other markets served.

Managing a global network of suppliers

Fortum's business is primarily the refining of natural energy sources into electricity and heat. Of the income from customers figure, 42% is paid to suppliers of goods and services, the majority being payments to fuel suppliers. Fortum has thousands of suppliers of goods and services. In 2005, cash payments to suppliers totaled EUR 1,672 (1,923) million were purchased.

Share value increased in 2005

The number of employees in 2005 averaged 8,939 (8,592) in 12 countries. The total value of wages, salaries, remunerations and indirect employee costs paid by Fortum to its employees was EUR 481 (462) million.



In Hammarby, 80% of the energy in waste and wastewater will be reused for energy production. 100% of all energy used for heat production will come from waste or recycling material.

Fortum's economic impact

Division of the economic impact between various stakeholders

EUR million	2004	2005
Continuing operations		
Customers	4,087	**3,983**
Income from customers on the basis of products and services sold, and financial income		
Suppliers	-1,923	**-1,672**
Cash payments to suppliers of raw materials, goods and services		
Employee compensation	-462	**-481**
Wages, salaries, remunerations and other indirect employee costs		
Funders compensation	-667	**-767**
Dividends, interest and financial expenses paid to investors		
Taxes	-160	**-298**
Income taxes paid by Fortum		
Usage of assets	-325	**-291**
Investments in fixed assets		
Surplus cash, continuing operations	**550**	**474**
Cash from divesting activities	75	**56**
Income from divestment of business activities or plants		
Future growth investments	-189	**-182**
Investments made to expand business operations		
Return to funders	-737	**-1,022**
Payments of liabilities to funder		
Cash flow from discontinued operations	13	**1,317**
Net change in cash	**-288**	**643**

Fortum had more than 50,000 shareholders at the end of 2005. The Finnish State owned 51.5% (59.3%), while international shareholders held 33.2% (25.2%). A proposal was made to the Annual General Meeting that Fortum should pay a total dividend of EUR 980 (506) million, or EUR 1.12 (0.42) per share to the shareholders for the financial year 2005. During the year, the price of Fortum's shares on the Helsinki Stock Exchange increased by 48%.

Tax income to the community

Through legislation, rules and regulations, licensing processes and taxation, the community forms an important framework for business. In so doing it becomes an important stakeholder for companies. In 2005, Fortum paid EUR 298 (160) million in taxes from continuing operations. State and municipal governments also benefit from the income taxes paid by Fortum employees on their salaries. Furthermore, in Finland and Sweden, Fortum paid a total of EUR 63 (76) million in environmental taxes and charges relating to its fuel use and emissions.

New acquisitions in Russia and the Baltic Rim

In 2005, Fortum acquired majority holdings in two Polish and one Lithuanian district heat companies. In Russia, the company increased its share in OAO Lenenergo and acquired an approximately 25% share in Kolenergo. Fortum's future growth investments totalled EUR -182 (-189) million, and cash from divesting activities amounted to EUR 56 (75) million.

Support for research, education, culture and sports

The Fortum Foundation distributed a total of EUR 537,000 to support energy sector research and development work. Also, during the year Fortum continued its co-operation with a number of schools and universities.

In Finland, Fortum made donations totaling approximately EUR 250,000 to various charitable causes. These included those aiding children and young people, environmental projects and culture.

Fortum was also the main partner of WWF's Children's Environmental programme in Finland.

The three biggest sponsorship projects within sports were the Athletics World Championships, the Swedish Ice Hockey association and Skiföreningen in Norway.

Fortum's cultural support included Folkoperan in Stockholm and the Finnish Chamber Orchestra in Finland.

Corporate citizenship

Fortum wants to be a good corporate citizen and is committed to building a sustainable energy future in close co-operation with its stakeholders.

The chart illustrates some of the ways Fortum keeps up the dialogue with its stakeholders.

Stakeholder	Means of interaction	
Customers	- Customer contact centre - Customer feedback teams and Customer Ombudsmen to handle deviations and develop services - Customer satisfaction surveys - Online services	
Customers B2B	- Face-to-face with nominated contact person - Face-to-face with nominated Portfolio Manager to handle e.g. risk management issues - EnergyExtra extranet service channel - External stakeholder magazine 3–4 issues per year	
Personnel	- Annual performance and development discussions - Annual job satisfaction survey and related discussions in units - *Fortum European Council* - European Works Councils twice a year, national workers' co-operation bodies in Nordic Countries twice a year - Fortum Team personnel magazine 4 times per year - Open discussion channel in intranet - Info meetings and management letters on topical issues	
Investors (shareholders, bankers)	- Investors channel in internet - Capital Markets Day and quarterly road shows for institutional investors - Annual General Meeting - Investor exhibition and events for private investors - Annual Report and external stakeholder magazine 3–4 issues per year	
Suppliers of fuels, goods and services	- Performance reviews with most important suppliers - Auditing and evaluating meetings with potential new supplier	
Research organisations	- Joint R&D efforts and co-operation with e.g. VTT, Technical Research Centre of Finland, Elforsk in Sweden and EU Commission's energy research iniatives - Promotion of research, education and development in the energy industry through Fortum Foundation Award	
Non-governmental organisations	- Local co-operation with e.g. fishery collectives regarding hydro generation's ecological impacts - Co-operation with Finnish and Swedish national nature conservation associations regarding eco-labelled electricity products - Fortum Värme's co-operation with WWF Global Forest and Trade Network (GFTN) regarding sustainable fuel procurement	
Local communities and general public	- Media meetings and media channel on internet - Open House days at power plants - Co-operation and joint communication with municipalities and regional authorities, e.g. environmental administration, regarding local environmental impacts - Support for education, culture and sports through the Fortum sponsorship programme	
Energy industry and related sectors	National and international branch organisations - Finnish Energy Industries - Swedenergy - EBL, Norwegian Electricity Industry Association - Nordenergi - Eurelectric	Other organisations - Nordic power exchange Nord Pool - Nordel - Nordic TSO co-operation organisation - Nordic energy regulators - Nordic Council of Ministers - energy ministers - Baltrel - Baltic Ring electricity co-operation committee
	Issues - Nordic electricity market harmonisation and integration - Equal treatment of market actors - Development of Nordic retail market	- EU electricity market integration - Harmonised approach to climate change abatement and renewables - Russian co-operation - Baltic adaptation to the EU

Risk management

During 2005, the risk profile of the Fortum Group was altered as a result of the separation of the oil businesses. Risk exposure is now concentrated on the power and heat industry.

Focus on operational risks

For Fortum, the weather in the Nordic region, the development of the global commodity markets, and regulation and taxation within local, regional and European electricity markets are the main risk factors.

Fortum has continued to develop risk management practices during the past year, specifically regarding operational risks. An initiative was undertaken to systematically identify and assess these risks in the Group. The corporate risk management framework has, as a result, been extended to include relevant operational risks in addition to financial risks.

Fortum's Risk Management Framework

Objective

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

Policies

Fortum's Board of Directors approves the Corporate Risk Policy, which sets the objectives, principles, responsibilities and processes for risk management activities within the Group. The policy sets guidelines for identifying, assessing, responding to, controlling and reporting risks. Each business and service unit submits a risk policy, which adheres to the Corporate Risk Policy, to the CEO for approval.

Organisation

Generally, risks are managed at the source, i.e. within the business or service unit where they originate. An exception is Group Treasury, which is responsible for managing the Group's currency, interest rate and refinancing risk as well as for managing insurable operational risks within the Group. Counterpart risks and certain IT-related risks are also managed at the Group level.

Corporate Risk Management is headed by the Chief Risk Officer and is organized within the Corporate Finance unit. Risk control functions at the business and service unit level are responsible for reporting 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 and service units which are responsible for their own results and for achieving internally agreed targets. Each unit is responsible for identifying, assessing, responding to, controlling and reporting the risks to which they are exposed. Corporate Risk Management assesses and reports the Group's consolidated exposure to Group Management.

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 units. The main principle is that risks are quantified as accurately as possible and monitored against approved limits in relation to agreed targets. 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 in order to assess the effects of extreme price movements on Fortum's earnings.

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. During the past year, fuel prices and the price of CO_2 allowances have also had as a notable effect on electricity prices.

Fortum manages electricity price and volume risks in the generation business separately from customer sales. Price risks in electricity generation are primarily managed by entering into electricity forwards and futures 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 for electricity and CO_2 allowances, the hydrological balance and other relevant parameters change.

Fortum Markets manages both the electricity price and temperature-related volume risks in its sales business through an active portfolio management combined with market price

All waste produced in the Hammarby area is recycled through pipes to fuel local energy production.

based pricing of contracts. Cash flows generated from customer sales contracts are subject to uncertainty, mainly due to variations in customer consumption profiles and volatility of market prices. The objective of hedging is to secure defined targets and lower the uncertainty in profit margins.

The effects of potential changes in electricity prices and volumes on Fortum's earnings are monitored on a continuous basis. The hedge ratio on 31 December 2005 was approximately 70% for the year 2006. Assuming no changes in generation volumes, hedge ratio or cost structure, a EUR 1/MWh change in the market price of electricity would affect Fortum's 2006 pre-tax earnings by approximately EUR 15 million.

CO_2 allowances and commodity price risks

The CO_2 emissions trading scheme enhances the integration of the Nordic market with Europe. The main factor influencing the prices of CO_2 allowances is the supply and demand balance determined by the allocation plans in relation to the demand from the sectors covered by the trading scheme. Allowances were granted based on historical emission levels, and surpluses or deficits of allowances can be sold or bought on the market. The effects of potential changes in CO_2 emissions on Fortum's earnings are monitored on a continuous basis in order to ensure that Fortum always has allowances to cover the requirements under the trading scheme.

In addition to having an effect on CO_2 allowances and electricity prices, commodity prices, such as coal, gas and oil prices, also have a direct effect on variable heat and power production costs. These price risks are primarily managed through fixed price purchases which cover the forecasted consumption levels. Fixed price purchases can be either for physical deliveries or in the form of financial hedges.

Liquidity and refinancing risks

Financing and liquidity management within the Group is centralised to the parent company through Group Treasury. The operating companies are primarily financed via internal loans, and excess cash positions are centralised to the parent company either through internal cash-pool arrangements or by internal deposits.

Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. The total amount of these facilities covers forecasted financing requirements, and should ensure that the Group has sufficient reserves to meet unexpected increases in financing needs. As per 31 December 2005, cash and marketable securities amounted to EUR 788 million and the amount of committed credit facilities was EUR 1,314 million, all of which was unused.

In order to further reduce refinancing risks, Fortum strives to have a diversified financing structure in terms of debt maturity profile, debt instruments and geographical markets.

Currency and interest rate risks

Fortum has cash flows and investments in currencies other than euros. Changes in exchange rates therefore affect Fortum's earnings. The largest exposures are in SEK which arise largely from the Group's activities 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 debt portfolio consists of loans and bond issues with differing maturity profiles. Fortum's interest-bearing debt as per 31 December 2005 was EUR 3,946 million with an average duration of 1.3 years. Fortum can affect the duration of the debt portfolio by entering into different types of interest rate contracts. Strategies for the optimal structure of the debt portfolio are continually evaluated and developed in order to achieve the Group's targets.

Counterpart risks

A counterpart risk arises when there are contractual obligations between Fortum and an external counterpart. The objective of counterpart risk management in Fortum is to minimise this risk in relation to the business at hand.

Counterpart risk is quantified as the maximum expected loss to Fortum in the event that a counterpart to Fortum defaults on its obligations. Corporate Credit Control sets a Group-wide limit for the maximum allowed level of counterpart risk with any single counterpart. Limits are based on the credit-worthiness of the counterpart, which is monitored to ensure that action can be taken if changes occur. Corporate Credit Control also monitors and reports counterpart exposures against the approved limits.

Counterpart risk that arises in conjunction with derivatives contracts is especially important since the exposures are often volatile. The majority of commodity derivatives are traded through exchanges such as Nord Pool for electricity derivatives, but there are a number of contracts that are entered into directly with external counterparts. Derivatives transactions are limited to high-credit-quality counterparts active on the financial or commodity markets. Counterpart risk in the retail and wholesale business is well diversified over a large number of private individuals and industrial companies.

Operational risks

Large-scale energy business involves many types of operational risks. During 2004 and 2005, a systematic identification and assessment of the major operational risks to which Fortum is exposed was carried out. This was accomplished through self-assessment workshops conducted with all business and service units within the Fortum Group.

Operational risks are difficult to assess, and they often occur as a result of inadequate processes or procedures, incorrect use of systems or models, or unclear management practices. By clearly documenting and automating processes, and by ensuring a strict separation of duties between decision-making and controlling functions, many unwanted operational events can be avoided. Quality and environmental management systems are a tool for achieving this objective, and Fortum has several certifications including ISO 9001 and ISO 14001.

A Group Insurance Policy has been established to govern the management of insurable operational risks within the Group. The objective of insurance management is to optimise loss prevention activities, self retentions and insurance coverage in a long-term, cost-efficient manner. Fortum has established Group-wide insurance programmes for risks related to property damages, business interruption, liability exposures and business travel. Fortum Insurance Ltd, a captive company established in 1988, participates in Fortum's property and business interruption programmes in which 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 the Group liability insurance.

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 the Loviisa power plant, Fortum has a statutory insurance policy of some EUR 250 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.

Risks at production facilities

Continuous maintenance and condition monitoring are the key methods in minimising operational risks in production facilities. At the Loviisa power plant, assessment and improvement of nuclear safety is a continuous process performed under the supervision of the Radiation and Nuclear Safety Authority of Finland (STUK). For hydro generation assets, the long-term programme for improving the surveillance of the condition of dams and for securing the discharge capacity in extreme flooding situations continued during 2005.

Storms and other unexpected events may result in electricity outages that create costs in the form of repairs and customer compensation. Outages are typically short, but it is not possible to totally prevent long outages. There is a procedure in place to minimise the length and consequences of outages in exceptional circumstances.

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 enacted when necessary. All major production and distribution activities are covered by certified environmental management systems (ISO 14001).

The development of a strong safety culture in Fortum continued in 2005. Training sessions have been held as part of a comprehensive development programme and the results can be seen in the improvement of safety performance.

Environmental, health and safety risks arising through investments are systematically evaluated in accordance with Fortum's Investment Evaluation and Approval Procedure. The EHS Assessment Guidelines have been updated for this purpose during 2005. EHS-related responsibilities and liabilities are defined in the contract documents for acquisitions and divestments. Environmental risks and liabilities in relation to past actions have been assessed and necessary provisions made for any future remedial costs.

Climate change will be the biggest environmental challenge for energy companies. Developing EU-wide and national climate strategies implies stricter control of greenhouse gas emissions such as CO_2. The main policy instrument is the emissions trading scheme, which covers approximately 95% of Fortum's CO_2 emissions. The first phase of the EU emissions trading scheme started at the beginning of 2005 and will run through 2007. From a risk management point of view, Fortum's position is strong as approximately 80–90% of its annual power generation is based on CO_2-free energy sources. In order to raise the level of know-how in applying the Kyoto mechanism, Fortum has invested in the Prototype Carbon Fund (PCF) of the World Bank.

Other risks

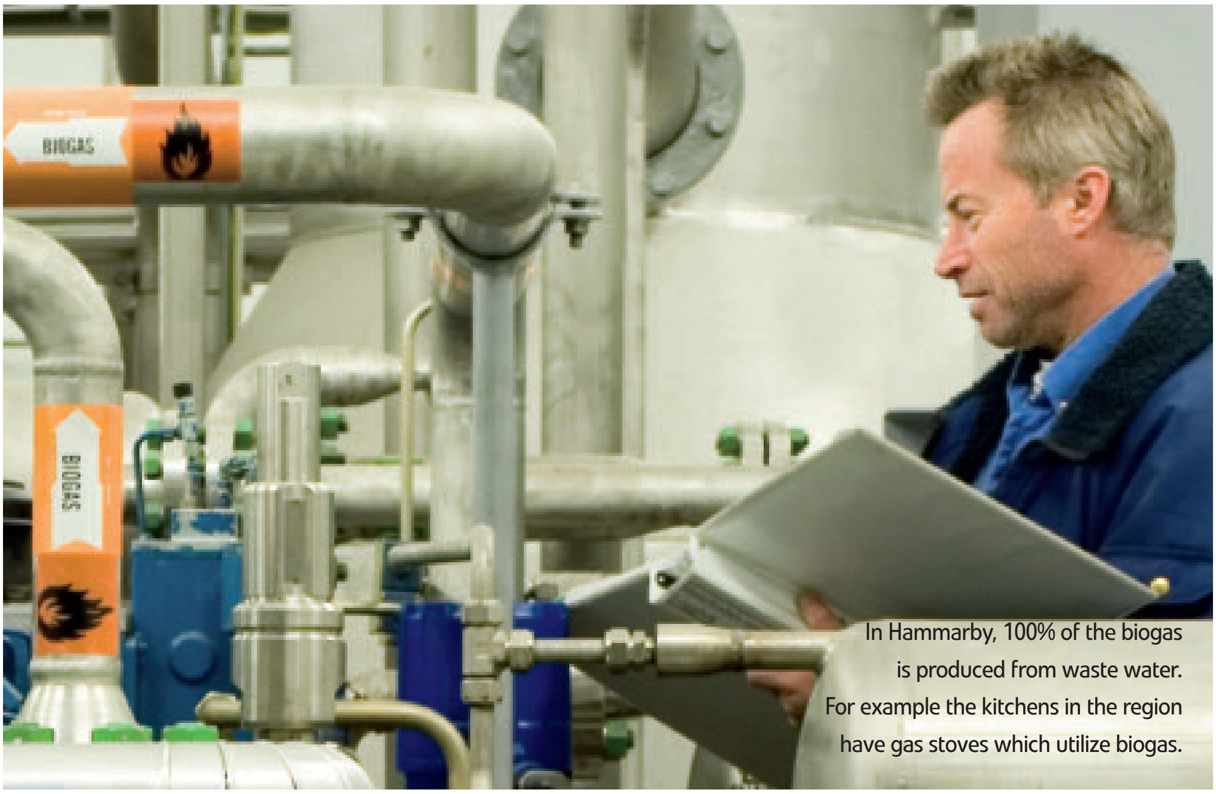
IT and information security risks

Group common IT and information security risks are managed centrally within the Corporate IT function. Risks in business-specific IT applications are managed within the business and service units. Corporate policies define guidelines and set procedures for minimising the risk of losses or costs caused by breakdowns in IT-related processes or breaches in security. The main objectives are 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 has a major impact on the energy industry and on the conditions of its business operations. To manage these risks and to proactively participate in the development of the political and regulatory framework, including energy taxation, Fortum maintains an active and ongoing dialogue with the bodies involved in the development of laws and regulations. Specifically, this includes close co-operation with national industry organisations and Eurelectric at the EU level.

Fortum's investments and business operations in Russia are currently rather limited. However, there are new possibilities emerging due to the ongoing restructuring of the power and heat industry in Russia, and Fortum continuously monitors and assesses these developments. The timetable and targets for the restructuring process are set, but are subject to political decisions, which make them difficult to predict.



In Hammarby, 100% of the biogas is produced from waste water. For example the kitchens in the region have gas stoves which utilize biogas.

Corporate governance

Fortum's headquarters are in Espoo, Finland where it is listed on the Helsinki Stock Exchange. Corporate governance at Fortum is based on the laws of Finland and on the company's Articles of Association.

Enhancing a culture of transparency

Furthermore, the company complies with the Corporate Governance Recommendation for Listed Companies in Finland with the exception that Fortum's Board of Directors' Nomination and Compensation Committee does not assist the Annual General Meeting in the nomination process of members to the Board of Directors. To do this, the Annual General Meeting has established a Shareholders' Nomination Committee.

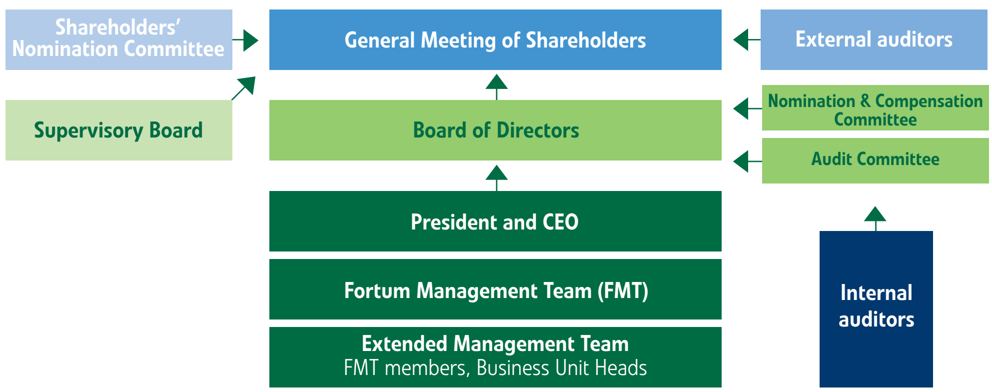
Fortum prepares annual financial statements and interim reports conforming to Finnish legislation. They are published in Finnish, Swedish and English. The International Financial Reporting Standards (IFRS) were adopted in 2005.

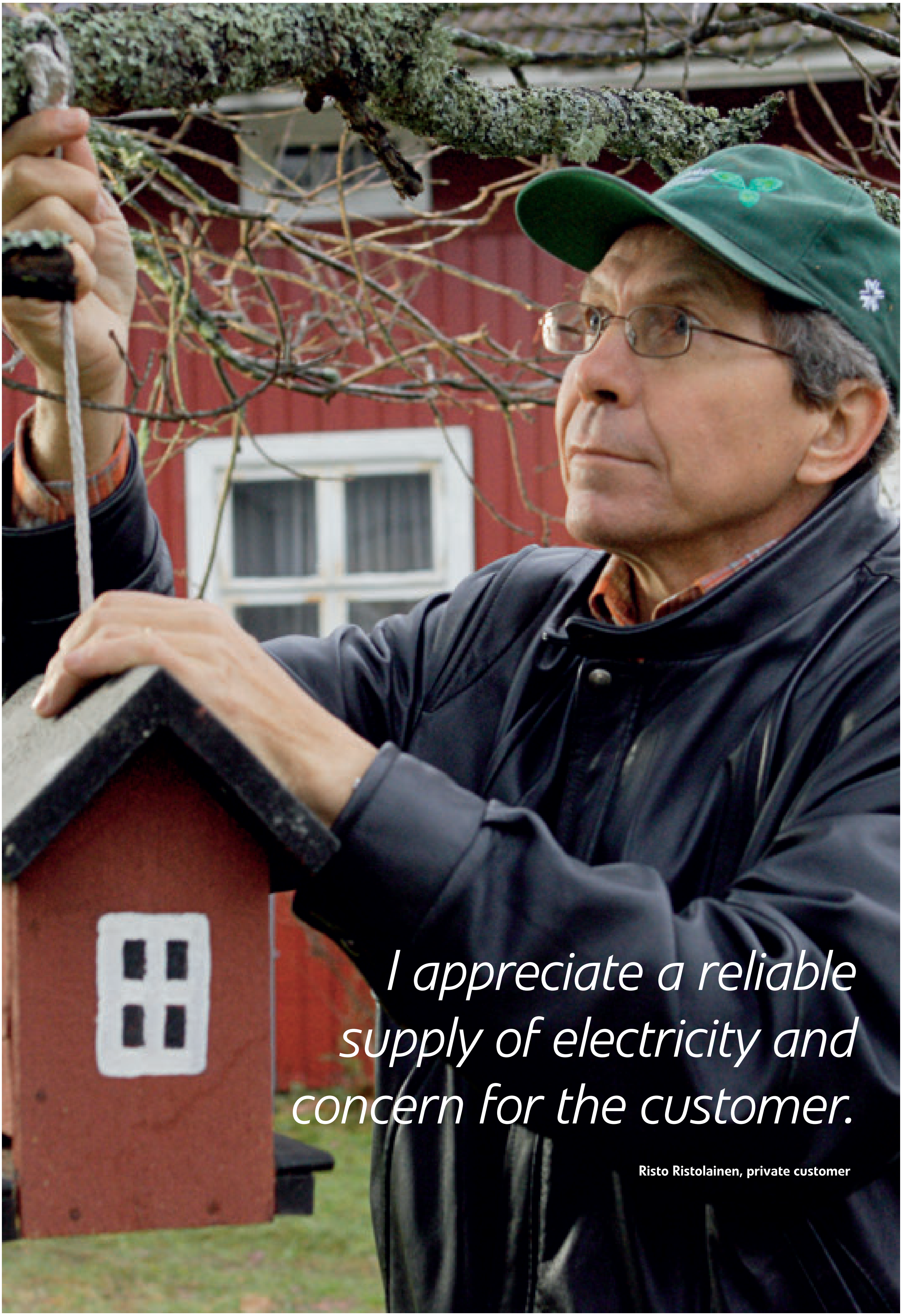
Governing bodies

The decision-making bodies running the Group's administration and operations are the Annual General Meeting of Shareholders, the Supervisory Board, the Board of Directors with its two Committees, and the President and Chief Executive Officer assisted by the Fortum Management Team. 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 Fortum Management Team are separate bodies, and no one serves as a member of more than one of them.

Day-to-day operational responsibility at the Group level rests with the President and CEO assisted by the Fortum Management Team, and at business unit level with each unit's President assisted by a management team (see organisation structure on page 3).

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




I appreciate a reliable supply of electricity and concern for the customer.
Risto Ristolainen, private customer

General Meeting of Shareholders

The right of shareholders to make decisions over company matters is exercised at an appropriately convened General Meeting of Shareholders 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 company at the latest by the date 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, amongst other things, to approve the parent company and consolidated income statement and balance sheet, agree on the amount of dividends to be paid, agree on the number of members on the Supervisory Board and the Board of Directors, appoint the members of the Supervisory Board and the Board of Directors, elect the auditor, and decide on the compensation of the members of the Supervisory Board and the Board of Directors and the remuneration for the auditors.

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

Shareholders' Nomination Committee assists the Annual General Meeting of Shareholders

By decision of Fortum's Annual General Meeting in 2005, a Shareholders' Nomination Committee was appointed to assist the Annual General Meeting. The Committee's duty is to prepare proposals concerning Board members and their compensation for the following Annual General Meeting. The Committee consists of the representatives of the three largest shareholders, with the Chairman of the Board of Directors as an expert member. Those three shareholders, whose share of the total votes of all shares in the company is the largest as of 1 December preceding the Annual General Meeting, are entitled to appoint the members representing the shareholders on the Committee. In 2005, the following persons were appointed to the Shareholders' Nomination Committee: **Markku Tapio** (Chairman), Director General, Ministry of Trade and Industry; **Kari Puro**, President and CEO, Ilmarinen Mutual Pension Insurance Company; and **Jorma Huuhtanen**, Director General, Social Insurance Institution.

The Shareholders' Nomination Committee shall be convened for the first time by the Chairman of the Board of Directors and the Committee shall select a chairman from amongst themselves. The Committee must 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, and 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 68 years may not be elected as a member of the Supervisory Board.

The Supervisory Board comprises a minimum of six and a maximum of 12 members; in February 2006 there were 12 members. The Supervisory Board meetings are also attended by three employee representatives who are not members of the Supervisory Board. More than half of its members must be present to constitute a quorum. In 2005, the Supervisory Board met five times. Average attendance at these meetings was 93%.

At the 2005 Annual General Meeting, the following persons were elected to the Supervisory Board for a one-year term of office: Members of the Parliament of Finland
Mr **Timo Kalli** (b. 1951), Chairman of the Supervisory Board
Mr **Jouni Backman** (b. 1959), Deputy Chairman
Mr **Lasse Hautala** (b. 1963), Ms **Rakel Hiltunen** (b. 1940),
Mr **Mikko Immonen** (b. 1950), Mr **Kimmo Kiljunen** (b. 1951),
Mr **Jari Koskinen** (b. 1960), Mr **Oras Tynkkynen** (b. 1977),
Mr **Ben Zyskowicz** (b. 1954); Second Vice Chairman of the City

Council of Kurikka Mr **Martti Alakoski** (b. 1953), Director General Mr **Jorma Huuhtanen** (b. 1945), and Industrial Councellor Mr **Kimmo Kalela** (b. 1941). The employee representatives on Fortum's Supervisory Board were Ms **Satu Laiterä**, Mr **Jouni Koskinen** and Mr **Tapio Lamminen**.

Shares held by members of the Supervisory Board on 31 December 2005

	Shares	Change
Rakel Hiltunen	200	+200
Kimmo Kalela	3,200	0

Compensation for Supervisory Board service

Each Supervisory Board member receives a fixed monthly fee and a meeting fee. The employee representatives receive only a meeting fee. All members are entitled to travel expense compensation against receipts in accordance with the company's travel policy. Members of the Supervisory Board are not offered stock options, warrants or participation in other incentive schemes, nor do they have a pension plan at Fortum.

On 31 March 2005, the Annual General Meeting confirmed the following remuneration for Supervisory Board service:

EUR/month	2004	2005
Chairman	1,000	**1,000**
Deputy Chairman	600	**600**
Members	500	**500**
Meeting fee	200	**200**

Total compensation for Supervisory Board paid by Fortum

EUR, total compensation	2003	2004	2005
Chairman	4,400*	10,200	**12,800**
Deputy Chairman	8,200	8,600	**8,000**
Other members	67,300	66,900	**67,800**

*) 4 months

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 General Meeting of Shareholders 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 shared values and operating principles and oversees their implementation,

Fortum has ombudsmen who oversee consumer rights. Here, the cause of the sudden increase in electricity consumption was found to be a defective meter.

Ombudsman Gustaf Sandström (left) with Risto Ristolainen.

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 Fortum Management Team 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 for a one-year term of office, which expires at the end of the first Annual General Meeting following the election. More than half of the members must be present to constitute a quorum. A person aged 68 or over cannot be elected to the Board of Directors.

At the 2005 Annual General Meeting, the following persons were elected to the Board of Directors: Mr **Peter Fagernäs** (b. 1952), Chairman, Ms **Birgitta Kantola** (b. 1948), Deputy Chairman, Ms **Birgitta Johansson-Hedberg** (b. 1947), Mr **Lasse Kurkilahti** (b. 1948), Mr **Matti Lehti** (b. 1947), Ms **Marianne Lie** (b. 1962) and Mr **Erkki Virtanen** (b. 1950). For more information on the Directors, please refer to pages 56–57.

In 2005, the Board of Directors met 15 times, of which seven were teleconferences. Average director attendance at all Board meetings was 90%. The main item during the year was the separation of the oil businesses and revising Fortum's strategy accordingly. The Board also addressed issues relating to people development, management evaluation and succession planning.

The members of the Board of Directors are all external and independent with the exception of Mr Virtanen who represents the Finnish State, the majority shareholder. "Independent" means that such a member of the Board does not have a material relationship with Fortum apart from his/her Board membership, or that the member is independent of a significant shareholder of the company.

Shares held by members of the Board of Directors on 31 December 2005

	Shares	Change
Peter Fagernäs	30,591	+30,000

The President and CEO, the Chief Financial Officer and the General Counsel regularly attend Board meetings. Other Fortum Management Team 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.

It means a lot to me that Fortum is consistently working towards environmentally friendly production. In 2005, 93% of Fortum's power generation was entirely free of CO_2 emissions.

The Board Committees

The Board of Directors appoints an Audit Committee as well as a Nomination and Compensation Committee, both of which have three members. A quorum is two members. The members of these committees are all members of the Board of Directors. Members are appointed for a one-year term of office, which expires 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, prepares the selection of external auditors and monitors the independence and performance of the external auditors.

In 2005, the Audit Committee was chaired by Birgitta Kantola and its members were Birgitta Johansson-Hedberg and Matti Lehti. The Committee met four times in 2005. The main items during the year included the review of the Audit Committee's charter, the IFRS transition preparations, the internal audit plan and reports, the auditor's plan and discussion of findings, review of the company's risk management and preparation for the recommendation of the election of an external auditor.

The Nomination and Compensation Committee discusses, assesses and makes proposals on the pay structures, bonus and incentive systems for the Group and its management, and contributes to the Group's nomination issues.

In 2005, the Nomination and Compensation Committee was chaired by Peter Fagernäs and its members were Marianne Lie and Lasse Kurkilahti. The Committee met three times during 2005. The main items included management performance evaluations and compensation issues, as well as long-term incentive programmes in Fortum.

Assessment of the Board of Directors

At Fortum, the Board of Directors conducts an annual self-assessment in order to further develop the work of the Board. The assessment 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.

Compensation for Board service

The Annual General Meeting confirmed the following compensation for Board service:

EUR/year/meeting	2004	2005
Chairman	49,500	**55,000**
Deputy Chairman	38,500	**42,000**
Members	27,500	**30,000**
Meeting fee	500	**500**

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.

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 Board of Directors paid by Fortum

EUR, total compensation	2003	2004	2005
Chairman	*	56,100	**60,925**
Deputy Chairman	36,004	44,200	**48,725**
Other members of the Board	129,417	156,525	**179,875**

*) Executive Chairman

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 from the Board of Directors. The President and CEO is supported by the Fortum Management Team.

The performance of the President and CEO is evaluated annually. The evaluation is based upon objective criteria that include the performance of the company and the achievement of goals previously set for the President and CEO by the Board's Nomination and Compensation Committee. The evaluation is used by the Committee to determine the level of the President and CEO's compensation to be recommended to the Board of Directors for approval.

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.

Fortum Management Team

The Fortum Management Team (formerly Corporate Executive Committee) consists of seven members, including the President and CEO to whom the members of the Management Team report. The General Counsel acts as the Secretary to the Management Team. The Management Team meets regularly on a monthly basis. In addition there are meetings dealing with strategy and business planning, as well as performance reviews.

The Fortum Management Team'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, the planning and control of mergers, acquisitions and divestments, the review of key day-to-day operations and operational decisions.

For Fortum Management Team members and their individual responsibilities, please refer to pages 58–59.

Shareholding, Fortum Management Team

Name	31 Dec 2004	31 Dec 2005	Change
Frisk Mikael		**14,900**	+14,900
Karttinen Timo	18,870	**18,870**	0
Kuula Tapio	20,050	**50,050**	+30,000
Laaksonen Juha	20,000	**20,000**	0
Lilius Mikael	150,050	**150,050**	0
Lundberg Christian	20,000	**20,000**	0
Teir-Lehtinen Carola	16,970	**17,970**	+1,000

Remuneration policy

Fortum offers a competitive compensation package for senior executives and other management. Compensation for each executive is determined according to the Group's remuneration policy. The policy takes into account the company's performance, the sector in which the Group operates, and external market data from independent sources, in particular, salary levels for similar positions in comparable companies.

The compensation 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 the performance share arrangement can be granted. The remuneration principles are determined by the Board of Directors.

Annual bonus system

The annual bonus system in Fortum exists to support the Group's values, the achievement of financial targets and structural changes, as well as to secure an alignment between the performance targets of the individual employee and the targets of his/her business unit and the Corporation. The majority of Fortum employees are covered by an annual performance bonus system.

The criteria used in determining the size of the bonus for senior management are decided annually by the Board of Directors on the recommendation of the Board's Nomination and Compensation Committee. The President and CEO as well as the Fortum Management Team are paid annual performance bonuses in addition to their salary and fringe benefits. The size of each senior executive's annual bonus is dependent on the Group's financial performance, as well as on their own success in reaching their individual goals. The target bonus for each senior executive is 25% and the maximum bonus level is 40% (50% in 2005) of the person's annual salary including fringe benefits. For executives with business unit responsibilities, the scheme is structured to reflect also the performance of their business unit as well as that of the Group. The criteria for evaluating an executive's personal performance are mutually agreed between the executive and his/her superior in an annual performance discussion at the beginning of each year.

The annual performance bonuses paid to Fortum's Management Team, including the President and CEO in 2005 amounted to EUR 1,074,477, which is 0.32% of the total salaries and remuneration paid in the Group.

For more information about the annual bonus system, please refer to Human Resources on page 35.

Long-term incentives

Fortum's share option schemes for key employees (2001 and 2002) and the Performance Share Arrangement for key personnel launched in 2003 all support the achievement of the Group's long-term goals by attracting and retaining identified key personnel. The subscription period of the last

Compensation for the President and CEO and the Management Team paid by Fortum

EUR	Salaries and fringe benefits 2003	Salaries and fringe benefits 2004	Salaries and fringe benefits 2005	Performance bonuses 2003	Performance bonuses 2004	Performance bonuses 2005	Total 2003	Total 2004	Total 2005
President and CEO	673,728	732,312	**769,164**	179,130	336,864	**365,700**	852,858	1,069,176	**1,134,864**
Total compensation of other Management Team members	1,514,773	1,521,137	**1,460,323**	303,660	561,031	**708,777**	1,818,433	2,082,169	**2,169,100**

Share options held by the Fortum Management Team on 31 December 2005

Name	2001A received	2001A remaining 31 Dec 2005	2001B received and remaining	2002A received	2002A remaining 31 Dec 2005	2002B received and remaining
Frisk Mikael	100,000	0	100,000	150,000	0	150,000
Karttinen Timo	50,000	50,000	75,000	90,000	0	120,000
Kuula Tapio	100,000	0	100,000	200,000	0	200,000
Laaksonen Juha	100,000	0	100,000	250,000	0	175,000
Lilius Mikael	200,000	0	200,000	340,000	0	340,000
Lundberg Christian				150,000	0	175,000
Teir-Lehtinen Carola	100,000	0	100,000	150,000	0	150,000

Fortum's internet service is available for access at all times. **www.fortum.com** can be visited when bills need to be paid or if invoices need to be checked. Meter information, consumption statistics, change of address notification, and making electricity agreements are also services available on the internet.

stock option scheme (2002B) starts on 1 October 2006. The Performance Share Arrangement replaces other possible long-term incentive schemes in Fortum. For more information about the stock option programmes, please refer to the Consolidated Financial Statements.

The Fortum Performance Share Arrangement is a performance-base, long-term incentive (LTI) arrangement intended for the top management and key personnel of the Fortum Group. At present, approximately 130 managers, all of whom have been elected by the Board of Directors, are participants. A new performance share plan under the arrangement starts annually if approved by the Board of Directors and runs for a six-year period. The newest LTI for 2006–2011 is for non-share option holders only.

Each share plan begins with a three-year earning period, followed by a three-year restriction period, at the end of which a participant receives a pre-determined number of Fortum shares. The individual number of share rights granted after the three-year earning period is based on Fortum's achievement of annual corporate bonus targets defined by the Board of Directors as well as each participant's achievement of his/her individual annual bonus targets. Before delivering the shares to the participant, the company deducts all taxes and other charges payable by the participant, and the participant receives the remaining portion (in Finland currently approx 40–50%) of the value in Fortum shares.

The maximum value in share rights a participant can be granted after the three-year earning period cannot exceed the participant's one year's salary. The number of share rights granted under each annual share plan is adjusted during the restriction period by potential dividends paid up until the share delivery, which takes place at the end of the restriction period.

The first annual share plan began in 2003 (based on 2002 results). In spring 2005, at the end of the earning period, share rights belonging to the first plan were granted to the participants. The shares, based on these share rights, will be delivered to the participants in spring 2008. The approximate net number of shares with adjustment for 2005 dividend and after taxes (assumed tax deduction of 56%) that the CEO and President and other members of the Fortum Management Team will receive in 2008 are as follows:

Name	Net number of shares
Frisk Mikael	8,409
Karttinen Timo	7,009
Kuula Tapio	11,719
Laaksonen Juha	9,969
Lilius Mikael	30,510
Lundberg Christian	10,103
Teir-Lehtinen Carola	6,519

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. Finnish pension legislation now offers 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 Fortum Management Team, the retirement age is 60 and the pension paid is 66% or 60% of the remuneration. In the first case, the pensions are insured and paid by Fortum's pension fund, and in the latter, pensions are insured by an insurance company.

Pension foundation

Fortum has one pension foundation, the Imatran Voima Pension Fund, which was closed in 1991. The fund offers certain supplementary pension benefits to people within the sphere of its operations. The most important of these are the overall pension of 66% (statutory 60%) and the reduced retirement age of 60 for women and some men.

With respect to supplementary pensions, the foundation was closed in 1991. Employees who have joined the company after the closing are not within the sphere of the foundation's operations. At the end of 2005, the number of employees covered by the foundation was 1,385.

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. Members of the personnel fund are the permanent and fixed-term employees of the Group. The membership of employees joining the company starts at the beginning of the next month after the employment relationship has been ongoing for six months. Fund membership terminates when the member has received his share of the fund in full.

The profit-sharing received by the fund is distributed between the members in an equal proportion. Each employee's share is divided into a tied amount and an amount available for withdrawal. Employees can decide whether to withdraw their share of the profit in cash or in Fortum shares. It is possible to transfer a maximum of 15% of capital from the tied amount to the amount available for withdrawal each year, once the employee has been a member for five years.

The amount available for withdrawal is decided each year and it is paid to members who want to exersice their withdrawal rights. Since 2005, employees have had the choice of having the amount paid in Fortum shares acquired by the personnel fund.

Risk management

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

Fortum's Board of Directors approves the Corporate Risk Policy, which sets the objectives, principles, responsibilities and processes for risk management activities within the Group. The policy sets guidelines for identifying, assessing, responding to, controlling and reporting risks. Each business and service unit submits a risk policy, which adheres to the Corporate Risk Policy, to the CEO for approval.

Corporate risk management is headed by the Chief Risk Officer and is organised within the Corporate Finance unit. Risk control functions at the business and service unit level are responsible for reporting 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 President and CEO and the Board of Directors. For more details on risk management, please refer to page 41.

Insider guidelines

Fortum 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, as well as to all employees of Fortum. The company arranges training on insider rules.

Fortum maintains a public insider register of persons obliged to declare insider holdings, as required under the Securities Markets Act, and a non-public company-specific insider register of such parties who receive inside information.

Permanent insiders registered in the public insider register are members of the Supervisory Board (including personnel representatives), members of the Board of Directors, the President and CEO, the auditor and employee of the audit organisation who has the main responsibility for the audit of the company, as well as members of the Fortum Extended Management Team (consisting of the members of the Fortum Management Team and business unit heads) as well as certain other executives. In accordance with the Securities Markets Act, also the securities holdings of the insiders' related persons are public at Fortum as of 1 January 2006. The shareholdings of Fortum's insiders registered in the public insider register may be reviewed by using the NetSire service of the Finnish Central Securities Depository.

Permanent insiders registered in Fortum's company-specific register are persons who, by virtue of their position or duties, may regularly receive inside information on the company. The company-specific register also contains information on such persons who obtain inside information by, for example, working for the company under a separate consulting contract.

The public register is kept in the insider register system of the Finnish Central Securities Depository Ltd. Address: Finnish Central Securities Depository Ltd, P.O.Box 1110, FI-00101 Helsinki, FINLAND. Visiting address: Urho Kekkosen katu 5 C, Helsinki. Tel: + 358 20 770 6000, fax: + 358 20 770 6658, email: info@apk.fi, web: www.apk.fi.

All 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 30 days prior to the publication of interim reports and financial statements. When the publication of the interim report or the financial statements takes place more than 30 days after the end of the financial period, the closed window for trading begins at the end of the financial period.

The company regularly monitors 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 thoroughly, 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. In addition, the company supervises compliance with insider rules by asking the permanent insiders to check the accuracy of the information given by them each year.

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.

Corporate Internal Audit is independent of business and other units in Fortum. It reports to the Audit Committee of the Board of Directors and administratively to the CFO.

The purpose, authority and responsibility of Corporate Internal Audit is formally defined in its charter. The charter and the annual action plan are approved by the Board of Directors' Audit Committee.

The company has one auditor, which shall be an audit firm certified by the Central Chamber of Commerce. The auditor is elected by the Annual General Meeting for a term of office that expires at the end of the first Annual General Meeting following the election.

Fortum Corporation's Annual General Meeting on 31 March 2005 re-elected Authorised Public Accountant PricewaterhouseCoopers Oy as auditor, with Authorised Public Accountant Juha Tuomala 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 2005, were as follows:

Total compensation for external auditing paid by Fortum

EUR 1,000	2003	2004	2005
Audit fees	1,413	1,346	**1,065**
IFRS assignments	1,686	713	**237**
Tax assignments	313	426	**287**
Other	522	546	**389**
Total	3,934	3,031	**1,978**

Board of Directors

Members of the Board of Directors on 31 December 2005

PETER FAGERNÄS

Chairman of the Board of Directors, Born 1952, Master of Laws
Chairman of the Nomination and Compensation Committee

Main occupation:
Chairman of the Board of Oy Hermitage Ab and
Managing Partner of Hermitage Co. Ltd.

Primary work experience:
Chairman of the Board of Pohjola Group plc.
Chairman of the Board of Conventum Plc.
CEO of Conventum Plc.
Member of the Board of Merita Bank
CEO of Prospectus Oy
Various positions at Kansallis-Osake-Pankki

Simultaneous positions of trust:
Member of the Board of Directors Finnlines plc.
Member of the Board of Directors Winpak Ltd (Canada)

Independent member of Fortum's Board of Directors since 2004.

BIRGITTA JOHANSSON-HEDBERG

Born 1947, Bachelor of Art, Master of Psychology
Member of the Audit Committee

Main occupation:
President and CEO of Lantmännen

Primary work experience:
President and CEO of Foreningssparbanken
Resident Director for Scandinavia in the Dutch listed company
Wolters Kluwer

Simultaneous positions of trust:
Member of the Board of Directors of Skandia
Member of the Board of Directors of Sveaskog
Chairman of the Board of University of Umeå
Member of Aktiemarknadsnämnden

Independent member of Fortum's Board of Directors since 2004.

BIRGITTA KANTOLA

Deputy Chairman, Born 1948, Master of Laws
Chairman of the Audit Committee

Main occupation:
Director

Primary work experience:
Executive Vice President (Finance) of Nordic Investment Bank
Vice President and CFO of International Finance Corporation,
Washington D.C.

Simultaneous positions of trust:
Member of the Board of Directors of Vasakronan AB,
Akademiska Hus AB, Nordea Bank AB, StoraEnso Oyj,
Varma Mutual Pension Insurance Company and Åbo Akademi

Independent member of Fortum's Board of Directors since 2001.

LASSE KURKILAHTI

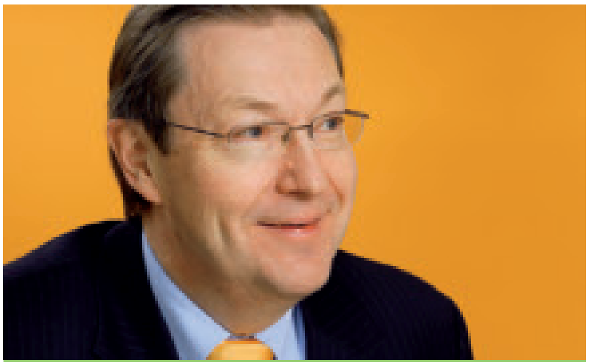
Born 1948, BSc (Econ)
Member of the Nomination and Compensation Committee

Main occupation:
President and CEO of Kemira Oyj

Primary work experience:
President and CEO of Elcoteq Network Corporation
President and CEO of Raisio plc.
President and CEO of Nokian Tyres plc.

Simultaneous positions of trust:
Member of the Board of Directors of Lassila & Tikanoja plc.
Member of the Board of Directors of Elisa Corporation

Independent member of Fortum's Board of Directors since 2002.



MATTI LEHTI

Born 1947, PhD (Econ)
Member of the Audit Committee

Main occupation:
President and CEO and member of the Board of Directors of TietoEnator Corporation. (Chairman of the Board beginning 1.1.2006)

Primary work experience:
President and CEO and member of the Board of Directors of Tietotehdas Oy and TietoGroup
Deputy Managing Director of Rautakirja Oy

Simultaneous positions of trust:
Chairman of Foundation for Economic Education
Vice Chairman of Helsinki School of Economics Foundation
Member of the Board of Directors of Jaakko Pöyry Group and the Confederation of Finnish Industries EK
Chancellor of Helsinki School of Economics

Independent member of Fortum's Board of Directors since 2005.

MARIANNE LIE

Born 1962, Law and Political Science studies at the University of Oslo (UiO), Member of the Nomination and Compensation Committee

Main occupation: Director General, Norwegian Shipowners Association (NSA)

Primary work experience: Managing Director, Helsevakten Telemed AS, a company within the Umoe-Group. Managing Director, Vattenfall Norge AS. Director, Department of Information and Industrial Policy, NSA. Director, Department of Industrial Policy, NSA

Simultaneous positions of trust:
Chairman of the Board of Directors, GalleriF15
Member of the Board of Directors of Kverneland ASA, Green Award, Nordmanns-Forbundet Arendals Fossekompani and Sykehuset Østfold HF
Member of the Corporate Assembly of Orkla ASA

Independent member of Fortum's Board of Directors since 2004.

ERKKI VIRTANEN

Born 1950, MSc (Social Sciences)

Main occupation:
Permanent Secretary at the Ministry of Trade and Industry of Finland

Primary work experience:
Budget Chief at the Ministry of Finance

Simultaneous positions of trust:
Deputy Chairman of the Board of Sitra, the Finnish National Fund for Research and Development

Non-independent member of Fortum's Board of Directors since 1999.

Fortum's Supervisory Board:

Timo Kalli, Chairman
Jouni Backman, Deputy Chairman
Martti Alakoski
Lasse Hautala
Rakel Hiltunen
Jorma Huuhtanen
Mikko Immonen
Kimmo Kalela
Kimmo Kiljunen
Jari Koskinen
Oras Tynkkynen
Ben Zyskowicz

Employee representative:
Jouni Koskinen
Satu Laiterä
Tapio Lamminen

Group Management

Fortum Management Team on 31 December 2005

MIKAEL LILIUS

President and CEO since 2000.
Born 1949. BSc (Econ).
Employed by Fortum since 2000.

Previous positions:
President and CEO of Gambro AB, Stockholm, 1998
President and CEO of Incentive AB, Stockholm, 1991
President and CEO of KF Industri AB (Nordico), Stockholm 1989
President of the Packing Division of Huhtamäki Oy, Helsinki, 1986

Simultaneous key positions of trust:
Huhtamäki Oyj, Chairman of the Board
Sanitec Oy, Chairman of the Board
Association of Finnish Energy Industries, Chairman of the Board
OAO Lenenergo, Vice Chairman of the Board
Hafslund ASA, Member of the Board

TIMO KARTTINEN

Senior Vice President, Corporate Development since 2004.
Born 1965. MSc (Eng).
Member of the Management Team since 2004.
Employed by Fortum since 1991.

Previous positions:
Business Unit Head, Portfolio Management and Trading, Fortum Power and Heat Oy, 2000
Vice President, Electricity Procurement and Trading, Fortum Power and Heat Oy, 1999
Vice President, Electricity Procurement, Imatran Voima Oy, 1997
Design Engineer, Energy Business Unit, Imatran Voima Oy, 1991

Simultaneous key positions of trust:
Fingrid Oyj, Member of the Board
OAO Lenenergo, Member of the Board
Confederation of Finnish Industries, Trade Policy Committee, Member

MIKAEL FRISK

Senior Vice President, Corporate Human Resources, since 2001.
Born 1961. MSc (Econ).
Member of the Management Team since 2001.
Employed by Fortum since 2001.

Previous positions:
Vice President, HR Global Functions, Nokia Mobile Phones, 1998
Vice President, HR, Nokia-Maillefer, Lausanne, Switzerland, 1993
HR Development Manager, Nokia NCM Division, 1992
HR Development Manager, Oy Huber Ab, 1990

TAPIO KUULA

Senior Vice President since 2005. Born 1957. MSc (Eng), MSc (Econ).
Member of the Management Team since 1997.
Employed by Fortum since 1996.

Previous positions:
President, Fortum Power and Heat Oy, 2000–. President, Power and Heat Sector, Fortum Corporation, 2000. Executive Vice President, Fortum Power and Heat Oy, 1999. Executive Vice President, Member of the Board, Member of the Management Team, Imatran Voima Oy, 1997

Simultaneous key positions of trust: Kemijoki Oy, Chairman of the Board; Fingrid Oyj, Vice Chairman of the Board; Teollisuuden Voima Oy, Vice Chairman of the Board; OKG Aktiebolag, Vice Chairman of the Board; OAO TGC-1, Vice Chairman of the Board; OAO Lenenergo and OAO TGC-9, Member of the Board; Varma Mutual Pension Insurance Company, Member of the Supervisory Board; Gasum Oy, Member of the Supervisory Board; National Board of Economic Defense, Member; Confederation of Finnish Industries, Energy Committee, Member

JUHA LAAKSONEN

Chief Financial Officer since 2000.
Born 1952. BSc (Econ).
Member of the Management Team since 2000.
Employed by Fortum since 1979.

Previous positions:
Corporate Vice President, M&A, Fortum Corporation, 2000
Executive Vice President, Finance & Planning, Fortum Oil & Gas Oy, 1999
CFO, Neste Oyj, 1998
Corporate Controller, Neste Oyj, 1997

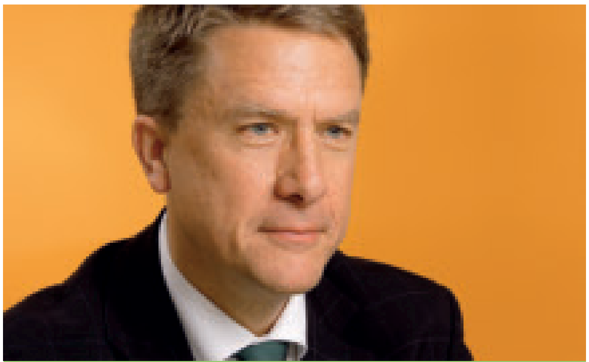
Simultaneous key positions of trust:
Teollisuuden Voima Oy, Member of the Board
Neste Oil Oyj, Member of the Board
Kemijoki Oy, Member of the Supervisory Board
Tapiola General, Member of the Supervisory Board

CAROLA TEIR-LEHTINEN

Senior Vice President, Corporate Communications, since 2000.
Born 1952. MSc (Chem).
Member of the Management Team since 2000.
Employed by Fortum since 1986.

Previous positions:
Corporate Executive Vice President, Environment and Product Safety, Fortum Corporation, 1998
Corporate Vice President, Environment and Product Safety, Neste Oy, 1992
Environmental Protection Manager, Neste Oy, 1986

Simultaneous key positions of trust:
Aktia Savings Bank Plc, Member of the Board
Stockmann Plc, Member of the Board



CHRISTIAN LUNDBERG

Senior Vice President since 2005.
Born 1956.
Member of the Management Team since 2003.
Employed by Fortum since 2003.

Previous positions:
President, Fortum Markets, 2003
Regional Director Nordic/Baltic Services Microsoft, 2001
Regional Director MS Nordic/Baltic Microsoft, 2000
General Manager MS Sweden Microsoft, 1997

Simultaneous key positions of trust:
Svensk Energi, Member of the Board
EnergiFöretagens Arbetsgivareförening, Vice Chairman

Extended Management Team on 31 Dec 2005

The Fortum Extended Management Team consists of the directors on the Fortum Management Team and the heads of Fortum's business units.

Business unit heads

Distribution, **Håkan Grefberg**
Generation, **Pekka Päätiläinen**
Heat, **Risto Riekko**
Markets, **Erkki Kari-Koskinen**
Portfolio Management and Trading, **Per Langer**
Service, **Kim Kronstedt**
Värme, **Åke Pettersson**

Corporate staff

Communications, **Carola Teir-Lehtinen**
Corporate Development, **Timo Karttinen**
Environment, Health and Safety, **Arja Koski**
Finance, **Juha Laaksonen**
Human Resources, **Mikael Frisk**
Information Technology, **Jouni Keronen**
Internal Audit, **Kaj Lindström**
Investor Relations, **Mika Paloranta**
Legal Affairs, Secretary to the Board of Directors and Fortum Managemant Team, **Harri Pynnä**

Design	Evia Oyj
Photographs	Heikki Tuuli, Studio Heikki Tuuli
	Eva Persson
Printing	Libris Oy
Paper	Cover Galerie Art Gloss 250 g/m^2
	Inside pages Galerie Art Silk 130 g/m^2

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

Domicile Espoo, VAT NO FI1463611-4

Financials 2005

Fortum

Financials

Fortum's Annual Report 2005 consists of two separate volumes; the Review of Operations and the Financials. Sustainable development is reported in the Review of Operations.

The Annual Report 2005 is available in Finnish, Swedish and English in print and online at www.fortum.fi, www.fortum.se and www.fortum.com

Copies of the printed report and financial documents can be obtained from
Fortum Corporation, Mail Room,
POB 1, 00048 FORTUM, Finland,
tel. +358 10 452 4454,
e-mail: juha.ahonen@fortum.com

Publication of results

Fortum reports on the Group's financial performance in 2006 quarterly on the following dates:
January–March on 25 April
January–June on 19 July
January–September on 19 October

Annual General Meeting

The Annual General Meeting of Shareholders takes place on 16 March 2006, in Helsinki, Finland.
An invitation to the meeting along with registration information was published as a stock exchange release on 17 February 2006.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a cash dividend of EUR 1.12 per share for the financial period 2005. Of this dividend, EUR 0.58 per share is attributable to the profit from continuing operations in 2005, and EUR 0.54 per share to the profit from discontinued operations.

The record date for dividend payment is 21 March 2006. The expected dividend payment date is 28 March 2006 onwards.

Investor Relations at Fortum

Mika Paloranta, Vice President, Investor Relations
tel. +358 10 452 4138
fax +358 10 452 4176
e-mail: mika.paloranta@fortum.com
Fortum Corporation, POB 1, 00048 FORTUM, Finland.

Rauno Tiihonen, Manager, Investor Relations
tel. +358 10 453 6150
fax +358 10 452 4176
e-mail: rauno.tiihonen@fortum.com
Fortum Corporation, POB 1, 00048 FORTUM, Finland.

Investor information is available online at
www.fortum.com/investors

Further information for investors in the inside cover of the Review of Operations.

Fortum Group Financials for 2005

Review by the Board of Directors

2

2005 was an outstanding year for Fortum. Both the company's operating results and cash flow from operating activities improved. The key financial targets, ROCE and ROE 12%, were exceeded. The balance sheet was further strengthened as net debt decreased by EUR 1,937 million compared to year-end 2004, and Fortum's gearing stood at 43% at the year end. Net cash from operating activities (continuing operations) increased to EUR 1,271 (1,232) million.

The comparable operating profits of all segments were higher than in 2004. The Power Generation, Heat and Markets segments delivered substantially better comparable operating profits. In Power Generation, the good results were mainly due to successful hedging and improvement in spot prices. Heat segment was able to improve its performance mainly due to improved cost efficiency through improved fuel mix in Värme.

The achieved Nordic Generation power price was EUR 31.2 (29.2), up by 7% from 2004. The average spot price of electricity in Nord Pool, the Nordic power exchange, was EUR 29.3 (28.9) per megawatt-hour (MWh), which was approximately 1% higher than in 2004.

The separation of the oil business and listing of Neste Oil was executed successfully through a share dividend and a sale of shares in April 2005.

During 2005, Fortum strengthened its position in the Russian electricity company, OAO Lenenergo and consequently increased its indirect ownership in the regional power generation company of north-west Russia, Territorial Generation Company 1 (TGC-1). As part of the major Russian power market reform, the generation assets of Kolenergo, Lenenergo and Karelenergo are to be merged to TGC-1. In November, Fortum agreed to acquire 24.83% of the shares in Kolenergo.

Fortum continued to expand its district heating business in Poland. In October, Fortum signed an agreement to purchase the majority shareholding of MPEC Wroclaw, the district heating company of the city of Wroclaw in Poland. In December, Fortum acquired the majority shareholding of the district heating company of the city of Plock.

Net sales and results

Group net sales stood at EUR 3,877 million (EUR 3,835 million in 2004). Higher wholesale prices of electricity had a positive impact, whereas lower power generation volumes decreased the net sales.

Net sales from continuing operations, by segment

EUR million	2005	2004
Power Generation	2,058	2,084
Heat	1,063	1,025
Distribution	707	707
Markets	1,365	1,387
Other	91	90
Eliminations	-1,407	-1,458
Total	3,877	3,835

Group reported operating profit totalled EUR 1,347 (1,195) million. The comparable operating profit stood at EUR 1,334 (1,148) million, an increase of EUR 186 million over the 2004 figures.

Comparable operating profit from continuing operations, by segment

EUR million	2005	2004
Power Generation	854	730
Heat	253	207
Distribution	244	240
Markets	30	23
Other	-47	-52
Total	1,334	1,148

Operating profit from continuing operations, by segment

EUR million	2005	2004
Power Generation	825	763
Heat	269	218
Distribution	251	234
Markets	32	34
Other	-30	-54
Total	1,347	1,195

The net amount of non-recurring items was EUR 30 (18) million, mainly consisting of the gains from the sale of North Transgas Oy and some building rights. The net amount of other items effecting comparability was EUR -17 (29) million, mainly consisting of accounting effects from IAS 39.

In January-December, the average Nord Pool spot price was EUR 29.3 (28.9) per megawatt-hour, or 1% higher than during in 2004.

The comparable operating profit of the Power Generation segment was higher, mainly due to Fortum's 7% higher achieved Nordic Generation power price of EUR 31.2 (29.2) per megawatt-hour. The positive profit impact from the increased amount of hydropower generation was offset by a lower amount of thermal power generation. The low thermal power generation was caused by high CO_2 -prices, high coal and gas prices and the good hydrological situation. However, Fortum maintained the full readiness of its condensing power capacity throughout the year.

The lost sales margin due to lower thermal generation was partly compensated by the sale of CO_2 emission allowances. The Power Generation segment's full year comparable operating profit includes approximately EUR 25 million positive impact from the sale of CO_2 emission allowances. The gain on the sale of CO_2 -allowances was booked in the fourth quarter.

Reported operating profit of the Power Generation segment was also higher than last year. The difference in reported and comparable operating profit was mainly due to the accounting effects from IAS 39.

The Heat segment's net sales were higher than last year, mainly due to the acquisitions in Poland. The Heat segment's power sales volume was lower than last year, mainly due to the pulp and paper industry strike and lock-out in Finland. Replacement of fossil fuels with bio-fuels and waste and increased sales to business customers increased the comparable operating profit of the Heat segment. The gain on the sale of the 50% stake in North Transgas Oy lifted the reported operating profit for the segment.

The Distribution segment's net sales were at the same level as last year. The segment's comparable operating profit was slightly higher than last year, despite the EUR 11 million costs from the January storms in Sweden and Norway, which were booked in the first-quarter earnings. The improvement in comparable operating profit is explained mainly by the generally lower cost level thanks to efficiency improvements in the business.

The Markets segment's net sales were slightly lower in 2005 than in 2004, mainly due to the termination of some large long-term contracts at the end of 2004. Markets has been able to slightly increase its total sales margin, due to successful launches of new products and successful procurement of electricity from Nord Pool. Markets' operations in Norway improved from last year. The segment's operating profit for the full year 2005 was still affected by the somewhat higher fixed cost base originating from actions to improve customer service quality.

Profit before taxes was EUR 1,267 (962) million.

The Group's net financial expenses from continuing operations amounted to EUR 135 (245) million. The decrease in net financial expenses is mainly attributable to lower net debt following the spin-off of the Oil businesses and positive changes in the fair values of outstanding derivatives contracts. Net financial expenses include a positive change of EUR 40 (-6) million in the fair values of derivatives in accordance with IAS 39. Net financial expenses in 2005 includes a one-time cost of EUR 15 million, due to early prepayment of US private placements bonds originally issued in 1991 and 1992.

The share of profit of associates and joint ventures from continuing operations was EUR 55 (12) million. The improvement is mainly explained by Hafslund's increased effect.

Minority interests accounted for EUR 52 (33) million. The minority interests are mostly attributable to Fortum Värme Holding, in which the City of Stockholm has a 50% economic interest.

Taxes for the period totalled EUR 331 (259) million. The tax rate according to the income statement was 26% (27%). In 2004, taxes for the period included a decrease in deferred tax liabilities of EUR 43 million due to the change in the Finnish corporate income tax rate from 29% to 26%. EUR 27 million of the decrease in deferred tax liabilities relates to continuing operations.

Total net profit for the period was EUR 1,410 (1,292) million. The net profit from continuing operations was EUR 936 (703) million. Total Fortum earnings per share were EUR 1.55 (1.48), and earnings per share from continuing operations were EUR 1.01 (0.79). In 2004, total earnings per share included a positive effect of EUR 0.05 from the corporate tax rate change in Finland. Return on capital employed from continuing operations was 13.5% (11.4%) and return on shareholders' equity was 18.7% (18.2%).

Market conditions

According to preliminary statistics, the Nordic countries consumed 391 (387) terawatt-hours (TWh) of electricity in 2005. This is 1% more than in 2004.

During 2005, the average spot price of electricity in Nord Pool was EUR 29.3 (28.9) per megawatt-hour (MWh), which was approximately 1% higher than in 2004. The average monthly spot price varied from EUR 23 per megawatt-hour in January to EUR 34 per megawatt-hour in December.

Starting in 2005, emissions trading has become an important new factor affecting the wholesale price of electricity. The market price for CO_2 emissions allowances increased from around EUR 7 per tonne at the beginning of the year to nearly EUR 30 per tonne by mid-July. Since mid-July, the price has been at a rather stable level of EUR 20-24 per tonne. At the end of the year, prices were at level of EUR 21-23 per tonne.

The emergence of the market for CO_2 emissions allowances and a strengthening hydrological situation have decreased thermal power generation and increased hydro power generation in the Nordic countries compared to last year. Despite the high Nordic hydro production, the Nordic water reservoirs have recovered during the year. At the end of 2005, the Nordic water reservoirs were 7 TWh above the average and 5 TWh above the corresponding level in 2004.

In Continental Europe, the spot price of electricity has been clearly higher than in Nord Pool, resulting in exports from the Nordic countries to Germany.

Total power and heat generation figures

Fortum's total power generation during 2005 was 52.3 (55.5) TWh, of which 51.2 (54.4) TWh was in the Nordic countries. Fortum's Nordic generation is 13% (14%) of the total Nordic electricity consumption.

At year end, Fortum's total power generating capacity was 11,281 (11,373) MW, of which 11,136 (11,220) MW was in the Nordic countries.

During the past six years, the volume of Fortum's CO_2-free power generation has increased from 29 TWh to 49 TWh. Its share was 93% (83%) of Fortum's power generation in 2005.

Fortum's total power and heat generation figures are presented below. In addition, the segment reviews include the respective figures by segment.

Fortum's total power and heat generation,

TWh	2005	2004
Power generation	52.3	55.5
Heat generation	25.1	25.4

Fortum's own power generation by source,

TWh total in the Nordic countries	2005	2004
Hydropower	21.2	19.1
Nuclear power	25.8	25.8
Thermal power	4.2	9.5
Total	51.2	54.4

Fortum's own power generation by source, %,

total in the Nordic countries	2005	2004
Hydropower	42	35
Nuclear power	50	47
Thermal power	8	18
Total	100	100

Total power and heat sales figures

Fortum's total power sales were 59.7 (62.3) TWh, of which 58.2 (60.7) TWh were in the Nordic countries. This represented approximately 15% (16%) of the region's total consumption. Heat sales in the Nordic countries amounted to 19.4 (20.2) TWh and in other countries to 4.4 (3.6) TWh.

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

Fortum's total electricity and heat sales,

EUR million	2005	2004
Electricity sales	2,002	2,017
Heat sales	867	809

Fortum's total electricity sales by area,

TWh	2005	2004
Sweden	30.4	27.6
Finland	26.0	31.1
Other countries	3.3	3.6
Total	59.7	62.3

Fortum's total heat sales by area,

TWh	2005	2004
Sweden	9.5	9.6
Finland	9.8	10.5
Other countries	4.5	3.7
Total	23.8	23.8

Segment reviews

Power Generation

In 2005, the segment's power generation in the Nordic countries was 47.2 (49.8) TWh, of which about 21.2 (19.1) TWh or 45% (38%) was hydropower-based, 25.8 (25.8) TWh or 55% (52%) nuclear power-based, and 0.2 (4.9) TWh or 0% (10%) thermal power-based. The increase in hydro power generation was due to a strengthened hydrological situation compared to the corresponding period last year. The decrease in thermal power generation was due to lower power prices during the first quarter and high fuel and CO_2 allowance prices.

At year end, the segment's power generation capacity totalled 10,003 (10,030) MW, of which 9,863 (9,890) MW was in the Nordic countries and 140 (140) MW in other countries.

Power generation by area,

TWh	2005	2004
Sweden	28.4	25.8
Finland	18.8	24.0
Other countries	1.1	1.1
Total	48.3	50.9

Nordic sales volume,

TWh	2005	2004
	52.6	55.7
of which pass-through sales	4.5	4.7

Sales price,

EUR/MWh	2005	2004
Nordic Generation power price*	31.2	29.2

*) For the Power Generation segment in the Nordic area, excluding pass-through sales.

During 2005, Fortum's achieved Nordic Generation power price was 7% higher than a year ago, the average spot price in Nord Pool being 1% higher than in 2004. The related sales volume was 48.1 (51.0) TWh for the year 2005.

During 2005, Fortum made small capacity increases both in hydro and nuclear power generation according to Fortum's investment plan. Four hydropower plant refurbishment projects were completed during the year.

Fortum began modernising Loviisa nuclear power plant automation in January 2005. The project aims at extending the lifetime of the plant. All of the new automation systems related to this project will be in use by 2014.

Fortum has strengthened its position in Russia. The regional power generation company of north-west Russia, Territorial Generation Company 1 (TGC-1), started its operations on the first of October. Fortum is an indirect owner of this company through its 33.2% ownership of the outstanding voting shares in Lenenergo. Fortum has three of the total 11 seats on the Board of Directors of TGC-1. The final ownership structure of TGC-1 will be set up in connection with the merger of the generation assets of Lenenergo, Karelenergo and Kolenergo into TGC-1, scheduled for the end of 2006.

Fortum has made an agreement with the Russian companies RAO UES of Russia and Kes-holding (IES, Integrated Energy Systems), aiming at developing a joint operating model for improving the competitiveness of the territorial generation companies. Additionally, Fortum signed a co-operation agreement with Interros, a leading Russian investment company, concerning future expertise as well as operation and maintenance services of the wholesale power companies acquired by Interros.

In August, Fortum Service signed a 15-year operation and maintenance agreement with Trianel Energie of Germany. The agreement covers the 800-MW combined cycle gas turbine power plant in Hamm-Uentrop, Germany, which will be ready for commercial use in September 2007.

Heat

The segment's heat sales amounted to 21.7 (21.8) TWh during the whole year.

Power generation at combined heat and power plants (CHP) was 4.1 (4.8) TWh during 2005. The decrease was due to the strike and lock-out in the Finnish paper industry during spring and summer and also due to the lower thermal generation volumes stemming from higher fuel and CO_2 allowance prices.

In April, Fortum acquired UAB Suomijos Energija, a Lithuanian district heat company with annual heat sales of 60 GWh and fuel sales 62 GWh. In May, Fortum continued the restructuring of its gas assets and sold its 50% stake in North Transgas Oy to OAO Gazprom.

In the fourth quarter, Fortum acquired two new district heating companies in Poland. In October, Fortum signed an agreement to purchase the majority shareholding of MPEC Wroclaw, a district heating company of the city of Wroclaw with annual net sales of EUR 70 million and heat sales of 2,100 GWh. In November, Fortum signed an acquisition agreement regarding the majority of the district heating company of the city of Plock. The annual net sales of the company are around EUR 13 million, with heat sales amounting to 500 GWh. Following the acquisitions, Fortum is a majority owner in four heating companies in Poland with aggregate net sales of close to EUR 130 million and annual heat sales of 3,900 GWh.

The new waste fuel-based combined heat and power plant in Högdalen, Stockholm, was inaugurated in October 2005.

Heat sales by area,

TWh	2005	2004
Sweden	9.5	9.6
Finland	9.8	10.5
Other countries	2.4	1.7
Total	21.7	21.8

Power sales,

TWh	2005	2004
Total	4.1	4.8

Distribution

During 2005, the volumes of distribution and regional network transmissions totalled 23.1 (22.7) TWh and 18.0 (17.8) TWh, respectively. Electricity transmissions via the regional distribution network to customers outside the Group totalled 14.8 (14.6) TWh in Sweden and 3.2 (3.2) TWh in Finland.

The Energy Authority (EMI) in Sweden has performed supervision of 2003 year's distribution prices on basis of the Nätnyttomodell. The authority notified 16 companies in June and two companies in December of over debiting. All of these companies have filed a complaint.

Fortum has three grid areas that are affected by the supervision of 2003 distribution prices. A minor subsidiary of Fortum (Ekerö Energi) received a decision of over debiting in 2003 and filed a complaint. Decisions on two other Fortum areas are expected during the first quarter of 2006. Final court decisions on prices in 2003 are expected at during the third quarter of 2007, at the earliest.

In November, EMI published information on those companies that will be supervised more closely for their 2004 distribution prices. Based on EMI's decision on supervision, five Fortum areas exceeded the stipulated charge rate limit. However, Fortum believes that the charge rate calculation concerning two of its areas is not in compliance with EMI's own instructions. Fortum has applied for withdrawal of the supervision decision for these two areas. If Fortum will receive a decision of over debiting regarding the other three areas selected for supervision of 2004 distribution prices, Fortum expects to appeal to court.

As a result of the January storms, a government bill for a functional demand allowing no outages to exceed 24 hours starting in 2011 was passed by the Swedish parliament in December. The law calls for compensation to customers for outages exceeding 12 hours starting already in 2006.

The Fortum Reliability Programme to accelerate the reliability improvements in electricity distribution networks was kicked off in September. In total, the Distribution segment will invest around EUR 700 million during the next five years. Of this amount, around EUR 200 million is for the Nordic-wide plan especially focusing on upgrading reliability. The first scheduled phase of the plan is three years long.

Fortum has launched a project to provide an Automatic Meter Management system to all its Nordic customers. The system will be implemented in phases starting in 2006.

Distribution network transmission by area,

TWh	2005	2004
Sweden	14.4	14.2
Finland	6.3	6.2
Norway	2.2	2.1
Estonia	0.2	0.2
Total	23.1	22.7

Number of electricity distribution customers by area,

1,000s	31 Dec 2005	31 Dec 2004
Sweden	860	860
Finland	410	405
Norway	97	93
Estonia	23	22
Total	1,390	1,380

Markets

During 2005, Markets' electricity sales totalled 40.2 (43.5) TWh. The decrease was due to the termination of some large long-term contracts at the end of 2004.

The retail price development in 2005 followed the wholesale price development. The retail prices at the end of the 2005 were at a higher level compared to the end of 2004.

2005 was a good year with a positive net inflow of customers. The positive development was based on successful marketing campaigns and new product launches especially in the first half of the year. New products and services and the introduction of customer guarantees have improved customer satisfaction.

Research and development

Fortum applies various technologies in its core power and heat businesses. From this perspective, the objective of R&D in Fortum is to secure the company's technological competitiveness for the future. The total R&D expenditure for continuing operations in 2005 was at the same level as the year before EUR 14 million (EUR 13 million in 2004).

Fortum engages in R&D to support its current operations, to enable growth, to support its sustainable development agenda and to secure its long-term technology base. Currently, the role of R&D can be defined as building well functioning networks with research organisations, engineering companies, vendors, and other partners, while at the same time actively conducting R&D in selected key areas.

Environment and safety issues

Fortum's carbon dioxide emissions in 2005 totalled approximately 6.5 million tonnes. A major part of the emissions, approximately 5.9 million tonnes, was generated at power plants subject to emissions trading. In 2005, hydro power production in the Nordic countries clearly exceeded the average level. This combined with high emission allowance and fuel prices resulted in lower than average operation of fossil fuel fired power plants and, consequently, in lower emissions.

The average volume of emission allowances allocated to Fortum's installations in various countries totals approximately 9 million tonnes per year. The emissions from the power plants subject to emissions trading have been 9.4/11.5 million tonnes during the last five/three years. Fortum will submit the official report on 2005 emissions, assured by an accredited verifier, to the authorities by the end of March, as stipulated in the emissions trading legislation.

The promotion of a strong safety culture in Fortum continued in 2005 with the aim of reducing the number of occupational accidents towards zero. A comprehensive safety development programme has been implemented to help achieve this aim. The programme includes among other things introduction of corporate level safety requirements, safety training at all levels in the organisation and safety observation tours at Fortum's sites.

In 2005, there were 68 occupational accidents leading to an absence of more than one working day. This means 4.8 injuries per one million working hours or 18.6% fewer than in 2004 and below our target value of 5 for 2005. Although the injury frequency decreased, two fatal accidents occurred in 2005. Improving risk assessment practices and adherence to given instructions are key challenges in meeting the target for 2006, which is less than 4 injuries per million working hours.

To improve integration of the principles of sustainable development into business activities, Fortum introduced a new Sustainable development policy and related environmental and safety principles. Development of environmental management systems continued and more than 90% of the business volume is now covered by certified environmental management systems. Fortum was included in the Dow Jones Sustainability World Index for the third consecutive year.

Capital expenditures and investments in shares

Capital expenditures and investments in shares for continuing operations in 2005 totalled EUR 479 (514) million. Investments excluding acquisitions were EUR 346 (335) million.

During 2005, Fortum increased its ownership in OAO Lenenergo to 33.2% of the outstanding voting shares as a result of the redemption of Lenenergo's own shares relating to its reorganisation. Fortum secured four of the total 11 seats on the Board of Directors of Lenenergo on 30 June.

In November, Fortum agreed to acquire 24.83% of the shares in the Russian company Kolenergo and will obtain 23.33% of the voting shares of Kolenergo and its incorporated companies. The transaction is estimated to take place during the first quarter of 2006 after formal approval of the relevant authorities.

On 20 December, Fortum acquired 48.7 % of the share capital of the Polish district heating company MPEC Wroclaw, which has annual heat sales of some 2,100 GWh. By the end of the year, Fortum's holding in the company increased to 53.7% of the share capital and 75.7% of the voting rights. Fortum also issued a public tender offer for all currently publicly-traded shares in the company. In the final closing of the public tender regarding the outstanding shares of MPEC Wroclaw on 24 January 2006, Fortum reached over 90% of the share capital of the company.

The transfer of 85% of the shareholding of the Polish district heating company PEC Plock to Fortum took place on 27 December.

Divestments during 2005 consisted of the sales of North Transgas Oy and some building rights. The gains on these sales are included in nonrecurring items.

Group restructuring

In April 2005, Neste Oil was successfully separated by distributing 85% of its shares as dividends to Fortum's shareholders and by selling the remaining 15% of Neste Oil shares to institutional and individual investors. Neste Oil was subsequently listed on the Helsinki Stock Exchange on 18 April.

Financing

At year end, Fortum's interest-bearing net debt stood at EUR 3,158 (5,095) million, giving a total reduction in net debt of EUR 1,937 million for the year. The gearing ratio was 43% (67%).

The Group's net financial expenses for 2005 were EUR 135 (245) million. The decrease in net financial expenses is mainly attributable to lower net debt following the spin-off of the oil businesses and positive changes in the fair values of outstanding derivatives contracts. Net financial expenses for the full year 2005 includes a positive EUR 40 (-6) million change in the fair values of derivatives in accordance with IAS 39.

Net financial expenses in the fourth quarter included a one-time cost of EUR 15 million due to early prepayment of US private placements bonds originally issued in 1991 and 1992.

At year end, the average interest rate of Fortum's interest-bearing loans was 4%.

Group liquidity remained good. Year-end cash and marketable securities totalled EUR 788 million. In addition, the Group had a total of EUR 1,314 million available for drawings under committed credit facilities, such as the EUR 1,200 million

Syndicated Revolving Credit Facility and bilateral overdraft facilities.

Fortum Corporation's long-term credit rating from Moody's and Standard and Poor's was A2 (stable) and A- (stable), respectively.

Shares and share capital

During 2005, a total of 900.1 (478.8) million Fortum shares for a total of EUR 12,487 million were traded. Fortum's market capitalisation, calculated using the closing quotation on the last trading day of the year, was EUR 13,864 million. The highest quotation of Fortum Corporation's shares on the Helsinki Stock Exchange in 2005 was EUR 16.90, the lowest EUR 10.45, and the average quotation EUR 13.87 (10.29). The closing quotation on the last trading day of the year was EUR 15.84 (13.62).

Relating to the 1999 bond loan with warrants to employees, a total of 0.6 million warrants for a total of EUR 4.4 million were traded during 2005. Relating to the 1999 management share option scheme, a total of 563 options for a total of EUR 4.1 million were traded during 2005. Relating to the 2001A share option scheme for key employees, a total of 3.1 million options for a total of EUR 35.6 million was traded during 2005. Relating to the 2002A share option scheme for key employees, a total of 2.3 million options for a total of EUR 20.4 million was traded during 2005.

A total of 8,210,120 (18,251,430) shares subscribed for based on the basis of the above share option schemes were entered into the trade register in 2005. After these subscriptions, Fortum Corporation's share capital is EUR 2,975,999,685 and the total number of registered shares is 875,294,025 (867,083,905). Share capital of Fortum Corporation increased by a total of EUR 27,914,408 (62,054,862). The amount of shares that can still be subscribed for under the 2001A and 2002A share option schemes is a maximum of 0.5% of Fortum's year-end share capital and voting rights.

In addition to the above arrangements, Fortum has two share option programmes, 2001B and 2002B, for key employees. The subscription period for the 2001B option started on 16 January 2006; the period for the 2002B options will start on 1 October 2006. At the end of 2005, the option schemes covered some 320 persons. The amount of shares subscribed for under these share option schemes is a maximum of 1.9% of Fortum's year-end share capital and voting rights.

On 2 June, the Finnish state sold 62.9 million Fortum shares to Finnish and international investors. At year end, the Finnish State's holding in Fortum was 51.5% (59.3%). The proportion of international shareholders increased to 33.2% (25.2%).

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

Group personnel

In 2005, the Fortum Group employed an average of 10,026 (12,859) people. At year end, the number of employees totalled 8,955 (13,175), of which 8,769 (12,735) were permanent employees. The decreases are due to the separation of Neste Oil. The number of employees in the parent company, Fortum Corporation, at year end totalled 550 (619).

Corporate Governance

Corporate Governance at Fortum is based on the laws of Finland and on the company's Articles of Association. Furthermore, the company complies with the Corporate Governance Recommendation for Listed Companies in Finland with the exception that Fortum's Board of Directors' Nomination and Compensation Committee does not assist the Annual General Meeting in the nomination process of members to the Board of Directors. To do this, the Annual General Meeting has established a Shareholders' Nomination Committee.

In the 2005 Annual General Meeting, the following persons were elected to the Supervisory Board for a one-year term of office: Timo Kalli (Chairman), Jouni Backman (Deputy Chairman), Martti Alakoski, Lasse Hautala, Rakel Hiltunen, Jorma Huuhtanen, Mikko Immonen, Kimmo Kalela, Kimmo Kiljunen, Jari Koskinen, Oras Tynkkynen and Ben Zyskowicz. The employee representatives on Fortum's Supervisory Board were Satu Laiterä, Jouni Koskinen and Tapio Lamminen.

In the 2005 Annual General Meeting, the following persons were elected to the Board of Directors for a one-year term of office: Peter Fagernäs (Chairman), Birgitta Kantola (Deputy Chairman), Birgitta Johansson-Hedberg, Lasse Kurkilahti, Matti Lehti, Marianne Lie and Erkki Virtanen.

In December 2005, the following persons were appointed to the Shareholders' Nomination Committee by the three largest shareholders at that time: Markku Tapio (Chairman), Director General, Ministry of Trade and Industry; Kari Puro, President and CEO, Ilmarinen Mutual Pension Insurance Company; and Jorma Huuhtanen, Director General, Social Insurance Institution. The Chairman of Fortum's Board of Directors, Peter Fagernäs, serves as an expert member.

Events after the period under review

The Espoo City Council approved in its meeting on 16 January 2006 the agreement, according to which Fortum acquires all the 5,351,859 E.ON Finland Oyj shares held by the City of

Espoo, corresponding to 34.2% of the shares and the voting rights of the company. The agreement was signed on 18 January. The agreed purchase price was EUR 68 per share, i.e. approximately EUR 364 million in total. A prerequisite for the transaction to take effect is that the 10,246,565 E.ON Finland shares held by E.ON Nordic have been transferred to Fortum's ownership.

On 2 February 2006, Fortum and E.ON Nordic signed an agreement on the acquisition of E.ON Finland shares held by E.ON Nordic, subject to approval by the Finnish Competition Authority. Fortum will pay around EUR 380 million for this 65.56% stake in the company. In connection to the transaction, all related outstanding issues between E.ON and Fortum have been settled. As a consequence, Fortum will pay E.ON a total compensation of EUR 16 million. Fortum intends to redeem the remaining 0.2% of shares currently owned by minority shareholders. The E.ON Finland acquisition is still subject to the approval of competition authorities.

Fortum is participating in the fifth Finnish nuclear power plant with a share of approximately 25%. In January, TVO, the company that is building and owns the plant, informed that the reactor building civil works and the manufacture of certain primary components are delayed as compared to the original schedule. However, TVO still believes that the new power plant will produce electricity in 2009.

Fortum's affiliate OKG announced in January that it is going to increase the capacity of the third unit of the Oskarshamn nuclear power plant from the current 1,200 megawatts to 1,450 megawatts. OKG will implement and fund the power increase and renovation investments through its own balance sheet, i.e. the investment will not increase Fortum's capital expenditures. However, Fortum may support OKG's financing through shareholder loans or guarantees. The investment will be mainly realised in 2008. Fortum's share of ownership in the Oskarshamn nuclear power plant entitles the company to a share of over 43% of the production of the power plant, which Fortum buys at cost price. Fortum's share of the power increase of the power plant's third unit is slightly over 100 megawatts.

At the end of January, Fortum agreed to sell its 40.67% ownership in Enprima Ltd to Swedish ÅF Group.

Capital structure

Following the separation of the oil activities Fortum's balance sheet has strengthened significantly. At year end, the company's gearing stood at 43%. Fortum wants to have a prudent and efficient capital structure which at the same time allows the implementation of its strategy.

The company targets a capital structure where net debt to EBITDA ratio is in the range of 3.0-3.5. In the medium term, allowing for the implementation of strategy and the returns of capital announced 3 February 2006, Fortum expects to have a net debt to EBITDA ratio around 3.0.

Outlook

The key market driver influencing Fortum's business performance is the Nordic wholesale price of electricity. Key drivers behind the market price development are the Nordic hydrological situation, CO_2 emissions allowance prices and fuel prices. The Swedish krona exchange rate also effects Fortum's reported result, as results generated by Fortum in Sweden are translated into euros.

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.

At the end of January, the Nordic water reservoirs were about 5 TWh above the average and 0.3 TWh above the corresponding level for 2005. At the end of January, the market price for emissions allowances for 2006 ranged between EUR 26–27 per tonne of CO_2. At the same time, the electricity forward price for 2007 was around EUR 40–41 per megawatt-hour and around EUR 38 per megawatt-hour for 2008.

The first and last quarters of the year are usually the strongest quarters for the continuous operations of the power and heat businesses.

At the end of January, Fortum had hedged approximately 75% of its Nordic Power Generation sales volume for the remainder of 2006 at approximately EUR 32 per megawatt-hour. For the calendar year 2007, Fortum has hedged approximately 40% of its Nordic Power Generation sales volume at approximately EUR 34 per megawatt-hour. These hedge ratios may vary significantly depending on Fortum's actions on the electricity derivatives markets. Hedge price is also influenced by changes in the SEK/EUR exchange rates, as part of the hedges are conducted in SEK.

Fortum's achieved Nordic Generation power price typically depends on e.g., hedge ratio, hedge price, spot price, optimisation of Fortum's flexible production portfolio even on hourly basis and currency changes. If Fortum would not hedge any of its production volumes, a 1 EUR/MWh change would result in around EUR 50 million change in Fortum's operating profit.

Increases in nuclear and hydro power tax have been made in Sweden and Finland in conjunction with the governments' 2006 budgets. These taxes will be an additional cost element in nuclear and hydro power generation. Fortum estimates that its additional generation costs due to these taxes will be approximately EUR 60 million in 2006.

Following several years of positive development, Fortum´s results in 2005 were outstanding and its financial position improved significantly. With good growth opportunities and favourable market fundamentals in the Nordic and Baltic Rim area, Fortum is well positioned also for the future.

Proposal to authorise the Board of Directors to decide to repurchase Fortum shares

The Board of Directors of Fortum Oyj proposes that the Annual General Meeting of Shareholders to be held on 16 March 2006 authorise the Board of Directors to decide to repurchase the company's own shares by using funds available for distribution of profit. The authorisation is proposed to be valid for one year from the date of the decision of the Annual General Meeting. The proposal is the first step in a planned share repurchase programme targeting at repurchasing Fortum shares by using funds in the maximum amount of EUR 1000 million during the next three years.

The shares will be repurchased in order to develop the capital structure of the company.

The maximum amount of shares to be repurchased is 35 million shares. In addition, the amount of funds used for the repurchases may not exceed EUR 500 million. The proposed maximum amount of shares to be repurchased corresponds to approximately four per cent of the share capital of the company and the total voting rights.

The shares will be repurchased through public trading of the securities on the Helsinki Stock Exchange at the market price of the shares at the time of the repurchase. The repurchases shall be carried out and settled according to the Rules of the Helsinki Stock Exchange and the Rules of the Finnish Central Securities Depository.

Shares repurchased by the company shall be invalidated either by decreasing the share capital through a decision made by a General Meeting of Shareholders or without decreasing the share capital through a decision of the Board of Directors, provided that under the new Companies Act proposed to enter into force in September 2006 the Board of Directors is entitled to invalidation.

The repurchase of the shares will reduce the company's distributable retained earnings.

The repurchase will not have a material impact on the division of the ownership of the shares and the voting rights.

Espoo, 2 February 2006

Peter Fagernäs

Birgitta Kantola

Birgitta Johansson-Hedberg

Lasse Kurkilahti

Matti Lehti

Marianne Lie

Erkki Virtanen

Mikael Lilius
President and CEO

Consolidated Financial Statements

Consolidated Financial Statements, IFRS
Consolidated Income Statement

EUR million	Note	2005	2004
Continuing operations:			
Sales	3, 4, 7	3,877	3,835
Other income	8	101	91
Materials and services	9	-1,325	-1,507
Employee costs	10	-481	-462
Depreciation, amortisation and impairment charges	3, 11	-407	-388
Other expenses	9	-418	-374
Operating profit	3	1,347	1,195
Share of profit of associates and joint ventures	3	55	12
Interest expense	12	-203	-260
Interest income	12	46	46
Fair value gains and losses on financial instruments	12	40	-6
Other financial expenses-net	12	-18	-25
Finance costs-net	12	-135	-245
Profit before income tax		1,267	962
Income tax expense	13	-331	-259
Profit for the period from continuing operations		936	703
Discontinued operations:			
Profit for the period from discontinued operations	5	474	589
Profit for the period		1,410	1,292
Attributable to:			
Equity holders of the Company		1,358	1,259
Minority interest		52	33
		1,410	1,292
Earnings per share for profit from total Fortum Group attributable to the equity holders of the company during the year (in EUR per share)			
Basic	14	1.55	1.48
Diluted		1.53	1.46
Earnings per share for profit from continuing operations attributable to the equity holders of the company during the year (in EUR per share)			
Basic	14	1.01	0.79
Diluted		1.00	0.78
Earnings per share for profit from discontinued operations attributable to the equity holders of the company during the year (in EUR per share)			
Basic	14	0.54	0.69
Diluted		0.53	0.68

Consolidated Balance Sheet

EUR million	Note	31 Dec 2005	31 Dec 2004
ASSETS			
Non-current assets			
Intangible assets	16	80	116
Property, plant and equipment	17	10,176	11,925
Investments in associates and joint ventures	18	1,610	1,680
Other long-term investments	19	484	569
Deferred tax assets	27	18	106
Derivative financial instruments	34	87	90
Long-term interest bearing receivables	20	620	727
Total non-current assets		13,075	15,213
Current assets			
Inventories	21	256	654
Derivative financial instruments	34	129	261
Trade and other receivables	22, 23	882	1,294
Cash and cash equivalents	24	788	145
Total current assets		2,055	2,354
Total assets		15,130	17,567
EQUITY			
Capital and reserves attributable the Company's equity holders			
Share capital	25	2,976	2,948
Other equity	25	4,175	4,552
Total		7,151	7,500
Minority interest		260	150
Total equity		7,411	7,650
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	26	3,118	4,450
Derivative financial instruments	34	123	157
Deferred tax liabilities	27	1,512	1,841
Provisions	28, 29	606	608
Other liabilities	31	312	395
Total non-current liabilities		5,671	7,451
Current liabilities			
Interest-bearing liabilities	26	828	790
Derivative financial instruments	34	235	128
Current tax liability		119	116
Trade and other payables	23, 32	866	1,432
Total current liabilities		2,048	2,466
Total liabilities		7,719	9,917
Total equity and liabilities		15,130	17,567

Consolidated statement of changes in total equity

EUR million	Share capital	Share premium	Other restricted funds	Fair value and other reserves	Retained earnings	Minority	Total
Total equity at 31 December 2004	2,948	62	13	134	4,343	150	7,650
Stock options exercised	28	8	-11				25
Translation and other differences					-55	-7	-62
Cash dividend					-506		-506
Share dividend *)					-920		-920
Increase in minority due to business combinations						62	62
Options				6			6
Cash flow hedges				-257		3	-254
Total gains and losses not recognised in income statement				*-251*		*3*	*-248*
Net profit for the period					1,358	52	1,410
Total recognised income for the period				-251	1,358	55	1,162
Total equity at 31 December 2005	2,976	70	2	-117	4,220	260	7,411
Total equity at 31 December 2003	2,886	36	5	63	3,399	120	6,509
Stock options exercised	62	26	8				96
Translation and other differences					24	-2	22
Cash dividend					-357		-357
Options				4			4
Cash flow hedges				67	14	-1	80
Other fair value adjustments					4		4
Total gains and losses not recognised in income statement				*71*	*18*	*-1*	*88*
Net profit for the period					1,259	33	1,292
Total recognised income for the period				71	1,277	32	1,380
Total equity at 31 December 2004	2,948	62	13	134	4,343	150	7,650

*) The effect from the share dividend on Fortum Group equity is EUR 920 million.

Distributable funds

EUR million	2005
Retained earnings	4,220
Untaxed reserves in retained earnings	-444
Distributable funds	**3,776**

Consolidated cash flow statement

EUR million	2005	2004
Cash flow from operating activities		
Net profit for the period from continuing operations	936	703
Adjustments:		
Income tax expenses	331	259
Finance costs-net	135	245
Share of profit of associates and joint ventures	-55	-12
Depreciation, amortisation and impairment charges	407	388
Operating profit before depreciations continuing operations	1,754	1,583
Non-cash flow items and divesting activities	15	-37
Interest received	51	41
Interest paid	-261	-310
Dividends received	36	31
Other financial items and realised foreign exchange gains and losses	67	57
Taxes	-298	-160
Funds from operations continuing operations	1,364	1,205
Decrease/increase in interest free receivables	-93	44
Decrease/increase in inventories	-20	-11
Decrease/increase in interest free liabilities	20	-6
Change in working capital	-93	27
Net cash from operating activities continuing operations	1,271	1,232
Net cash from operating activities discontinued operations	133	526
Total net cash from operating activities	1,404	1,758
Cash flow from investing activities		
Capital expenditures	-346	-335
Acquisition of subsidiaries, net of cash	-79	-14
Acquisition of associates	-47	-165
Acquisition of other long-term investments	-1	0
Proceeds from sales of fixed assets	30	60
Proceeds from sales of subsidiaries, net of cash	3	5
Proceeds from sales of associates	12	6
Proceeds from sales of other long-term investments	11	4
Change in interest-bearing receivables	19	-20
Net cash used in investing activities continuing operations	-398	-459
Net cash used in investing activities discontinued operations	1,155	-277
Total net cash used in investing activities	757	-736
Cash flow before financing activities	2,161	1,022
Cash flow from financing activities		
Proceeds from long-term liabilities	28	319
Payments of long-term liabilities	-706	-865
Change in short-term liabilities	-384	-265
Stock options exercised	22	95
Dividends paid to the Company´s equity holders	-506	-357
Other financing items	-1	-1
Net cash used in financing activities continuing operations	-1,547	-1,074
Net cash used in financing activities discontinued operations *)	29	-236
Total net cash used in financing activities	-1,518	-1,310
Total net increase (+)/decrease (-) in cash and cash equivalents	643	-288
Cash and cash equivalents at the beginning of the year	145	433
Cash and cash equivalents at the end of the year	788	145

The principal non-cash transaction was the dividend distribution of approximately 85% of Neste Oil shares as part of the Oil separation, which is further discussed in the note 5 Discontinued operations.

*) The cash flow from financing activities, discontinued operations in 2004 is shown as used to repay loans since the Treasury operations have been centralised for the total Fortum Group.

Notes to the consolidated financial statements

1 Accounting policies

Principal activities

Fortum Corporation (the Company) is a Finnish public limited liability company with domicile in Espoo, Finland. The Company has its listing on the Helsinki Stock Exchange.

Fortum Corporation and its subsidiaries (together the Fortum Group) 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 operation and maintenance of power plants as well as energy-related services. The main products are electricity, heat and steam. Neste Oil which operates in producing, refining and marketing of oil, was included in Fortum Group up until 31 March 2005 after which it has been regarded as discontinued operations.

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.

Basis of preparation

The consolidated financial statements of Fortum Group are prepared in accordance with International Financial Reporting Standards (IFRS) for the first time for the accounting period 2005. International Financial Reporting Standards refer to the standards and to their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the European Parliament and of the Council. IFRS 1, First-time Adoption of International Financial Reporting Standards, came into force for periods beginning on or after 1 January 2004 and the Group adopted IFRS 1 in preparing these financial statements.

Consolidated financial statements of Fortum Group until 31 December 2004 had been prepared in accordance with Finnish Accounting Standards (FAS). FAS differ in certain respects from International Financial Reporting Standards (IFRS). When preparing these consolidated financial statements, management has amended certain accounting, measurement and consolidation methods applied in the FAS consolidated financial statements to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments. Fortum Group has elected to apply the following exemptions from the requirements in other IFRS's as allowed in IFRS 1:

- The Group will not apply IFRS 3 Business Combinations retrospectively to past business combinations but keep the same classification and recognition of assets and liabilities as in its FAS consolidated financial statements. The acquisitions after 1 January 2004 are recognised in accordance with IFRS 3.
- The Group 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.
- Under IAS 19 Employee Benefits the Group has elected to recognise all cumulative actuarial gains and losses at the date of transition to IFRS's and use a corridor approach for later actuarial gains and losses. The interest part of post-employment benefits will be included in the employee costs.
- The Group deems all cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS.
- Under IFRS 2 Share -based payment the Group has elected to apply IFRS 2 from 1 January 2004 to the equity instruments that were granted after 7 November 2002 that had not vested before 1 January 2005.
- The Group has chosen to apply IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Presentation and Measurement from 1 January 2004 onwards.

Standards applied before their effective date

- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006)
- IFRIC 5, Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)
- IAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).

Interpretations and amendments to published standards that are not yet effective

The following new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on 1 January 2006 or later periods but which the Group has not early adopted:

- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006) As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from annual periods beginning 1 January 2006.

- Amendment to IAS 21 The effect of changes in Foreign Exchange Rates, Net Investment in a Foreign Operation (effective from1 January 2006) Management is in the process to assess impacts. The Group will apply this amendment from annual periods beginning 1 January 2006.
- IAS 39 (Amendment) The Fair Value Option (effective from 1 January 2006) The Group will apply standard from annual periods beginning 1 January 2006.
- IAS 39 and IFRS 4 (Amendment) Financial Guarantee Contracts (effective from 1 January 2006). Management is in the process to assess impacts. The Group will apply this amendment from annual periods beginning 1 January 2006.
- IFRS 7 Financial Instruments: Disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). Management is in the process to assess impacts. The Group will apply this amendment from annual periods at the latest beginning 1 January 2007.

The following interpretations and amendments are not relevant to the Group's operations

- IFRS 6 Exploration and Evaluation of Mineral Resources and amendment (effective from 1 January 2006 onwards)
- IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from 1 December 2005)
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies.

Consolidation

Subsidiaries

The consolidated financial statements include the parent company Fortum Corporation and all those companies in which Fortum Corporation has the power to govern the financial and operating policies and generally holds, directly or indirectly, more than 50% of the voting rights.

Fortum Group was formed in 1998 by using the pooling-of-interests method for consolidating Fortum Power and Heat Oy and Fortum Oil and Gas Oy (the latter demerged to Fortum Oil Oy and Fortum Heat and Gas Oy 1 May 2004). This means that the acquisition cost of Fortum Power and Heat Oy and Fortum Oil and Gas Oy 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 Group have been consolidated according to the purchase method. The cost of an acquisition is measured as the aggregate of fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, subsidiaries' accounting policies have been changed to ensure consistency with the policies the Group has adopted.

Associates and joint ventures

Associated companies are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities over which the Group has contractually agreed to share the power to govern the financial and operating policies of that entity with another venturer or venturers. The Group's interests in associated companies and jointly controlled entities are accounted for by the equity method of accounting. Assets acquired and liabilities assumed in the investment in associates or joint ventures are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the associate or joint venture acquired, the difference is recognised directly in the income statement.

The Group's share of its associates' or joint ventures' post-acquisition profits or losses after tax and the expenses related to the adjustments to the fair values of the assets and liabilities assumed is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. The Group's share of post-acquisition adjustments to associates or joint ventures equity that have not been recognised in the associates or joint ventures income statement, is recognised directly in Group's shareholders' equity and against the carrying amount of the investment.

When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates or joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. If the information is not available the share of the profit of certain associated or joint venture companies is included in the consolidated accounts based on the previous quarterly information.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's businesses are divided into the following reporting segments

- Power Generation - comprises power generation and sales in the Nordic countries as well as operation and maintenance services in the Nordic area and selected international markets.
- Heat - comprises heat generation and sales in the Nordic countries and other parts of the Baltic Rim. The segment also generates power in the combined heat and power plants (CHP) and sells it to end-customers mainly by long-term contracts as well as to Nord Pool.
- Distribution - owns and operates distribution and regional networks and distributes electricity to customers in Sweden, Finland, Norway and Estonia.
- Markets - focuses on the retail sale of electricity to private and business customers as well as to other electricity retailers in Sweden, Finland and Norway. The Markets segment buys its electricity through Nord Pool.
- Other - includes mainly Group administration.

Discontinued operations and assets held for sale

Discontinued operations are those operations of a reportable or operating segment, or of a component thereof, that either have been disposed of or are classified as held for sale. Assets and liabilities attributable to a component must be clearly distinguishable from the other consolidated entities in terms of their operations and cash flows. In addition the reporting entity must not have any significant continuing involvement in the operations classified as a discontinued operation.

Non-current assets (or disposal groups) classified as held for sale are valued at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These classification criteria do not include non-current assets to be abandoned or those that have been temporarily taken out of use. An impairment loss (or subsequent gain) reduce (or increase) the carrying amount of the non-current assets or disposal groups. The assets are not depreciated or amortised. Interest or other expenses related to these assets are recognised as before the classification as held for sale.

Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

Transactions and balances

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 closing date have been valued using the exchange rate quoted on the closing 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, except when deferred in equity as qualifying cash flow hedges. Translation differences on available-for-sale financial assets are included in the fair value reserve in equity.

Group companies

The income statements of subsidiaries, whose measurement and reporting currencies are not euros, are translated into the Group reporting currency using the average exchange rates for the year based on the month-end exchange rates, whereas the balance sheets of such subsidiaries are translated using the exchange rates on the balance sheet date. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to share-holders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group deems all cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS.

Revenue recognition

Revenue comprises the fair value consideration received or receivable at the time of delivery of products and or upon fulfillment of services. Revenue is shown, net of rebates, discounts, value-added tax and selective taxes such as energy tax. Revenue is recognised as follows:

Sale of electricity, heat, cooling and distribution of electricity

Sale of electricity, heat, cooling and distribution of electricity are recognised at the time of delivery. The sale to industrial and commercial customers and to end-customers is recognised based on the value of the volume supplied, including an estimated value of the volume supplied to customers between the date of their last meter reading and year end.

Physical energy sales and purchase contracts are accounted for on accrual basis as they are contracted with the group's expected purchase, sale or usage requirements.

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

Connection fees

Fees paid by the customer when connected to the electricity, heat or cooling network are recognised as income to the extent that the fee does not cover future commitments. If the connection fee is linked to the contractual agreement with the customer, the income is recognised over the period of the agreement with the customer. Fees paid by customers when connected to the electricity network before 2003 are refundable in Finland if the customer would ever disconnect the initial connection. These connection fees have not been recognised in the income statement and are included in other liabilities in the balance sheet.

Contract revenue

Contract revenue is recognised under the percentage of completion method to determine the appropriate amount to recognise as revenue and expenses in a given period. The stage of completion is measured by reference to the contract costs incurred up to the closing date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'. The Group presents as a liability the amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Other income

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in other income in the income statement.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are deducted from the acquisition cost of the asset and are recognised as income by reducing the depreciation charge of the asset they relate to.

Emission allowances

Group accounts for emission allowances based on currently valid IFRS standards where purchased emission allowances are accounted for as intangible assets at cost, whereas emission allowances received free of charge are accounted for at nominal value. A provision is recognised to cover the obligation to return emission allowances. To the extent that Group already holds allowances to meet the obligation, the provision is measured at the carrying amount of those allowances. Any shortfall of allowances held over the obligation is valued at the current market value of allowances.

The cost of the provision is recognised in the income statement within cost of sales.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except if they are directly attributable to the construction of an asset that meets the determined criteria. The determined criteria is as follows (a) the borrowing costs incurred for the construction of an investment exceed

EUR 100 million (b) it will take more than 18 months to get the related asset(s) operational (c) it is an initial Greenfield investment.

Research

Research expenditure is recognised as an expense as incurred and included in other expenses in the consolidated financial statements when it does not qualify for capitalisation.

Property, plant and equipment

Property, plant and equipment comprise mainly on power and heat producing buildings and machinery, transmission lines, tunnels, waterfall rights and district heating network. Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses as applicable in the consolidated balance sheet. Historical cost includes expenditure that is directly attributable to the acquisition of an item. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Acquired assets on the acquisition of a new subsidiary are stated at their fair values at the date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Additionally the cost of an item of property, plant and equipment includes the estimated cost of its dismantlement, removal or restoration.

Land, water areas, waterfall rights as well as tunnels are not depreciated since they have indefinite useful life. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Hydro power plant buildings, structures and machinery	40–50 years
Thermal power plant buildings, structures and machinery	25 years
Nuclear power plant buildings, structures and machinery	25 years
CHP power plant buildings, structures and machinery	15–25 years
(each CHP-plant has an individual depreciation period)	
Substation buildings, structures and machinery	30–40 years
Distribution network	15–40 years
District heating network	30–40 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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each closing date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Intangible assets

The intangible assets are stated at the historical cost less accumulated amortisation and impairment losses if applicable and amortised on a straight-line method over their expected useful lives.

Acquired computer software licences are capitalised on the basis of the costs incurred to the acquirer and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

Trademarks and licences are shown at historical cost less accumulated amortisation and impairment losses, as applicable. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (15–20 years).

Costs in connection with acquisition of customer base are stated at its fair values at the date of the acquisition. Customer base means a portfolio of customers or a market share. Costs for customer base is amortised over their useful life. The customer base is also reviewed for impairment by assessing at each closing date whether there is any indication that the carrying amount may be impaired.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash-flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the closing date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor. They are included in non-current assets, except for maturities under 12 months after the closing date. These are classified as current assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless there is an intention to dispose of the investment within 12 months of the closing date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each closing date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

Trade receivables

Trade receivables are recorded at their fair value. A provision for impairment of trade receivables is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered as indicators that the receivable is impaired. The amount of the impairment charge is measured as the difference between the asset´s carrying amount and the present value of estimated future cash flows.

Trade receivables include revenue based on an estimate of power already delivered but not yet measured and not yet invoiced.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Borrowings

Borrowings are recognised initially at fair value less transaction costs incurred. In subsequent periods, they are stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised as interest cost over the period of the borrowing using the effective interest method. Borrowings or portion of borrowings being hedged item of a fair value hedge is recognised at fair value.

Leases

Finance leases

Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments each determined at the inception of the lease. Each lease payment is allocated between the reduction of the outstanding liability and the finance charges. The corresponding rental obligations, net of finance charges, are included in the long-term or short-term interest-bearing liabilities according to their maturities. The interest element of the finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Sale and leaseback transactions resulting in a finance lease agreement are recognised according to the principles described above. The difference between the selling price and the carrying amount of the asset sold is deferred and amortised over the lease period.

The property, plant and equipment leased out under a finance lease are presented as interest-bearing receivables at an amount equal to the net investment in the lease. Each lease payment receivable is allocated between the repayment of the principal and the finance income. Finance income is recognised in the income statement over the lease term so as to produce a constant periodic rate of return on the remaining balance of the receivable for each period.

Operating leases

Leases of property, plant and equipment, where the Group does not have substantially all of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognized in the income statement on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related fixed production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Deferred taxes

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the closing date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are set off against deferred tax liabilities if they relate to income taxes levied by the same taxation authority.

Deferred tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

Employee benefits

Pension obligations

The Group companies have various pension schemes in accordance with the local conditions and practises in the countries in which they operate. The schemes are generally funded through payments to insurance companies or Groups pension funds as determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

The Group's contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

For defined benefit plans, pension costs are assessed using the projected unit credit method. The cost of providing pensions is charged to the income statement as to spread the service cost over the service lives of employees. The defined benefit obligation is measured as the present value of the estimated future cash flows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability. The liability recognised in the balance sheet is the defined benefit obligation at the closing date less the fair value of plan assets with adjustments for unrecognized actuarial gains or losses. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Actuarial gains and losses exceeding 10% of total defined benefit obligations or the present value of plan assets (whichever is higher) are recorded in the income statement over the employees' expected average remaining working lives. Past-service costs are recognised immediately in income statement. The related interest cost is included in the employee benefit expense.

Share-based compensation

The Group operates equity-settled, share-based compensation plans. Under Share-based Payments the Group will apply IFRS 2 for equity instruments that were granted after 7 November 2002 that had not vested before 1 January 2005 as allowed in the First-Time Adoption standard (IFRS 1). Stock options are measured at fair value at the time they are granted and, they are expensed on a straight-line basis in the income statement over the period from the date they were granted to commencement of the right to exercise them. The expense determined at the moment of granting the options is based on an estimate of the number of options that will vest at the time of commencement of the right to exercise them. The fair value of the options is determined on the basis of the Black-Scholes or Binomial pricing model. Estimates of the final amount of options are updated on each closing date and the effects of changes in estimates are recorded in the income statement. Social charges related to the options are entered as expense to the income statement and as a provision in the balance sheet in the accounting period during which the options are granted. This provision is measured based on the fair value of the options, and the amount of the provision is adjusted to reflect the changes in the Fortum share price. When stock options are exercised, the cash payments received on the basis of the share subscriptions (adjusted for any transaction expenses) are recognised in equity (par value) and in the share premium.

The potential reward of the performance share arrangement is based on the performance of the Group, its business units and the individual manager as well as appreciation of the Fortum share. The potential rewards of the performance share arrangement are recognised during the vesting period with a corresponding increase in the equity. The amount of the reward of the performance share arrangement is measured at the fair value of the equity instruments granted at grant date. Fair value is equal to the share price at grand date. A provision is recorded on the social charges related to the arrangement.

Provisions

Provisions are recorded when the Group has a present legal or constructive obligation as a result of past events to a third party, the payment is probable and the amount can be reasonably estimated. Environmental provisions are recorded, based on current interpretation of environmental laws and regulations, when it is probable that a present obligation has arisen and the amount of such liability can be reliably estimated. Asset retirement obligation is recognised either, when there is a contractual obligation towards a third party or a legal obligation and the obligation amount and the definite lifetime can be estimated reliably. Obligating event is e.g. when a plant is built on a leased land with an obligation to dismantle and remove the asset in the future or when a legal obligation towards Fortum changes. The asset retirement obligation is recognised as part of the cost of an item of property and plant when the asset is put in service or when contamination occurs. The costs will be depreciated over the remainder of the asset's useful life.

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

Fortum owns Loviisa nuclear power plant in Finland. 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 5, Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds 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.

The fair value of the provisions 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 it will be adjusted later by the possible changes in the plan. The investment costs due to the decommissioning will be 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 impact of the possible changes in the plan will be recognised immediately in the income statement based on fuel used until the end of the accounting period.

The timing factor is taken into account by recognising the interest expense related to discounting the nuclear provisions. The interest on the Nuclear Waste Fund assets is presented as financial income.

Fortum's share of the Nuclear Waste Fund, related to Loviisa nuclear power plant, is higher than the adjusted Fund Asset. The nuclear liability, according to the Finnish Nuclear

Energy Act, is fully covered in the Nuclear Waste Fund. The nuclear liability is not discounted. Due to the change in the nuclear liability, the share of profit of the Nuclear Waste Fund and incurred costs of taken actions, the annual fee to Nuclear Waste Fund is paid.

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.

24 Dividends

Dividends proposed by the Board of Directors are not recognised in the financial statements until they have been approved by the Company's shareholders at the Annual General Meeting.

Accounting for derivative financial instruments and hedging activities

Within the ordinary course of business the Group routinely enters into sale and purchase transactions for commodities. The majority of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the commodity in accordance with the Group's expected sale, purchase or usage requirements. Such contracts are not within the scope of IAS 39. All other net-settled commodity contracts are measured at fair value with gains and losses taken to the income statement.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured 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 Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Derivatives are divided into non-current and current based on maturity. Only for those electricity derivatives, which have cash flows in different years, the fair values are split between non-current and current assets or liabilities.

Cash flow hedge

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 will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity is recognised in the income statement when the forecast transaction is ultimately also recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately recognised in the income statement.

Fair value hedge

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 the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss for the period to maturity.

Net investment hedging in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in other income in the income statement.

Fair value estimation

The fair value of financial instruments including electricity derivatives traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the closing date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each closing date. Fair valuation of electricity derivatives maturing over three years and which are not standard Nordpool products are based on prices collected from reliable market participants. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the closing date. Fair values of options has been determined by option valuation models. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Changes in assumptions about these factors will affect the reported fair value of financial instruments. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

2 Transition to International Financial Reporting Standards in 2005

General information

As from 2005, Fortum applies International Financial Reporting Standards (IFRS) for the annual report as well as for the interim reports. The annual report as well as the interim reports include one comparison year, which is restated in accordance with IFRS. The date of transition from Finnish GAAP (FAS) to IFRS is January 1, 2004. The first interim report under IFRS was published on May 3, 2005.

Fortum published in the press release on February 3, 2005 and in the financial statements for 2004, audited information of the impacts of IFRS on the income statement and certain key ratios. A transition press release was published on April 27, 2005 containing restated income statements, balance sheets and cash-flows and segment information for 2004 on a quarterly and full year basis including restatement of 2004 income statement and cash-flow regarding discontinued operations.

Accounting treatment of the dividend distribution of shares in Neste Oil Corporation

On March 31, 2005 the Annual General Meeting of Fortum decided to distribute approximately 85% of the shares in Neste Oil as dividend. The remaining shares were sold during April.

The oil related operations in Fortum as of March 31, 2005 are treated as discontinued operations according to IFRS 5 *Non-current Assets held for Sale and Discontinued operations*. Discontinued operations are disclosed on one line net of tax in the income statement. In the cash-flow statement the net cash-flows attributable to the operating, investing and financing activities of discontinued operations is disclosed separately. The 2004 comparison information has, in accordance with IFRS 5, been restated. The comparison balance sheet for 2004 still includes the oil operations. For further information see Note 5 Discontinued operations.

The information given below should not be regarded as guidance for the IFRS effects for Neste Oil Group. For information on the IFRS effects in Neste Oil Group see the published press release issued by Fortum on March 14, 2005.

Effects of the transition to IFRS on the 2004 income statement for Fortum continuing operations

The impact on the income statement for the continuing operations is mainly due to the changes in treatment of employee benefits and the one-time change in the treatment of the Finnish TEL´s disability pension component from defined benefit plan in the IFRS opening balance 2004 to defined contribution plan in the IFRS December 31, 2004 balance sheet. Fortum's continuing operations are applying hedge accounting for most of the derivatives used to hedge future cash-flows which reduces the volatility in the income statement. The volatility from fair valuations of the derivatives will be accounted for in the hedging reserve included in the equity.

In IFRS share of profits of associated companies and joint ventures is not included in operating profit but presented directly after operating profit. Depreciations on fair value adjustments made when acquiring the shareholdings have been reclassified from Other expenses in FAS to share of profit of associated companies and joint ventures in IFRS.

January-December 2004

Consolidated income statement restated with discontinued operations

EUR milion	FAS 31 Dec 2004	Nuclear related assets and provisions	Financial instruments	Leasing	Employee benefits	Other IFRS impacts	Total IFRS impact	IFRS 31 Dec 2004
Sales	3,841		0	-6			-6	3,835
Other income	84		6		1		7	91
Materials and services	-1,507						0	-1,507
Employee costs	-470				17	-9	8	-462
Depreciation, amortisation and impairment charges	-393	2		3		0	5	-388
Other expenses	-401	5		1		21	27	-374
Operating profit	1,154	7	6	-2	18	12	41	1,195
Share of profits of associated companies and joint ventures	34	-2				-20	-22	12
Finance costs-net	-232	-8	-10	1	4	0	-13	-245
Profit before taxes	956	-3	-4	-1	22	-8	6	962
Income tax expense	-254						-5	-259
Profit for the year	702						1	703
Discontinued operations								
Profit for the year from discontinued operations	556						33	589
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

Effects of the transition to IFRS on Fortum 2004 income statement and balance sheet including Oil operations

The total effect of the transition to IFRS on Fortum´s 2004 comparison financial information includes the effects on the oil operations.

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. The following tables were presented in the financial statements 2004 and showed the impact of IFRS on the income statement and certain key ratios for Fortum including the Oil operations.

January-December 2004

Consolidated income statement

EUR milion	FAS 31 Dec 2004	Nuclear related assets and provisions	Financial instruments	Leasing	Employee benefits	Other IFRS impacts	Total IFRS impact	IFRS 31 Dec 2004
Sales	11,665			-6			-6	11,659
Other income	121		29	6	1		36	157
Materials and services	-7,861						0	-7,861
Employee costs	-684				23	-12	11	-673
Depreciation, amortisation and impairment charges	-511	2		-3		-15	-16	-527
Other 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 tax expense	-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

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

	FAS	IFRS
Basic	1.44	1.48
Diluted	1.42	1.46

Reconciliation of net profit attributable to equity holders of the company, FAS to IFRS

EUR million	2004
Net profit according to FAS	1,227
Nuclear related assets and provisions	-2
Financial instruments	8
Leasing	10
Employee benefits	21
Other IFRS impacts	-5
Net profit according to IFRS	1,259

Reconciliation of balance sheet FAS to IFRS

EUR million	FAS 31 Dec 2004	Nuclear related assets and provisions	Financial instruments	Leasing	Employee benefits	Other IFRS impacts	Total IFRS impact	IFRS 31 Dec 2004
ASSETS								
Non-current assets								
Intangible assets	112					4	4	116
Property, plant and equipment	11,824	35		80		-14	101	11,925
Investments in associates and joint ventures	1,741	12				-73	-61	1,680
Other long-term investments	124	401	2	-2	46	-2	445	569
Deferred tax assets	109		-5	1	2	-1	-3	106
Derivative financial instruments			90				90	90
Long-term interest bearing receivables	688			39			39	727
Total non-current assets	14,598	448	87	118	48	-86	615	15,213
Current assets								
Inventories	659					-5	-5	654
Derivative financial instruments			261				261	261
Trade and other receivables	1,301		-6	3		-4	-7	1,294
Cash and cash equivalents	146					-1	-1	145
Total current assets	2,106	0	255	3	0	-10	248	2,354
Total assets	16,704	448	342	121	48	-96	863	17,567
EQUITY								
Capital and reserves attributable to the Company's equity holders								
Share capital	2,948						0	2,948
Other equity	4,446	37	39	16	28	-14	106	4,552
Total	7,394	37	39	16	28	-14	106	7,500
Minority interest	261	1	-100	0		-12	-111	150
Total equity	7,655	38	-61	16	28	-26	-5	7,650
LIABILITIES								
Non-current liabilities								
Interest-bearing liabilities	4,257		96	97			193	4,450
Derivative financial instruments			157				157	157
Deferred tax liabilities	1,842	9	33	5	11	-59	-1	1,841
Provisions	237	401			9	-39	371	608
Other liabilities	359					36	36	395
Total non-current liabilities	6,695	410	286	102	20	-62	756	7,451
Current liabilities								
Interest-bearing liabilities	785			5			5	790
Derivative financial instruments			128				128	128
Current tax liability	116						0	116
Trade and other payables	1,453		-11	-2		-8	-21	1,432
Total current liabilities	2,354	0	117	3	0	-8	112	2,466
Total liabilities	9,049	410	403	105	20	-70	868	9,917
Total equity and liabilities	16,704	448	342	121	48	-96	863	17,567

EUR million	FAS 31 Dec 2003	Nuclear related assets and provisions	Financial instruments	Leasing	Employee benefits	Other IFRS impacts	Total IFRS impact	IFRS 1 Jan 2004
ASSETS								
Non-current assets								
Intangible assets	146					-10	-10	136
Property, plant and equipment	11,632	37		112		6	155	11,787
Investments in associates and joint ventures	1,548	14	2			-77	-61	1,487
Other long-term investments	184	354			40	2	396	580
Deferred tax assets	30		-20	-2	8		-14	16
Derivative financial instruments			90				90	90
Long-term interest bearing receivables	632			38			38	670
Total non-current assets	14,172	405	72	148	48	-79	594	14,766
Current assets								
Inventories	551						0	551
Derivative financial instruments			230				230	230
Trade and other receivables	1,400		-108	2		-8	-114	1,286
Cash and cash equivalents	439					-6	-6	433
Total current assets	2,390	0	122	2	0	-14	110	2,500
Total assets	16,562	405	194	150	48	-93	704	17,266
EQUITY								
Capital and reserves attributable to the Company's equity holders								
Share capital	2,886						0	2,886
Other equity	3,520	38	-52	6	7	-16	-17	3,503
Total	6,406	38	-52	6	7	-16	-17	6,389
Minority interest	232	1	-101			-12	-112	120
Total equity	6,638	39	-153	6	7	-28	-129	6,509
LIABILITIES								
Non-current liabilities								
Interest-bearing liabilities	4,840		98	137			235	5,075
Derivative financial instruments			146				146	146
Deferred tax liabilities	1,843	11	-15		10	-55	-49	1,794
Provisions	207	355			31	-31	355	562
Other liabilities	346					28	28	374
Total non-current liabilities	7,236	366	229	137	41	-58	715	7,951
Current liabilities								
Interest-bearing liabilities	1,225			12		-7	5	1,230
Derivative financial instruments			70				70	70
Current tax liability	27						0	27
Trade and other payables	1,436		48	-5		0	43	1,479
Total current liabilities	2,688	0	118	7	0	-7	118	2,806
Total liabilities	9,924	366	347	144	41	-65	833	10,757
Total equity and liabilities	16,562	405	194	150	48	-93	704	17,266

Reconciliation of total equity FAS to IFRS

EUR million	31 Dec 2004	1 Jan 2004
Equity according to FAS	7,394	6,406
Minority FAS	261	232
IFRS effects to minority and reclassification of NYKAB minority to interest-bearing liabilities	-111	-112
Nuclear related assets and provisions	37	39
Financial instruments	39	-51
Leasing	16	6
Employee benefits	28	7
Other IFRS impacts	-14	-18
Equity according to IFRS	7,650	6,509

30 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) was recorded in the income statement under FAS. Neither the liabilities for future decommissioning and spent fuel nor Fortum´s share in the Nuclear Waste Fund was presented in the balance sheet under FAS. Fortum has in the annual and interim reports under FAS separately disclosed the legal liability and Fortum´s share of the Nuclear Waste Fund. 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 as other non-current assets and provisions. Fortum's share in the Nuclear Waste Fund has been accounted for according to IFRIC 5 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 Waste 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 December 31, 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 power plants. The provision for spent fuel covers the future disposal costs of fuel used until the end of the accounting period. Costs for disposal of the spent fuel are expensed during the operating time based on fuel usage.

The timing factor will be taken into consideration by accounting for the 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 in OKG AB and in Forsmarks Kraftgrupp AB in Sweden. Similar kinds of adjustments have been made through accounting of associates.

Financial Instruments

General principles

Under FAS, gains or losses on derivatives that hedge future cash-flows were recognised once the underlying exposure occured. Derivatives used to hedge balance sheet items, like bank accounts, loans or receivables, were valued employing market price quoted on the balance sheet date, and gains or losses were recognised in the income statement. Gains and losses on net investment hedges were recorded against equity, net of tax effect. Unrealised losses on derivatives classified as trading were recognised immediately, while gains were recognised only at maturity.

Under IFRS, 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. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately recognised in the income statement.

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 the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to profit or loss for the period to maturity.

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 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. Under FAS 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 under FAS 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. For further information see note 26.

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 4 (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 January 1, 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 has 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 R efining) 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 on an annual basis, 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

The following key ratios are based on Fortum including discontinued operations.

	FAS 31 Dec 2004	IFRS 31 Dec 2004
Capital employed, EUR million	12,697	12,890
Interest-bearing net debt, EUR million	4,896	5,095
Capital expenditure and investments in shares, EUR million	833	830
Return on capital employed, %	15.6	15.8
Return on shareholders' equity, %	17.6	18.2
Interest coverage	8.0	8.0
Funds from operations/interest-bearing net debt, %	37.8	36.4
Gearing, %	64	67
Equity-to-assets ratio, %	46	44

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's 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 asset are taken into account when calculating net debt.

Total equity including minority interest

The net effect of the IFRS adjustments to total equity 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%.

Impact on cash flow

The impact on cash flow from the transition to IFRS is limited. 2004 cash flow has been restated due to discontinued operations.

Consolidated cash flow statement

EUR million	FAS 2004	IFRS 2004
Cash flow from operating activities		
Operating profit before depreciations continuing operations	1,581	1,583
Non-cash flow items	-15	-37
Financial items and realised foreign exchange gains and losses	-194	-181
Taxes	-160	-160
Funds form operations continuing operations	1,212	1,205
Change in working capital	22	27
Net cash from operating activities continuing operations	1,234	1,232
Net cash from operating activities discontinued operations	514	526
Total net cash from operating activities	1,748	1,758
Cash flow from investing activities		
Capital expenditures	-341	-335
Acquisition of shares	-179	-179
Proceeds from sales of fixed assets	60	60
Proceeds from sales of shares	15	15
Change in interest-bearing receivables	-19	-20
Net cash used in investing activities continuing operations	-464	-459
Net cash used in investing activities discontinued operations	-274	-277
Total net cash used in investing activities	-738	-736
Cash flow from financing activities		
Net change in loans	-813	-811
Dividends paid to the Company's equity holders	-357	-357
Other financing items	94	94
Net cash used in financing activities continuing operations	-1,076	-1,074
Net cash used in financing activities discontinued operations [1]	-227	-236
Total net cash used in financing activities	-1,303	-1,310
Total net increase (+) /decrease (-) in cash and cash equivalents	-293	-288

[1] The cash flow from financing activities discontinued operations is shown as used to repay loans since the Treasury operations have been centralised for the total Fortum Group.

The change in decrease in cash and cash equivalents is due to the fact that one minor subsidiary has under IFRS been classified as a joint venture.

3 Primary segment information, continuing operations

Power Generation comprises power generation and sales in the Nordic countries and operation and maintenance services in the Nordic area and on selected international markets. The Power Generation segment sells its production directly to Nord Pool power exchange.

Heat generates and sells heat in the Nordic countries and other parts of the Baltic Rim. The segment also generates power in the combined heat and power plants (CHP) and sells it to end customers mainly by long-term contracts, as well as to Nord Pool.

Distribution owns and operates distribution and regional networks and distributes electricity to a total of 1.4 million customers in Sweden, Finland, Norway and Estonia.

Markets is responsible for retail sales of electricity to a total of 1.2 million private and business customers as well as other electricity retailers in Sweden, Finland and Norway. Markets buy its electricity through Nord Pool.

Other includes mainly corporate center, but also the groups' shared service centers. The shared service centers charge the companies according to service level agreements.

Discontinued operations comprise of the segments Oil Refining, Oil retail and Shipping and other oil, as disclosed in the Financial Statements 2004. Discontinued operations are disclosed separately in Note 5.

Operating profit and share of profits of associates and joint ventures are included in each segments result. Fortum follows segment performance based on Comparable operating profit and Comparable return on net assets, see definitions below.

Power Generation segment sells its production to Nordpool and Markets buys its electricity from Nord Pool. Eliminations of sales include eliminations of sales and purchases with Nordpool that is netted on Group level on an hourly basis and posted either as revenue or cost depending on if Fortum is a net seller or net buyer during any particular hour. Inter-segment sales are on arms length basis.

2005 Primary segment information

EUR million	Power Generation	Heat	Distribution	Markets	Other	Eliminations	Total continuing operations
Sales	2,058	1,063	707	1,365	91	-1,407	3,877
Internal sales	97	12	8	101	63	-281	0
External sales	1,961	1,051	699	1,264	28	-1,126	3,877
Depreciation, amortisation and impairment	112	123	145	15	12		407
Operating profit	825	269	251	32	-30		1,347
Share of profit of associates and joint ventures	23	12	20	1			55
Financial income and expenses							-135
Income taxes							-331
Profit from discontinued operations							474
Net profit for the financial year							1,410

Comparable operating profit

EUR million	Power Generation	Heat	Distribution	Markets	Other	Eliminations	Total continuing operations
Operating profit	825	269	251	32	-30		1,347
Non-recurring items	3	-14	-1	0	-18		-30
Other operating items effecting comparability	26	-2	-6	-2	1		17
Comparable operating profit	854	253	244	30	-47		1,334

Non-recurring items = Mainly capital gains and losses

Other items effecting comparability = Includes effects from fair valuation of derivatives hedging future cash-flows which do not obtain hedge accounting status according to IAS 39 and effects from the accounting of Fortum´s part of the Nuclear Waste Fund where the assets in the balance sheet cannot exceed the related liabilities according to IFRIC 5.

Other information

EUR million	Power Generation	Heat	Distribution	Markets	Other	Total continuing operations
Recognised impairment losses for trade receivables	-1	-2	0	-3	-	-6
Recognised impairment losses for property, plant and equipment	-1	-	-	-	-	-1
Restructuring costs	-	-	-	-	-	-
Average number of employees	4,374	2,186	1,008	745	626	8,939

Assets and liabilities by segments

EUR million	Power Generation	Heat	Distribution	Markets	Other and eliminations	Total continuing operations
Non-interest bearing assets	5,263	2,762	3,238	507	216	11,986
Investments in associates and joint ventures	1,259	133	210	8	0	1,610
Assets from continuing operations	**6,522**	**2,895**	**3,448**	**515**	**216**	**13,596**
Assets from discontinued operations						-
Eliminations						-
Assets included in Net assets						**13,596**
Interest-bearing receivables						620
Deferred taxes						18
Other assets						108
Cash and cash equivalents						788
Total assets						**15,130**

EUR million	Power Generation	Heat	Distribution	Markets	Other and eliminations	Total continuing operations
Liabilities from continuing operations	**568**	**344**	**427**	**287**	**77**	**1,703**
Liabilities from discontinued operations						-
Eliminations						-
Liabilities included in Net assets						**1,703**
Deferred tax liabilities						1,512
Other						558
Total liabilities included in capital employed						**3,773**
Interest-bearing liabilities						3,946
Total equity						7,411
Total equity and liabilities						**15,130**
Capital expenditure	**83**	**124**	**115**	**10**	**14**	**346**

(EUR million)	Net assets by segments	Return on Net assets (%)	Comparable return on Net assets (%)
Power Generation	5,954	14.0	14.5
Heat	2,551	11.6	11.0
Distribution	3,021	8.8	8.6
Markets	228	17.4	16.4

Net assets = Non-interest bearing assets + interest-bearing assets related to the Nuclear Waste Fund - non-interest bearing liabilities - provisions (non-interest bearing assets and liabilities do not include finance related items, tax and deferred tax and liabilities from fair valuations of derivatives where hedge accounting is applied).

Comparable net assets = Net assets adjusted for non-interest bearing assets and liabilities arising from financial derivatives hedging future cash-flows where hedge accounting is not applied according to IAS 39.

$$\text{Return on net assets, \%} = 100 \times \frac{\text{Operating profit + share of profit in associated companies and joint ventures}}{\text{Net assets, average}}$$

$$\text{Return on comparable net assets, \%} = 100 \times \frac{\text{Comparable operating profit + share of profit in associated companies and joint ventures (adjusted for IAS 39 effects)}}{\text{Comparable net assets, average}}$$

2004 Primary segment information

EUR million	Power Generation	Heat	Distribution	Markets	Other	Eliminations	Total continuing operations
Sales	2,084	1,025	707	1,387	90	-1,458	3,835
Internal sales	128	49	10	92	93	-372	0
External sales	1,956	976	697	1,295	-3	-1,086	3,835
Depreciation, amortisation and impairment	104	124	133	16	11		388
Operating profit	763	218	234	34	-54		1,195
Share of profit of associates and joint ventures	-18	15	16	0	-1		12
Financial income and expenses							-245
Income taxes							-259
Profit from discontinued operations							589
Net profit for the financial year							1,292

Comparable operating profit

EUR million	Power Generation	Heat	Distribution	Markets	Other	Total continuing operations
Operating profit	763	218	234	34	-54	1,195
Non-recurring items	-9	-4	-2	0	-3	-18
Other operating items effecting comparability	-24	-7	8	-11	5	-29
Comparable operating profit	730	207	240	23	-52	1,148

Other information

EUR million	Power Generation	Heat	Distribution	Markets	Other	Total continuing operations
Recognised impairment losses for trade receivables	-1	-2	-1	-2	-	-6
Recognised impairment losses for property, plant and equipment	-1	-	-	-	-	-1
Restructuring costs	-	-	-	-	-	-
Average number of employees	4,588	1,605	995	682	731	8,601

Assets and liabilities by segments

EUR million	Power Generation	Heat	Distribution	Markets	Other and eliminations	Total
Non-interest bearing assets	5,900	2,614	3,318	367	-156	12,043
Investments in associates and joint ventures	1,208	128	196	8	0	1,540
Assets from continuing operations	**7,108**	**2,742**	**3,514**	**375**	**-156**	**13,583**
Assets from discontinued operations						2,756
Eliminations						-32
Assets included in Net assets						**16,307**
Interest-bearing receivables						728
Deferred taxes						106
Other assets						281
Cash and cash equivalents						145
Total assets						**17,567**

EUR million	Power Generation	Heat	Distribution	Markets	Other and eliminations	Total
Liabilities from continuing operations	**890**	**302**	**423**	**181**	**-113**	**1,683**
Liabilities from discontinued operations						745
Eliminations						-34
Liabilities included in Net assets						**2,394**
Deferred tax liabilities						1,841
Other						442
Total liabilities included in capital employed						**4,677**
Interest-bearing liabilities						5,240
Total equity						7,650
Total equity and liabilities						**17,567**
Capital expenditure	84	123	106	10	12	335

EUR million	Net assets by segments	Return on Net assets (%)	Comparable return on Net assets (%)
Power Generation	6,218	12.1	11.5
Heat	2,440	9.8	9.3
Distribution	3,091	8.1	8.3
Markets	194	25.3	17.1

4 Geographical segments, continuing operations

Sales by market area

EUR million	2005	2004
Finland	**1,415**	1,490
Sweden	**2,140**	2,018
Other European countries	**322**	327
Total sales from continuing operations	**3,877**	3,835

Capital expenditure by geographical segments

EUR million	2005	2004
Finland	**102**	95
Sweden	**223**	218
Other European countries	**21**	22
Capital expenditure from continuing operations	**346**	335

Segment assets by geographical segments

EUR million	2005	2004
Finland	**2,578**	2,277
Sweden	**9,046**	9,529
Other European countries	**647**	445
Eliminations	**-285**	-208
Non-interest bearing assets from continuing operations	**11,986**	12,043
Investments in associates and joint ventures	**1,610**	1,540
Total segment assets from continuing operations	**13,596**	13,583

Investments in associates and joint ventures are not divided by geographical segment since the companies concerned can have business in several geographical areas.

5 Discontinued operations

The dividend distribution and sale of shares in Neste Oil in 2005

The final decision to separate Fortum Oil, renamed Neste Oil Corporation in February, by distributing approximately 85% of Neste Oil shares as dividends to shareholders was taken by the Annual General Meeting on 31 March 2005. The remaining approximately 15% of shares, a total of 38,440,137 shares, were sold to institutional and individual investors in April. Both the institutional offering and the retail offering were priced at EUR 15 per share. The listing of Neste Oil Corporation shares commenced on the Helsinki Stock Exchange Prelist on 18 April and on the Main List on 21 April.

Incorporation of Neste Oil

Neste Oil was incorporated by means of a demerger of Fortum Oil and Gas Oy, a wholly-owned subsidiary of Fortum, effected in accordance with Finnish Law on 1 May 2004. Under Finnish Law, a demerger is a transfer of all or part of the assets and liabilities of the demerging company to one or more newly incorporated receiving companies in exchange for a consideration in the form of shares of the receiving company issued to the shareholders of the demerging company or of other assets and undertakings of the demerging company. Under the demerger plan, all the assets and liabilities related to the oil businesses of Fortum Oil and Gas Oy were transferred to Neste Oil. As Fortum Oil Oy (subsequently renamed to Neste Oil Corporation) was incorporated on 1 May 2004, the company has no history as a legal entity prior to that date.

Business included and presentation of discontinued operations

The oil related operations in Fortum has been treated as discontinued operations effective 31 March 2005 according to IFRS 5 *Non-current Assets held for Sale and Discontinued operations.* Discontinued operations are disclosed on one line net of tax in the face of the income statement. In the cash flow statement the net cash flows attributable to the operating, investing and financing activities of the discontinued operations are disclosed separately. In accordance with IFRS 5 the 2004 comparable information for income statement and cash flow statement has been restated and presented in the same way as 2005 income statement and cash flow. The comparison balance sheet 2004 still include the oil operations.

Income statement analysis

Discontinued operations include mainly the oil operations in Fortum, but financial costs incurred by the separation and effects from intra group items have also been included. The net financial costs allocated to discontinued operations are based on the fact that the financing activities and risk management have been centralised on group level and that intra-group funding has been based on short-term floating rate. This means that the continuing operations in Fortum are showing relatively high financial costs for 2004. Total corporate center costs and other overhead costs as previously presented in Fortum are included in continuing operations and no future cost reductions have been assumed. Transfer taxes related to the share dividend distribution, EUR 21 million, are recorded in other expenses in the income statement in discontinued operations in 2005. The tax-free capital gain amounting to EUR 390 million after fees and expenses was recorded in the other income in discontinued operations in 2005.

An analysis of the result of discontinued operations including eliminations between Fortum and discontinued operations

EUR million	2005	2004
Sales	2,061	7,909
Other income	395	66
Materials and services	-1,726	-6,439
Employee costs	-57	-211
Depreciation, amortisation and impairment charges	-36	-139
Other expenses	-120	-465
Operating profit	517	721
Share of profit of associated companies and joint ventures	-2	36
Finance costs-net	-6	-19
Profit before income tax	509	738
Income tax expenses	-35	-149
Profit for the year from discontinued operations	474	589

Other income includes tax free capital gain amounting to EUR 390 million from the sale of shares in Neste Oil Oyj in 2005.

Cash flow statement analysis

Cash flow from discontinued operations include oil operations, effects from allocating the centralised financing activities, allocated taxes, impact from sale of shares and repayment of interest-bearing receivable after refinancing.

The gross proceeds from the sale of the shares were EUR 577 million and proceeds from the interest-bearing receivable of EUR 804 million, which Neste Oil paid back in April 2005. These proceeds net of fees, expenses and cash disposed were included in the cash flow from investing activities in discontinued operations in 2005. Transfer taxes related to the share dividend distribution, EUR 21 million, are recorded in the cash flow from operations in discontinued operations in 2005.

The net cash flows attributable to the operating, investing and financing activities of discontinued operations are as follows:

EUR million	2005	2004
Net cash from operating activities	133	526
Net cash from/used in investing activities	1,155	-277
Net cash from financing activities	29	-236
Total cash flows	1,317	13

Share dividend distribution

Fortum Corporation's Annual General Meeting approved in 31 March 2005 that Fortum Corporation could distribute a dividend of 217,963,549 Neste Oil Corporation shares (approximately 85 per cent of the shares outstanding) such that for each four shares in Fortum Corporation each shareholder were entitled to receive one Neste Oil Corporation share. Fortum's equity was effected by the share dividend distribution through de-consolidation of Neste Oil. The impact on equity was EUR 920 million and EUR 969 million in Fortum Group and in Fortum Corporation respectively.

Condensed balance sheet of Neste Oil as of 31 March 2005 and 31 December 2004:

EUR million	31 March 2005 *)	31 December 2004
ASSETS		
Non-current assets	1,927	1,838
Cash pool receivables	129	124
Current assets	1,348	1,081
Cash and cash equivalents	64	60
Total assets	3,468	3,103
EQUITY AND LIABILITIES		
Shareholders' equity	1,083	993
Minority interest	6	5
Interest-bearing liabilities	1,147	1,153
Interest-free liabilities	1,232	952
Total equity and liabilities	3,468	3,103

*) Including the changes in accounting treatment for emission allowances after Q1 / 2005 reporting.

6 Business combinations

Acquisitions in 2005

In December 2005, Fortum acquired majority of MPEC Wroclaw and majority of Plocka Energetyka Cieplna Sp z.o.o, two district heating distributors operating in Poland. Furthermore in May, Fortum acquired majority of UAB Suomijos Energija, a lithuanian district heating company. These acquisitions have been summarized below.

Consideration

EUR million	
Purchase consideration:	
Cash paid	91
Direct costs relating to the acquisition	1
Total purchase consideration	92
Fair value of the acquired net assets	96
Translation difference	-4
Goodwill	0

Specification of the acquired net identifiable assets:

EUR million	Fair value	Acquiree's carrying amount
Cash and cash equivalents	13	13
Intangible assets	1	1
Property, plant and equipment	170	120
Inventories	1	1
Receivables	21	21
Deferred tax assets	2	2
Minorities	-1	0
Non-interest bearing liabilities	-24	-24
Interest-bearing liabilities	-9	-9
Deferred tax liabilities	-14	-4
Net identifiable assets	160	121
Minority interests	-64	
Fair value of the acquired net identifiable assets	96	

Purchase consideration settled in cash	92
Cash and cash equivalents in subsidiaries acquired	13
Cash outflow on acquisition	79

Acquisition of MPEC Wroclaw

On 28 December 2005, the Group obtained control over 57.03% of the share capital of MPEC Wroclaw, a district heating distributor operating in the Poland. The acquired business did not contribute any net sales or net profit to the Group for the period from 28 December 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, net sales would have increased EUR 72 million.

Consideration

EUR million	
Purchase consideration:	
Cash paid	78
Direct costs relating to the acquisition	1
Total purchase consideration	79
Fair value of the acquired net assets	82
Translation difference	-3
Goodwill	0

Specification of the acquired net identifiable assets:

EUR million	Fair value	Acquiree's carrying amount
Cash and cash equivalents	12	12
Intangible assets	1	1
Property, plant and equipment	146	103
Receivables	18	18
Deferred tax assets	1	1
Non-interest bearing liabilities	-17	-17
Interest-bearing liabilities	-4	-4
Deferred tax liabilities	-13	-4
Net identifiable assets	144	110
Minority interests	-62	
Fair value of the acquired net identifiable assets	82	

Purchase consideration settled in cash	79
Cash and cash equivalents in subsidiaries acquired	12
Cash outflow on acquisition	67

Acquisitions in 2004

In 2004, Fortum made only some minor acquisitions. In December, Fortum acquired 87.6% of the share capital of Fortum Czestochowa S.A (PESC S.A), combined heating plant operating in Poland. Because the business was acquired on 31 December 2004 it did not contribute sales or net profit to the Group in 2004. EUR 10 million was invested in these acquisitions during the year, the fair value of the acquired net assets approximating their cost.

Consideration

EUR million	
Total purchase consideration, cash paid	10
Fair value of the acquired net assets	10
Goodwill	0

Specification of the acquired net identifiable assets:

EUR million	Fair value	Acquiree's carrying amount
Cash and cash equivalents	3	3
Property, plant and equipment	30	20
Inventories	1	1
Receivables	4	0
Deferred tax assets	1	1
Non-interest bearing liabilities	-17	-17
Pension benefit obligations	-4	-4
Interest-bearing liabilities	-7	-7
Deferred tax liabilities	-2	0
Net identifiable assets	9	-3
Minority interests	1	
Fair value of the acquired net identifiable assets	10	

Purchase consideration settled in cash	10
Cash and cash equivalents in subsidiaries acquired	3
Interest-bearing liabilities in subsidiaries acquired	7
Cash outflow on acquisition	14

Divestments in 2005 and 2004

In 2005 Fortum made only some minor disposals. Fortum divested majority shareholdings in Fortum Elsikkerhet As, its Norwegian subsidiary and ÅPS Combustion AB, its subsidiary in Sweden. The total disposal consideration was EUR 3 million.

In 2004 Fortum made various small disposals. Fortum divested its majority shareholdings in Fortum Teknik & Miljö AB, in Sweden and Etv Eröterv, in Hungary. The total disposal consideration was EUR 5 million.

7 Effect on sales of revenue recognition from contracts in progress

EUR million	2005	2004
Sales from contracts in progress entered as income according to the percentage of completion		
for the period	14	6
for previous periods	-	-
Total	14	6

8 Other income

EUR million	2005	2004
Capital gains on disposal of non-current assets	56	12
Rental income	10	16
Fair value changes on derivatives that do not qualify for hedge accounting status	-14	8
Other	49	55
Total	101	91

9 Materials, services and other expenses

EUR million	2005	2004
Materials and external services		
Materials and supplies		
Purchases	1,238	1,428
Change in inventories	-5	-24
External services	92	103
Total	1,325	1,507
Other expenses*)	418	374

*) The major components recorded in the other expenses are the operation and maintenance costs of power and heat plants and of transmission lines. Research and development costs EUR 14 (13) million in 2005 (2004) are included in other expenses.

10 Employee costs

EUR million	2005	2004
Wages and salaries	331	323
Social security costs	74	79
Costs related to share options	2	7
Pension costs-defined contribution plans	35	43
Pension costs-defined benefit plans	17	-10
Other post-employment benefits	22	20
Total	481	462
Non-monetary benefits	4	3

11 Depreciation, amortisation and impairment charges

EUR million	2005	2004
Depreciation and amortisation of property, plant and equipment		
Buildings and structures	52	46
Machinery and equipment	323	306
Other tangible assets	5	9
Depreciation and amortisation of intangible assets	26	26
Total	406	387
Impairment charges of property, plant and equipment		
Buildings and structures	1	1
Total	1	1

12 Finance costs–net

EUR million			2005			2004
	Fortum continuing	Fortum discontinued	Fortum total	Fortum continuing	Fortum discontinued	Fortum total
Interest expense						
Borrowings	-201	-9	-210	-260	-37	-297
Other interest expense	-2	0	-2	0	-3	-3
Total	-203	-9	-212	-260	-40	-300
Interest income						
Receivables	40	5	45	41	15	56
Other interest income	6	0	6	5	0	5
Total	46	5	51	46	15	61
Fair value gains and losses on financial instruments *) **)	40	2	42	-6	1	-5
Exchange gains and losses						
Loans and receivables	-155	7	-148	82	8	90
Derivatives *)	159	-11	148	-89	-1	-90
Dividend income	1	0	1	3	6	9
Interest on nuclear assets and provisions ***)	-6	0	-6	-8	0	-8
Other financial income	1	0	1	2	2	4
Other financial expenses	-18	0	-18	-15	-10	-25
Total	-18	-4	-22	-25	5	-20
Finance costs-net	-135	-6	-141	-245	-19	-264

*) Derivatives hedging loans and receivables have been divided into exchange rate difference and fair valuation of forward points. These forward points are included in Fair value gains and losses on financial instruments.
**) Fair value gains and losses on financial instruments for continuing operations include fair value changes from interest rate swaps not getting hedge accounting amounting to EUR 31 million and EUR 3 million in 2005 and 2004 respectively. The fair value of these interest rate swaps is EUR -33 million at 31 December 2005. Position will mature by 2008.
***) Including interest income and expenses related to e.g. Nuclear fund assets and liabilities amounting to EUR -9 million and EUR -8 million in 2005 and 2004 respectively.

Financial costs allocated to discontinued operations are based on the fact that the financing activities and risk management have been centralised on group level and that intra-group funding has been based on short-term floating rate. This means that the continuing operations in Fortum are showing relatively high financial costs for 2004. Discontinued operations are disclosed in the note 5.

The aggregate exchange differences charged/credited to the income statement are included as follows:

	2005	2004
Items included in operating profit	1	-5
Finance costs-net	4	-7
Total	5	-12

13 Income tax expense

Major components of tax expenses

EUR million	2005	2004
Current tax expense	-292	-257
Adjustments recognised for current tax of prior periods	-3	-6
Changes in tax rates	0	25
Change in deferred taxes	-36	-21
Total	-331	-259

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the enacted tax rates in Finland:

EUR million	2005	2004
Profit before tax	1,267	962
Tax calculated at 26%	-329	-250
Differences in tax rates in other countries	-7	-13
Income not subject to tax	11	6
Expenses not deductible for tax purposes	-12	-11
Share of profit of associates and joint ventures	15	3
Consolidated entries	-7	-13
Consolidated entries taxes	1	25
Adjustments recognised for current tax of prior period	-3	-6
Tax charge in the income statement	-331	-259

The weighted average applicable tax rate was 26.5% (2004: 27.2%).

14 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

			2005			2004
	Fortum continuing	Fortum discontinued	Fortum total	Fortum continuing	Fortum discontinued	Fortum total
Profit attributable to equity holders of the Company (EUR million)	884	474	1,358	670	589	1,259
Weighted average number of shares (thousands)			872,613			852,625
Basic earnings per share (EUR per share)	1.01	0.54	1.55	0.79	0.69	1.48

Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has four diluting option schemes (1999 employee warrants, 1999 managements share option scheme and 2001 and 2002 key employees share option schemes). For the warrants and share options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Fortum's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2005			2004		
	Fortum continuing	Fortum discontinued	Fortum total	Fortum continuing	Fortum discontinued	Fortum total
Profit attributable to equity holders of the Company (EUR million)	884	474	1,358	670	589	1,259
Weighted average number of shares (thousands)			872,613			852,625
Effect of the 1999 bond loan with warrants (thousands)			-			447
Effect of the 1999 management share options (thousands)			-			159
Effect of the 2001 key employees share options (thousands)			7,033			6,645
Effect of the 2002 key employees share options (thousands)			8,007			1,896
Diluted average number of shares (thousands)			887,653			861,772
Diluted earnings per share (EUR per share)	1.00	0.53	1.53	0.78	0.68	1.46

15 Dividend per share

The dividends paid in 2005 and 2004 were EUR 505.7 million (EUR 0.58 per share) and EUR 357 million (EUR 0.42 per share) respectively. The Annual General Meeting on 31 March 2005 decided also the distribute 85% of Neste Oil shares as dividends to shareholders. The impact on equity was EUR 920 million and EUR 969 million in Fortum Group and in Fortum Corporation respectively. A dividend in respect of 2005 of EUR 1.12 per share, amounting to a total dividend of EUR 980 million based on the number of shares registered as of 31 December 2005, is to be proposed at the Annual General Meeting on 16 March 2006. Of this dividend, EUR 0.58 per share is attributable to the profit from the continuing operations in 2005, and EUR 0.54 per share to the profit from the discontinued operations. These financial statements do not reflect this dividend payable.

16 Intangible assets

EUR million	2005	2004
Cost 1 January	370	410
Discontinued operations	-128	-
Exchange rate differences and other adjustments	-1	2
Acquisitions through business combinations	2	-
Additions	11	32
Disposals	-18	-48
Reclassifications	-	-26
Cost 31 December	236	370
Accumulated depreciation as of 1 January	254	274
Discontinued operations	-105	-
Exchange rate differences and other adjustments	-1	6
Disposals	-18	-
Reclassifications	-	-59
Depreciation for the period	26	33
Accumulated depreciation 31 December	156	254
Carrying amount	80	116

17 Property, plant and equipment

EUR million	Land, waterfall rights and tunnels	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Cost 1 January 2005	3,255	2,931	11,560	272	481	18,499
Discontinued operations	-55	-1,089	-1,631	-73	-242	-3,090
Exchange rate differences and other adjustments	-124	-11	-232	1	-18	-384
Acquisitions through business combinations	5	132	29	-	2	168
Additions	-	27	77	1	230	335
Disposals	-1	-18	-195	-1	-4	-219
Reclassifications	-3	30	186	-4	-207	2
Cost 31 December 2005	3,077	2,002	9,794	196	242	15,311
Accumulated depreciation 1 January 2005	-	1,378	5,032	164	-	6,574
Discontinued operations	-	-566	-969	-38	-	-1,573
Exchange rate differences and other adjustments	-	9	-66	-2	-	-59
Disposals	-	-11	-176	-1	-	-188
Depreciation for the period	-	52	322	6	-	380
Impairment charges	-	-	1	-	-	1
Accumulated depreciation 31 December 2005	-	862	4,144	129	-	5,135
Carrying amount 31 December 2005	3,077	1,140	5,650	67	242	10,176
Carrying amount 31 December 2004	3,255	1,553	6,528	108	481	11,925

EUR million	Land, waterfall rights and tunnels	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Cost 1 January 2004	3,114	2,948	11,168	265	425	17,920
Exchange rate differences and other adjustments	53	37	33	15	7	145
Acquisitions through business combinations	-	15	11	4	1	31
Additions	5	77	412	8	114	616
Disposals	-3	-127	-81	-20	-8	-239
Reclassifications	86	-19	17	-	-58	26
Cost 31 December 2004	3,255	2,931	11,560	272	481	18,499
Accumulated depreciation 1 January 2004	2	1,309	4,665	155	-	6,131
Exchange rate differences and other adjustments	-2	-3	24	5	-	24
Reclassifications	-	-12	-60	-4	-	-76
Depreciation for the period	-	83	403	8	-	494
Impairment charges	-	1	-	-	-	1
Accumulated depreciation 31 December 2004	-	1,378	5,032	164	-	6,574
Carrying amount 31 December 2004	3,255	1,553	6,528	108	481	11,925
Carrying amount 31 December 2003	3,112	1,639	6,503	110	425	11,789

Assets leased by finance lease agreements

EUR million	2005	2004
Acquisition cost	61	217
Accumulated depreciation	-13	-25
Carrying amount	48	192

The assets leased by financial lease agreements are classified as machinery and equipment.

Capitalised interest expenses

Cumulative capitalised interest expenses included in the carrying amount in Machinery and equipment were EUR 20 (21) million in 2005 (2004). There were no new capitalised interest expenses in neither 2005 nor 2004.

18 Investments in associated companies and joint ventures

EUR million	2005	2004
At 1 January	1,680	1,486
Discontinued operations	-140	-
Share of profit of associates and joint ventures	55	48
Investments in associates and joint ventures	47	167
Sales of associates and joint ventures	-1	-6
Transfer between categories	0	6
Translation differences	-8	9
Other equity movements	-23	-30
At 31 December	1,610	1,680

The carrying amounts of investments in associated companies include publicly listed shares for EUR 276 million (2004: 419 million). The fair value of those investments was EUR 610 million (2004: 478 million). Fortum owns shares in five companies classified as joint ventures. The total carrying value of these joint ventures is EUR 59 million (2004: 67 million).

Fortum's share of profits in Hafslund ASA for 2005 and 2004 are consolidated from the 12-month periods ending at the end of September due to the fact that it is a listed company.

Assets, liabilities, sales and profit/loss as presented by the Group's principal associates are as follows:

Principal associated companies

EUR million							
2005	**Domicile**	**Assets**	**Liabilities**	**Sales**	**Profit/loss**	**Ownership, %**	**Votes, %**
Kemijoki Oy [1)]	Finland	420	269	38	-4	18	
Hafslund ASA [x)]	Norway	2,504	1,709	771	109	34	33
Lenenergo [2)]	Russia	-	-	-	-	31	30
Teollisuuden Voima Oy	Finland	2,519	1,890	199	0	26	26
OKG AB [xx)]	Sweden	1,283	928	168	0	46	46
Forsmarks Kraftgrupp AB [xx)]	Sweden	1,144	832	215	0	26	26
Gasum Oy [x)]	Finland	503	178	433	22	31	31
Fingrid Oyj [x)]	Finland	1,467	1,128	223	41	25	33
2004 [xxx)]	**Domicile**	**Assets**	**Liabilities**	**Sales**	**Profit/loss**	**Ownership, %**	**Votes, %**
Kemijoki Oy	Finland	418	268	40	-1	18	
Hafslund ASA	Norway	2,314	1,588	988	42	34	33
Lenenergo	Russia	1,493	447	877	-12	31	30
Teollisuuden Voima Oy	Finland	1,752	1,285	224	0	26	26
OKG AB	Sweden	1,375	1,003	374	1	46	46
Forsmarks Kraftgrupp AB	Sweden	1,203	406	446	0	26	26
Gasum Oy	Finland	537	201	611	46	31	31
Fingrid Oyj	Finland	1,400	936	302	47	25	33

1) Fortum owns 63.8% of the hydro shares and 15.4 % of the monetary shares. Fortum's total ownership is 17.5 % of the share capital. Since Fortum has significant influence due to its representation on the board of directors and participation in policy-making processes, Kemijoki Oy is accounted for as an associated company.

2) There are no official IFRS figures available for 2005 for JSC Lenenergo. Latest available official IFRS figures are from 31 December 2004, which are included in 2004 comparison figures. JSC Lenenergo was split into JSC "Saint-Petersburg Generation Company", JSC "North-West Energy Managing Company", JSC "Saint-Petersburg Sales Company" and JSC "Saint-Petersburg Main Power Circuits" on October 1, 2005 as part of the Russian energy sector restructuring process. The target is to combine North-West generation assets of St. Petersburg Generation Company, Kola Generation Company and Karelia Generation Company into one territorial generation company, TGC-1. Fortum agreed to acquire a 24.8% stake of Kolenergo unbundled companies in December 2005. Closing of the transaction is expected in the first quarter of 2006. The target is to finalise these restructuring processes during 2006. Fortum's total ownership in JSC Lenenergo is 31% of the share capital not taken into account the shares owned by Lenenergo itself.

x) Based on September 2005 figures.
xx) Based on June 2005 figures.
xxx) Based on December 2004 figures.

19 Other long-term investments

EUR million	2005	2004
Available for sale financial assets	40	64
Fortum's share of the Nuclear Waste Fund	418	401
Other	26	104
Total	484	569

Available for sale financial assets consists mainly of shares in unlisted companies EUR 40 million (2004; 57 million), for which the fair value can not be reliably determined. These assets are measured at cost less possible impairment. Available for sale financial assets included listed shares at fair value EUR 0 million (2004; 7 million). Almost all listed shares have been sold during 2005. Fair value changes have been recognised in equity.

Regarding Fortum share of Nuclear Waste Fund see note 30.

20 Long-term and short-term interest-bearing receivables

EUR million	2005	2004
Interest bearing receivables		
Carrying values		
Long-term loan receivables	524	624
Finance lease receivables	96	103
Total long-term interest-bearing receivables	620	727
Other short-term interest-bearing receivables	1	12
Short-term finance lease receivables	3	3
Total short-term interest-bearing receivables [*)]	4	15
Total interest-bearing receivables	624	742

*) Included in trade and other receivables in balance sheet.
In the Financial Risk Management note 34 fair values, effective interest rates of interest-bearing receivables are disclosed.

Finance lease receivables

Fortum owns assets (mainly CHP- and heating plants) that it leases to customers under financial leasing agreements in Finland, Sweden and Estonia. These assets are recorded at the gross investment cost in the lease, less unearned financial income. The average lease term is approximately 13 years. The average term of new contracts signed in 2005 is 12.5 years. Of all contracts, 4.3 percent carry a floating interest rate and 95.7 percent a fixed rate.

EUR million	2005	2004
Gross investment in finance lease contracts	132	144
Less unearned finance income	33	38
Present value of future minimum lease payment receivables	99	106

Maturity of finance lease receivables

EUR million	2005	2004
Gross investment		
Less than 1 year	15	15
1-5 years	60	59
Over 5 years	57	70
Total	132	144
Present value of future minimum lease payments receivables		
Less than 1 year	3	3
1-5 years	48	46
Over 5 years	48	57
Total	99	106
Contingent rents recognised in income statement	0	3

21 Inventories

EUR million	2005	2004
Materials and supplies	249	416
Work in progress	1	75
Finished products and goods	3	140
Other inventories	2	21
Advance payments	1	2
Total	256	654

No impairment costs have been booked related to inventories neither in 2005 or 2004.

22 Trade and other receivables

EUR million	2005	2004
Trade receivables	716	1,047
Income tax receivables	31	24
Accrued interest income	7	19
Finance leases	3	3
Accrued income and prepaid expenses	66	58
Other receivables	58	131
Other interest-bearing receivables	1	12
Total	882	1,294
Doubtful receivables that are deducted from trade receivables	32	33
Recognised impairment losses in the income statement	-6	-6

The management consider that the carrying amount of trade and other receivables approximates their fair value.

23 Treatment of balance sheet items relating to revenue from projects in progress

EUR million	2005	2004
Prepayments and accrued income	8	5
Deductions in receivables	8	5
Advance payments received	6	2
Deductions in liabilities	6	2

24 Cash and cash equivalents

EUR million	2005	2004
Carrying amount		
Cash at bank and in hand	191	145
Short-term bank deposits	450	-
Commercial papers	147	-
Total	788	145

Maturity of cash and cash equivalents is under 3 months.

25 Equity

Share capital

Fortum has one class of shares. By the end of 2005, a total of 875,294,025 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. Fortum Corporation or any of Fortum's subsidiaries do not hold of any Fortum shares. In accordance with the Articles of Association, at the end of 2005, 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 2005, paid in its entirety and entered in the trade register, was EUR 2,975,999,685.

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

Warrants and 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 entitled the holder to subscribe for 1,000 shares. The share options were exercisable during the period from 1 October 2002 through to 1 October 2005. By the end of 2005, a total of 11,768,000 shares were subscribed for and entered into the trade register. This scheme ended on October 2005. This scheme covered 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 entitled the holder to subscribe for one share. The warrants were exercisable during the period from 17 May 2002 through to 17 May 2005. By the end of 2005, a total of 6,153,000 shares were subscribed for and entered into the trade register. This scheme ended on May 2005. This arrangement covered approximately 1,850 persons.

Share option scheme for key employees (2001)

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

In March 2002, a total of 2,525,000 non-transferred share options marked with the letter A were annulled, a total of 212,500 non-transferred share options marked with the letter B were annulled, and all of the 8,000,000 non-transferred share options marked with the letter C were annulled. In October 2005, a total of 537,500 share options marked with the letter A and in December 2005, a total of 1,087,500 share options marked with the letter B were annulled.

The subscription price of the share options marked with the letter A is 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 Fortum 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 is, however, a minimum of EUR 4.47. Any dividends paid by Fortum Corporation after the beginning of the period for determination of the subscription price but prior to the subscription of shares will be deducted from the subscription price. The subscription price will always, however, be at least EUR 3,40, which equals the nominal value of the shares.

The total number of share options marked with a letter A listed on 17 October 2005 was 4,937,500. Each share warrant entitles the holder to subscribe for one share. The warrants are exercisable during the period from 17 October 2005 through to 1 May 2007. By the end of 2005, a total of 1,636,350 shares were subscribed for and entered into the trade register with the share options marked with a letter A. Total of 3,301,150 shares can still be subscribed for and registered with the share options 2001A such that the share capital is increased by a maximum of EUR 11,223,910, which corresponds to 0.4% of the share capital at the end of 2005. At the end of 2005, the subscription price of the share options marked with the letter A was EUR 3.40.

The subscription period and listing of options marked with letter B started on 16 January 2006. The number of options listed was 6,700,000 and the subscription price EUR 4.47.

A total of 10,001,150 shares can still be subscribed for 2001 share option scheme (with either letter A or B) such that the share capital is increased by a maximum of EUR 34,003,910, which corresponds to 1.2 % of the share capital at the end of 2005. The entitlement of the shares subscribed for with the options to dividend, and other shareholder rights, will commence once the increase in the share capital has been registered. This scheme covered 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.

In December 2005, a total of 2,476,000 non-transferred share options marked with the letter B were annulled. By the end of 2005, a total of 10,024,000 share options marked with the letter B were distributed 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 2005, a total of 10,128,100 shares were subscribed for and entered into the trade register with the share options marked with a letter A. Total of 638,900 shares can still be subscribed for with the share options 2002A such that the share capital is increased by a maximum of EUR 2,172,260, which corresponds to 0.1% of the share capital at the end of 2005. At the end of 2005, the subscription price of the share options marked with the letter A was EUR 3.40.

A total of 10,662,900 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 36,253,860, which corresponds to 1.2% of the share capital at the end of 2005.

The subscription price of the share options marked with the letter B will be EUR 6.19 (the volume-weighted average price of the Fortum shares on the Helsinki Exchanges during the period from 1 January 2003 through to 31 March 2003). Any dividends paid after the beginning of the period for determination of the subscription price but prior to the subscription of shares will be deducted from the subscription price. The subscription price will always, however, be at least EUR 3.40, which equals the nominal value of the share. The entitlement of the shares subscribed for with the options to dividend, and other shareholder rights, will commence once the increase in the share capital has been registered. This scheme (either with letter A or B) covered some 350 persons.

Performance share arrangement for key personnel

The Fortum Performance Share Arrangement is a performance-based long-term incentive arrangement intended for the top management and key personnel of the Fortum Group. At present, approximately 130 managers, all of whom have been elected by the Board of Directors, are participants. A new performance share plan under the arrangement starts annually if approved by the Board of Directors and runs for a six-year period. The newest performance share plan for 2006-2011 is for non-share option holders only.

Each share plan begins with a three-year earning period, followed by a three-year restriction period, at the end of which the participant receives a pre-determined number of Fortum shares. The individual number of share rights granted after a three year earning period is based on Fortum's achievement of annual corporate bonus targets defined by the Board of Directors as well as each participant's achievement of his/her individual annual bonus targets. Before delivering the shares to the participant, the company deducts all taxes and other charges payable by the participant, and the participant receives the remaining portion (in Finland currently approx 40-50%) of the value in Fortum shares.

The maximum value in share rights a participant can be granted after the three years earning period cannot exceed one year's salary. The number of share rights granted under each annual share plan is adjusted during the restriction period by potential dividends paid up until the share delivery, which takes place at the end of the restriction period. The share delivery is conditional upon remaining in the entity's employ.

The first annual share plan began in 2003 (based on 2002 results). In spring 2005, at the end of the earning period, share rights belonging to the first plan were granted to the participants. The shares, based on these share rights, will be delivered to participants in spring 2008. In order to hedge Fortum's future payments under the share plan 2003, Fortum has entered into forward agreements.

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.

Share capital, share issue and share premium

EUR million	Number of shares	Share capital	Share issue	Share premium
Registered at 1 January 2005	867,083,905	2,948	13	62
Prodeeds from shares issued under				
- 1999 bond loan with warrants	1,284,370	4	-2	0
- 1999 management share option scheme	1,698,000	6	-8	4
- 2001 A share options scheme for key employees	1,636,350	6	0	0
- 2002 A share options scheme for key employees	3,591,400	12	-3	4
Registered at 31 December 2005	**875,294,025**	**2,976**	**0**	**70**
Unregistered shares				
- 2002 A share options scheme for key employees	426,900	0	2	0
- 2001 A share options scheme for key employees	56,100	0	0	0
At 31 December 2005	**875,777,025**	**2,976**	**2**	**70**
Registered at 1 January 2004	848,832,475	2,886	5	36
Prodeeds from shares issued under				
- 1999 bond loan with warrants	4,560,730	16	-5	1
- 1999 management share option scheme	7,154,000	24	0	16
- 2002 A share options scheme for key employees	6,536,700	22	0	9
Registered at 31 December 2004	**867,083,905**	**2,948**	**0**	**62**
Unregistered shares				
- 1999 bond loan with warrants	599,593	0	2	0
- 1999 management share option scheme	1,348,000	0	8	0
- 2002 A share options scheme for key employees	717,100	0	3	0
At 31 December 2004	**869,748,598**	**2,948**	**13**	**62**

Share-based payments

Equity-settled share option schemes

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

		2005			2004	
		Weighted average exercise price	Number of options (thousand)		Weighted average exercise price	Number of options (thousand)
Outstanding at the beginning of the period	EUR	4.85	29,098	EUR	5.08	48,894
Granted during the period	EUR	-	0	EUR	5.61	158
Forfeited during the period	EUR	4.42	218	EUR	4.90	1,324
Exercised during the period	EUR	5.94	8,210	EUR	5.58	18,251
Expired or cancelled during the period	EUR	3.40	6	EUR	4.74	379
Outstanding at the end of the period	EUR	3.75	20,664	EUR	4.88	29,098
Exercisable at the end of the period	EUR	3.40	3,940	EUR	4.75	7,219

In addition Fortum Assets Oy held a total number of share options of 3,883 (thousand)at the year end 2004. A total of 4,101 thousand options held by Fortum Assets Oy were annulled in December 2005.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Expiry date	2005 Exercise price in EUR per share	Number of options (thousand)	2004 Exercise price in EUR per share	Number of options (thousand)
Management share option scheme (1999)	1.10.2005	5.61	-	5,61	1,698
Bond loan with warrants for employees (1999)	17.5.2005	3.40	-	3,63	1,291
Share options scheme for key employees (2001A)	1.5.2007	3.40	3,301	4,47	4,950
Share options scheme for key employees (2001B)	1.5.2007	4.47	6,700	4,47	6,800
Share options scheme for key employees (2002A)	1.5.2007	3.40	639	4,74	4,230
Share options scheme for key employees (2002B)	1.5.2009	3.40	10,024	6,19	10,129
			20,664		29,098

Fair value of share options and assumptions

The Group will apply IFRS 2 *Share -based payments* only to 2002B option scheme that was granted after 7 November and that vested after 1 January 2005, as allowed by the IFRS 1.

The grant date for 2002B options was 15 April 2003. The fair value of the options on that date determined using the binomial valuation model was 1,51 euros. The significant inputs to the model were the share price of 6.41 euros at the grant date, original subscription price 6,19 euros, standard deviation of the expected share price returns of 30%, dividend yield of 4,89%, option life of 3,5 years and the annual risk-free interest rate of 4%. Estimated departures were calculated to be 5%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical share prices over the past three and a half years before the grand date added with a 7% margin.

Other reserves

EUR million	Net investment	Hedging reserve	Fair value of options	Total
Cash flow hedges				
Fair value gains/losses during the period	-	-176	-	-176
Tax on fair value gains/losses	-	46	-	46
Transfers to income statement	-	-157	-	-157
Tax on transfers to income statement	-	41	-	41
Discontinued operations	-	-45	-	-45
Tax on discontinued operations	-	12	-	12
Net investment hedge	30	-	-	30
Tax on net investment hedge	-8	-	-	-8
Options	-	-	6	6
Balance at 31 December 2005	20	-151	14	-117
Balance at 31 December 2003	12	47	4	63
Cash flow hedges				
Fair value gains/losses during the period	-	169	-	169
Tax on fair value gains/losses	-	-44	-	-44
Transfers to income statement	-	-59	-	-59
Tax on transfers to income statement	-	15	-	15
Net investment hedge	-19	-	-	-19
Tax on net investment hedge	5	-	-	5
Options	-	-	4	4
Balance at 31 December 2004	-2	128	8	134

26 Interest-bearing liabilities

EUR million	2005	2004
Bonds	1,542	2,397
Loans from financial institutions	333	650
Other long term interest-bearing debt [*)]	1,243	1,403
Total long term interest-bearing debt	3,118	4,450
Current portion of long-term bonds	697	332
Current portion of loans from financial institutions	92	19
Current portion of other long-term interest bearing debt	16	17
Commercial papers	21	343
Other short-term interest bearing debt	2	79
Total short-term interest bearing debt	828	790
Total interest-bearing debt	3,946	5,240

[*)] Includes loan from Nuclear Waste Fund, financing arrangement related to Nybroviken Kraft AB, financial leases, pension loans and other loans. In the Financial Risk Management note 34 repricing, maturities, fair values, loans by currencies and effective interest rates of interest-bearing liabilities are disclosed.

Nybroviken Kraft AB (Nykab)

Nybroviken Kraft AB (Nykab) is a financing arrangement of hydro-power assets that was established in 1990. Fortum, via Fortum Generation AB, owns 52.9% of the voting shares and 10.1% of the capital in Nykab. The remaining shares (preference shares representing a book value of EUR 95 million (SEK 890 million)) are held by AP-fonden. AP-fonden has as a part of the financing agreement also granted Nykab a long-term loan of EUR 213 million (SEK 2 000 million). Over the lifetime of the agreement AP-fonden is guaranteed to have a return of 4.5% over inflation (CPI) on their full investment in Nykab (EUR 308 million (SEK 2 890 million)). The agreement is valid until 2015, however Fortum Generation AB has a call option to purchase AP-fondens shares and loans issued to Nykab at 31st of October 2007, 2011 or 2015. AP-fonden have the right to cancel the option agreement on the 31st of October 2007, and if they do, Fortum has the right to call the option and to purchase the shares.

According to IAS 32 and 39 the minority interest referring to the preference shares is classified as an interest-bearing liability carried with an effective interest rate of 4.5% over inflation.

Nykab has pledged the shares in hydropower stations as security for the loan from AP-fonden.

Finance lease liabilities

As 31 December 2005 Fortum had a small number of finance lease agreements for machinery and equipment.

No new leasing commitments were entered into in 2005. In 2005 one lease agreement was terminated due to exercise of the puchase option.

EUR million	2005	2004
Minimum lease payments	56	192
Less future finance charges	9	30
Present value of finance lease liabilities	**47**	**162**

Maturity of finance lease liabilities

EUR million	2005	2004
Minimum lease payments		
Less than 1 year	16	18
1-5 years	12	63
Over 5 years	28	111
Total	**56**	**192**

Present value of finance lease liabilities		
Less than 1 year	15	14
1–5 years	8	47
Over 5 years	24	101
Total	47	162

27 Deferred income taxes

The movement in deferred tax assets and liabilities during the year:

EUR million	1 Jan 2005	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	Acquisitions and Disposals *)	31 Dec 2005
Deferred Tax Assets						
Depreciation differences	3	-	-	-	-	3
Provisions	46	-13	-	-	-17	16
Tax losses and tax credits carried forward	20	-1	-	-	-11	8
Other	37	-17	-	-	11	31
Total deferred tax assets	106	-31	-	-	-17	58
Offset against deferred tax liabilities	-	-	-	-	-	-40
Deferred tax assets after offset	106	-31	-	-	-17	18
Deferred Tax Liabilities						
Depreciation difference and untaxed reserves	1,267	87	-	-40	-140	1,174
Fair value adjustments	420	-11	-	-12	11	408
Financial instruments	38	-15	-91	-	-	-68
Other	116	-56	-	-23	1	38
Offset against deferred tax assets	-	-	-	-	-	-40
Deferred tax liabilities after offset	1,841	5	-91	-75	-128	1,512

*) Inclludes the effects from the deconsolidation of Neste Oil due to the dividend of approx. 85% of the shares in the company.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future profits is probable. Deferred tax assets of EUR 15 million have not been recognised in the consolidated financial statements because the realisation is not probable. The recognised and the unrecognised tax asset relates to losses carry-forwards with no expiration date.

Deferred income tax liabilities of EUR 4 million have not been recognised for the withholding tax and other taxes that would be payable on the un-remitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled EUR 16 million at 31 December 2005.

The movement in deferred tax assets and liabilities during the year:

EUR million

	1 Jan 2004	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	Acquisitions and Disposals	31 Dec 2004
Deferred Tax Assets						
Depreciation differences	1	2	-	-	-	3
Provisions	3	43	-	-	-	46
Tax losses and tax credits carried forward	7	13	-	-	-	20
Other	5	31	-	-	1	37
Total deferred tax assets	16	89	-	-	1	106
Offset against deferred tax liabilities	-	-	-	-	-	-
Deferred tax assets after offset	16	89	-	-	1	106
Deferred Tax Liabilities						
Depreciation difference and untaxed reserves	1,181	105	-	-19	-	1,267
Fair value adjustments	442	-10	-	-12	-	420
Financial instruments	5	8	25	-	-	38
Other	166	-21	-	-31	2	116
Offset against deferred tax assets	-	-	-	-	-	-
Deferred tax liabilities after offset	1,794	82	25	-62	2	1,841

28 Pension obligations

The Group companies have various defined benefit and defined contribution pension plans in accordance with the local conditions and practices in the countries in which they operate. In Finland the most significant pension plan is the Finnish Statutory Employment Pension Scheme (TEL) in which benefits are directly linked to employee earnings. These pensions are funded in insurance company and treated as defined contribution plans. The disability component of TEL has been accounted for as a defined benefit plan. In December 2004, the Finnish Ministry of Social Affairs and Health approved certain changes, effective from January 2006 onwards, to the principles for calculating disability component of pension liabilities under TEL. According to the new practice, TEL's disability component will be accounted for as a defined contribution plan. Due to this change and based on the year-end actuarial calculations, Fortum has released EUR 20 million of this obligation in December 2004 and the rest, EUR 4 million is released at the end of 2005. In addition certain employees in Finland have additional pension coverage through companies own pension fund.

In Sweden the Group operates several defined benefit and defined contribution plans of which the most important ones are the general ITP-pension plan together with the PA-KL and PA-KFS plans that are eligible for employees within municipal owned companies. The pensions are funded either through insurance premiums or through insurance premiums paid to the insurance companies or through book-reserves.

The Norwegian companies have defined benefit pension plans where the benefits are based on final salary.

In other countries the pension arrangements are done in accordance with the local legislation and practice, mostly being defined contribution plans.

The pension obligations are calculated annually, on the balance sheet date, based on actuarial principles. When accounting for defined contribution plan the obligation for each period is determined by the amounts to be contributed for that period. When accounting for defined benefit plans, actuarial calculations are required to measure the obligation on discounted basis and the expense. The plan assets for pensions are valued at market value. When the net cumulative unrecognized actuarial gain or loss on pension obligations and plan assets goes outside the corridor of 10 % of the greater of either pension obligations or the market value of the plan assets, the surplus amount is amortised over the remaining average employment period.

Amounts recognised in the income statement:

EUR million	2005	2004
Current service cost	-10	-22
Interest cost	-14	-41
Expected return on plan assets	11	47
Acquisition	-5	0
Net actuarial gains and losses recognised during the year	0	2
Past service cost	1	0
Gains and losses on curtailments and settlements	0	24
Total included in employee costs (note 10)	-17	10

The actual return on plan assets in Finland and Sweden totalled EUR 18 million (EUR 13 million in 2004).

Amounts recognised in the balance sheet:

EUR million	2005	2004
Present value of funded obligations *)	368	874
Curtailment	0	-20
Fair value of plan assets *)	-228	-790
	140	64
Present value of unfunded obligations	1	0
Unrecognised actuarial gains and losses	-35	22
Liability in the balance sheet	106	86

*) The decrease in the values from 2004 to 2005 is due to discontinued operations.

Pension plan assets include the Company's ordinary shares with a fair value of EUR 5 million (EUR 73 million in 2004) and buildings occupied by the Group with a fair value of EUR 26 million (EUR 93 million in 2004).

The principal actuarial assumptions used:

		2005			2004		
%	Finland	Sweden	countries	Other Finland	Sweden	countries	Other
Discount rate, %		4.50	5.00	4.80	5.00	5.25	6.50
Expected return on plan assets, %		6.30	5.00	5.80	6.70	5.25	7.50
Future salary increases, %		3.50	3.00	3.20	3.50	3.00	3.30
Future pension increases, %		2.10	2.00	2.00	2.10	2.00	2.50

Amounts recognised in the balance sheet:

				2005
EUR million	Finland	Sweden	Other countries	Total
Present value of funded obligations	191	153	24	368
Fair value of plan assets	-181	-29	-18	-228
	10	124	6	140
Present value of unfunded obligations	0	0	1	1
Unrecognised actuarial gains and losses	-7	-28	0	-35
Liability in the balance sheet	3	96	7	106

Amounts recognised in the balance sheet:

EUR million	Finland	Sweden	Other countries	2004 Total
Present value of funded obligations	730	135	9	874
Curtailment	-20	0	0	-20
Fair value of plan assets	-763	-27	0	-790
	-53	108	9	64
Unrecognised actuarial gains and losses	27	-5	0	22
Liability in the balance sheet	-26	103	9	86

Balance sheet reconciliation

EUR million	2005	2004
At 1 January	86	114
Impact of discontinued operations/acquired companies	17	4
Total expense charged in the income statement	17	-10
Contributions paid	-14	-22
At 31 December	106	86

Balance sheet obligations

EUR million	2005	2004
Pension benefits	117	132
Overfunded pension plan shown as asset *)	-11	-46
Net liability	106	86

*) Major part of the change is due to discontinued operations.

29 Provision for other liablities and charges

EUR million	Provision for impreg nated poles	EHS provisions	Nuclear related provisions	Other provision	Pensions	Total
At 1 January 2005	16	18	401	41	132	608
Additional provision during the period	1	3	9	24	2	39
Utilisation of provision	-	-1	-14	-14	-	-29
Unused amounts reversed during the period	-1	-	-	-2	-4	-7
Exchange rate differences	-	-	-	-3	-	-3
Increase due to unwinding	1	1	22	-	-	24
Discontinued operations	-	-	-	-15	-11	-26
At 31 December 2005	17	21	418	31	119	606
Allocation between current and non-current provisions:						
Non-current provisions	17	21	418	31	119	606
Current provisions	-	-	-	-	-	-

A provision for impregnated poles is made to cover future costs for dismantling the distribution poles. The provision is rolling forward over time, when a new pole is put up an increase is recorded in the provision and when a pole is removed a decrease is recorded.

EHS provision relate to dismantling of buildings and structures on contaminated land. The provision is estimated to be used within five years.

Other provisions include provisions for insurance payments, tax claims and provisions for onoreus contracts. The provision is estimated to be used within two to five years. Pension obligations include also liabilities related to defined contribution plans.

Regarding nuclear related provisions see note 30

30 Nuclear related assets and liabilities

Fortum owns the Loviisa nuclear power plant in Finland. Based on the Nuclear Energy Act in Finland Fortum has a legal liability to fund the decommissioning of the power plant and disposal of spent fuel through the Nuclear Waste Fund. As at 31 December the following carrying values regarding nuclear related assets and liabilities are included in the balance sheet:

EUR million	2005	2004
Provisions, Note 29	418	401
Other long-term investments, Note 19	418	401

Provisions

The provisions are related to future obligations for nuclear waste management including decommissioning of the power plant and disposal of spent fuel. The fair value of the provisions is calculated according to IAS 37 based on future cash-flows regarding estimated future costs.

Other long-term investments

Other long-term investments include the carrying amount of Fortum´s share of the Nuclear Waste Fund. Fortum contributes funds to the Nuclear Waste Fund in Finland to cover future obligations based on the legal liability calculated according to the Nuclear Energy Act. The fund is managed by governmental authorities.

Fortum´s legal liability and share of the Nuclear Waste Fund

Fortum´s legal liability and share of the nuclear Waste Fund at year end are as follows:

EUR million	2005	2004
Liability for nuclear waste management according to the Nuclear Energy Act	618	596
Fortum´s share of reserves in the Nuclear waste Fund	-610	-581
Difference covered by real estate mortgages	8	15

The legal liability calculated according to the Nuclear Energy Act in Finland and decided by the governmental authorities is EUR 618 (596) million 31 December 2005 (and 2004 respectively). The carrying value of the liability in the balance sheet calculated according to IAS 37 is EUR 418 (401) million 31 December 2005. The main reason for the difference in the liability is the fact that the legal liability is not discounted to net present value.

Fortum´s share of the Nuclear Waste Fund 31 December 2005 is EUR 610 (581) million. The carrying value in the balance sheet is EUR 418 (401) million. The difference is due to the fact that IFRIC 5 limits the carrying amount of Fortum´s share of the Nuclear Waste Fund to the amount of the related liability since Fortum does not have control or joint control over the Fund.

Fortum´s share of the legal liability towards the fund is fully funded. The difference between the liability and Fortum´s share of the Nuclear Waste Fund at year-end is due to timing of the annual calculation of the liability and will be paid during the first quarter of the following year. Fortum has given real estate mortgages as security, which also covers unexpected events according to the Nuclear Energy Act. The real estate mortgages are included in contingent liabilities.

Fortum uses the right to borrow back from the Nuclear Waste Fund according to certain rules. The loans are included in interest-bearing liabilities, see note 26.

31 Other liabilities

EUR million	2005	2004
Connection fees	259	259
Other liabilities	53	136
Total	312	395

32 Trade and other payables

EUR million	2005	2004
Trade payables	262	570
Accrued expenses and deferred income	382	351
Other liabilities	222	511
Total	866	1,432
Main items included in accrued expenses and deferred income		
Personnel expenses	82	99
Interest expenses	141	153
Other items	159	99
Total	382	351

The management consider that the carrying amount of trade and other payables approximates their fair value.

33 Related party transactions

State ownership

At the beginning of 2005, the Finnish State owned 59,26 % of the company's shares. In June 2005 Finnish State sold 62,900,000 (7,21 %) shares of Fortum to domestic and foreign investors. After the sale increase in the share capital on the share subscriptions under bond loan with warrants and management share option scheme 1999 and share option scheme for key employees 2001A and 2002A the Finnish State owned 51,52% 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.

All transactions between Fortum and other companies owned by the Finnish State are on arms length basis.

Neste Oil buys services from Fortums Shared Service Center. The service agreement is on arms length.

Shareholders on 31 December 2005

Shareholder	No of shares	Holding %
Finnish State	450,932,988	51.52
Ilmarinen Mutual Pension Insurance Company	10,946,100	1.25
Social Insurance Institution	8,936,496	1.02
The municipality of Kurikka	6,203,500	0.71
The State Pension Fund	5,000,000	0.57
Varma Mutual Pension Insurance Company	3,835,000	0.44
Etera Mutual Pensions Insurance Company	3,277,383	0.37
OP-Delta Investment Fund	2,931,908	0.33
Fennia Mutual Pensions Insurance Company	2,875,767	0.33
Neste Oil Pension Foundation, B	2,400,000	0.27
Nominee registrations	289,349,864	33.06
Other shareholders in total	88,605,019	10.12
Total number of shares	875,294,025	100.00

Breakdown of share ownership on 31 December 2005

By number of shares owned

Number of shares	No. of share-holders	% of share-holders	No. of shares	% of share capital
1–100	3,620	7.07	236,730	0.03
101–500	22,120	43.18	5,855,034	0.67
501–1,000	13,976	27.28	9,416,538	1.08
1,001–10,000	10,866	21.21	27,345,360	3.12
10,001–100,000	558	1.09	13,927,695	1.59
100,001–1,000,000	74	0.14	25,177,210	2.88
1,000,001–10,000,000	13	0.03	42,024,530	4.80
over 10,000,000	2	0.00	461,879,088	52.77
		100.00	585,862,185	66.93
Unregistered/uncleared transactions on 31 December			81,976	0.01
Nominee registrations			289,349,864	33.06
Total			875,294,025	100.00

Breakdown of share ownership on 31 December 2005

By shareholder category

	% of share capital
Finnish shareholders	
Corporations	0.8
Financial and insurance institutions	2.3
General government	57.3
Non-profit organisations	1.2
Households	5.2
Non-Finnish shareholders	33.2
Total	100.00

Transactions and balances with associated companies

EUR million	2005	2004
Sales	67	80
Purchases	446	456
Interest income	24	26
Receivables from associated companies	553	611
Payables to associated companies	238	250

Transactions and balances with joint ventures

EUR million	2005	2004
Sales	0	2
Purchases	2	0
Receivables from joint ventures	7	79
Payables to joint ventures	8	8
Loans to associated companies		
Loans receivable on 1 January	553	525
Movements during the period	-36	82
Loans receivable on 31 December	517	607

There were no outstanding loans receivable from joint ventures on 31 December 2005 or 2004.

Key management compensation

EUR million	2005	2004
Salaries and other short-term employee benefits	4	3
Post-employment benefits	1	1
Share-based payments	1	1
Total	6	5

In the event that Fortum desides to give notice of termination to President and CEO, he is entitled to 24 months salary, other management team members to 12 to 18 months salary.

Key management consist of the members of the Supervisory Board, Board of Directors, the President and CEO and other members of the Fortum Management Team. A loan of EUR 89 thousand has been issued to member of Group management. The loan is a constant payment loan with interest rate of 3,5% which will be amortized semi-annually and it is due in year 2009.

Management shareholding and share options

On 31 December 2005, the members of the Supervisory Board of Fortum Corporation owned a total of 3,400 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 180,641 shares, which corresponds to 0.02% of the company's shares and voting rights. Other members of the Fortum Management Team owned a total of 141,790 shares which corresponds to 0.02% of the company's shares and voting rights.

34 Financial risk management

Risk management objective and principles

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

Regarding financial risk management, the main principle is that risks are quantified as accurately as possible and monitored against approved limits in relation to agreed targets. 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 in order to assess the effects of extreme price movements on Fortum's earnings.

Risk management policies and organization

Fortum's Board of Directors approves the Corporate Risk Policy, which sets the objectives, principles, responsibilities and processes for risk management activities within the Group. The policy sets guidelines for identifying, assessing, responding to, controlling and reporting risks.
Each business and service unit submits a risk policy, which adheres to the Corporate Risk Policy, to the CEO for approval.

Corporate risk management is headed by the Chief Risk Officer and is organised within the Corporate Finance unit. Risk control functions at the business and service unit level are responsible for reporting 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.

Electricity Price Risks in Power Generation

Fortum manages electricity price and volume risks in the generation business separately from customer sales. Price risks in electricity generation are primarily managed by entering into electricity forwards and futures 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 for electricity and CO_2 allowances, the hydrological balance and other relevant parameters change. 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 or instruments that do not qualify hedge accounting are recognised immediately in the income statement in other income.

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 2005 was approximately 70% for the year 2006. Assuming no changes in generation volumes, hedge ratio or cost structure, a 1 EUR/MWh change in the market price of electricity would affect Fortum's 2006 pre-tax earnings by approximately EUR 15 million.

Electricity Price Risks in Markets

Fortum Markets manages both the electricity price and temperature related volume risks in its sales business through an active portfolio management combined with market price based pricing of sales contracts. Cash flows generated from customer sales contracts are subject to uncertainty mainly due to variations in customer's consumption profiles and volatility of market prices. The objective of hedging is to secure agreed targets and lower the uncertainty in profit margins.

Electricity Trading

All Group external transactions are executed through one trading desk. In addition to supporting the Group's hedging activities, there is some limited trading in financial contracts. The risks in trading are managed by VaR limits which are monitored on a daily basis. Changes in the fair value of derivative instruments for trading purposes are recognised immediately in other income in the income statement.

Electricity derivatives — 31 December 2005

Gross	Volume, TWh				Fair value, MEUR		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Sales swaps	**54**	**29**	**1**	**84**	**10**	**473**	**-463**
Purchase swaps	**30**	**18**	**1**	**49**	**281**	**5**	**276**
Purchased options	1	0	0	1	0	1	-1
Written options	3	0	0	3	2	0	2
Total	88	47	2	137	293	479	-186
Netting against Nord Pool**							
Total					-216	-216	0
Balance					77	263	-186

Electricity derivatives — 31 December 2005

Gross	Volume, TWh				Fair value, MEUR		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Derivatives with hedge accounting status	47	28	0	75	96	305	-209
Derivatives with non-hedge accounting status*	41	19	2	62	197	174	23
Total	88	47	2	137	293	479	-186
Netting against Nord Pool **							
Derivatives with hedge accounting status					-84	-84	0
Derivatives with non-hedge accounting status*					-132	-132	0
Total					-216	-216	0
Balance					77	263	-186
Of which long-term					48	74	-26
Short-term					29	189	-160

Electricity derivatives — 31 December 2004

Gross	Volume, TWh				Fair value, MEUR		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Sales swaps	44	26	0	70	243	39	204
Purchase swaps	26	15	0	42	48	101	-53
Purchased options	1	0	0	1	0	1	-1
Written options	1	0	0	1	0	0	0
Total	**73**	**41**	**0**	**114**	**291**	**141**	**150**
Netting against Nord Pool							
Total					-102	-102	0
Balance					**189**	**39**	**150**

Electricity derivatives			31 December 2004				
Gross	Volume, TWh				Fair value, MEUR		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Derivatives with hedge accounting status	35	21	0	56	183	48	135
Derivatives with non-hedge							
accounting status*	38	21	0	58	108	93	15
Total	73	41	0	114	291	141	150
Netting against Nord Pool **							
Derivatives with hedge accounting status					-45	-45	0
Derivatives with non-hedge accounting status*					-57	-57	0
Total					-102	-102	0
Balance					189	39	150
Of which long-term					42	23	19
Short-term					147	16	131

*) Derivatives with non-hedge accounting status consists of trading derivatives and cash flow hedges without hedge accounting status.
**) Receivables and liabilities against Nord Pool arising from standard derivative contracts with same delivery period are netted

Other Commodity Price Risks

Commodity prices, especially coal prices, have a direct effect on heat and power generation costs since they are used as input fuels for production. Coal price risks are primarily managed through fixed price purchases of coal which cover the forecasted consumption levels. Oil price risks are hedged by entering into futures and swap agreements to fix the forward prices of projected oil purchases. Oil price volatility is not a significant source of risk for Fortum, and the volume of hedging is therefore limited.

			31 December 2005				
Oil futures and forward contracts	Volume, 1000 bbl				Fair value, MEUR		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Sales swaps	30	60	0	90	0	0	0
Purchase swaps	391	180	0	571	7	1	6
Total	421	240	0	661	7	1	6
Of which long-term					1	0	1
Short-term					6	1	5
Non-hedging oil derivatives *)	421	240	0	661	7	1	6

			31 December 2004				
Oil futures and forward contracts**)	Volume, 1000 bbl				Fair value, MEUR		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Sales swaps and futures	42,234	2,354	0	44,588	29	3	26
Purchase swaps and futures	56,073	14,185	0	70,258	15	8	7
Purchased options	4,797	0	0	4,797	4	2	2
Written options	6,784	0	0	6,784	3	5	-2
Total	109,888	16,539	0	126,427	51	18	33
Of which long-term					10	2	8
Short-term					41	16	25
Non-hedging oil derivatives *)	109,888	16,539	0	126,427	51	18	33

*) Including derivatives without hedge accounting status
**) Major part of 2004 oil derivatives were related to Neste Oil presented as discontinued operation.

Liquidity and refinancing risk

Financing and liquidity management within the Fortum Group is managed centrally and external financing are primarily raised on parent company level by the Group Treasury unit. The subsidiaries are mainly financed via internal loans from the parent company and excess cash positions are centralized to the parent company either through internal cash-pool arrangements or by internal deposits.

Fortum has a diversified loan portfolio mainly consisting of long term bond financing but also a variety of other long- and short-term financing facilities. As per 31 December 2005 the total interest bearing debt was EUR 3 946 million (2004: 5 240 million). Interest-bearing net debt was EUR 3 158 million (2004: 5 095 million).

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 31 year end, loan maturities for the coming 12 months period amounted to EUR 828 million (2004: 790 million) and the total amount of undrawn committed credit facilities was EUR 1 314 million (2004: 1 362 million).

On top of the committed credit facilities Fortum had at year end access to approximately EUR 3.5 billion (2004: 3.0 billion) of uncommitted credit facilities. Fortum has received credit ratings by Standard and Poors (A-, stable outlook) and Moody's (A2 , stable outlook).

Interest bearing receivables EUR million	Effective interest rate	Carrying amount 2005	Repricing < 1 years	>1 year <5 years	> 5 years	Fair value 2005	Carrying amount 2004	Fair value 2004
Long-term loan receivables	4.4	524	518	6	-	543	624	651
Leasing receivables	5.8	99	69	2	28	114	106	121
Total long-term interest-bearing receivables*)	4.6	623	587	8	28	657	730	772
Other current receivables	1.5	1	1	-	-	1	12	12
Total interest-bearing receivables	4.6	624	588	8	28	658	742	784

*) Including current portion of long-term receivables

Interest bearing debt EUR million	Effective interest rate	Carrying amount 2005	Repricing < 1 years	>1 year <5 years	> 5 years	Fair value 2005	Carrying amount 2004	Fair value 2004
Bonds	4.6	2,239	2,047	192	-	2,354	2,729	2,928
Loans from financial institutions	2.5	425	422	2	1	430	669	679
Other long-term interest-bearing debt *)	3.8	1,259	1,146	100	13	1,376	1,420	1,491
Total long-term interest-bearing debt **)	4.1	3,923	3,615	294	14	4,160	4,818	5,098
Commercial paper	1.7	21	21	-	-	21	343	344
Other short-term interest-bearing debt	3.4	2	2	-	-	2	79	79
Total short-term interest-bearing debt	1.9	23	23	-	-	23	422	423
Total interest-bearing debt	4.1***)	3,946	3,638	294	14	4,183	5,240	5,521

*) Includes loan from Nuclear Waste Fund EUR 605 million (2004: 579 million), financing arrangement related to Nybroviken Kraft AB EUR 308 million (2004: 320 million),financial leases EUR 47 million (2004: 162 million), pension loans EUR 35 million (2004: 89 million), and other loans EUR 264 million (2004: 270 million).

**) Including current portion of long-term debt

***) The effective interest rate including interest bearing debt and derivatives is 4.5%

Interest-bearing debt by currency

EUR million	2005	2004
EUR	2,729	3,394
SEK	1,199	1,709
Other	18	137
Total	3,946	5,240

Maturity of interest-bearing liabilities

EUR million	2005
2006	828
2007	144
2008	580
2009	41
2010	542
2011 and later	1,811
Total	3,946

Major Credit Lines and debt programs as of 31 December 2005

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	114	-	114
Total committed credit lines	1,314	-	1,314
Debt programs			
Fortum Corporation, CP programme EUR 500 million	500	-	500
Fortum Corporation, CP programme SEK 5 000 million	533	21	512
Fortum Corporation, MTM programme SEK 7 000	746	160	586
Fortum Corporation, EMTN programme EUR 4 000	4,000	2,042	1,958
Total debt programs	5,779	2,223	3,556

Interest Rate Risk

Fortum's debt portfolio consists of loans and bond issues on fixed and floating rate bases and with differing maturity profiles. Fortum manages the duration of the debt portfolio by entering into different types of financing contracts and interest rate derivative contracts such as interest rate swaps and forward rate agreements (FRAs). These instruments are valued at fair market value. For effective fair value and cash flow hedge relationships hedge accounting treatment is applied. For detailed information see table on derivatives.

The Treasury risk policy stipulates that the average duration of the debt portfolio shall always be kept within a range of 12 and 24 months, and that changes in interest rates shall not effect the net interest payments of the Group by more than EUR 40 million for the rolling next 12 month period. Within these mandates, strategies for the optimal structure of the debt portfolio are evaluated and developed in order to achieve the Group's targets.

SEK and EUR are the main currencies effecting Fortum's interest rate risk. On 31 December 2005 the average duration of the debt portfolio (including derivatives) was 1.3 years. (2004: 1.3 years). Approximately 84% (2004: 85%) of the debt portfolio where on a floating rate basis, or will be refinanced during the coming 12 months.

Market risk refers to the effect of one percentage point change in interest rates on the present value of the net interest-bearing debt. The market risk as per 31 December 2005 was EUR 66 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 9 million.

Currency risk

Fortum has cash flows and investments in currencies other than euros. Changes in exchange rates therefore affect Fortum's earnings. The largest exposures are in SEK and NOK which arise largely from assets in Sweden and Norway. Fortum's target for currency risk management is to minimize fluctuations in earnings and cash flow due to changes in currency rates.

Fortum's policy is therefore to hedge all major balance sheet exposures and contracted cash-flows exposures. Investments in foreign subsidiaries are hedged selectively according to the limits in the policy. These exposures are mainly hedged by forward contracts. All foreign currency derivatives are valued at fair market value. For specific effective cash-flow hedges and for all effective net investment hedges Fortum applies hedge account treatment. Group's transaction and translation exposure are disclosed below.

Interest rate and currency derivatives by instrument

	31 December 2005						
	Notional amount Remaining lifetimes				Fair value		
EUR million	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Interest rate swaps	969	1,132	535	2,636	69	58	11
Forward foreign exchange contracts	5,253	44		5,297	88	19	69
Interest rate and currency swaps		1,958	211	2,169	22	19	3
Total	**6,222**	**3,134**	**746**	**10,102**	**179**	**96**	**83**
Of which long-term *)					85	51	34
Short-term					94	45	49

Interest rate and currency derivatives by use

	31 December 2005						
	Notional amount Remaining lifetimes				Fair value		
EUR million	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Fair value hedging interest rate derivatives *)		300	500	800	47		47
Cash flow hedging interest rate derivatives		114		114			0
Non-hedging interest rate derivatives **)	969	718	35	1,722	22	58	-36
Net investment hedging foreign exchange derivatives	395			395	8		8
Cash flow hedging foreign exchange derivatives	222	44		266	10	6	4
Non-hedging foreign exchange derivatives **)	4,636			4,636	70	13	57
Non-hedging interest rate and currency derivatives **)		1,958	211	2,169	22	19	3
Total	**6,222**	**3,134**	**746**	**10,102**	**179**	**96**	**83**

Interest rate and currency derivatives by instrument

	31 December 2004						
	Notional amount Remaining lifetimes				Fair value		
EUR million	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Interest rate swaps	792	1,756	887	3,435	75	120	-45
Forward foreign exchange contracts	8,092	84		8,176	36	68	-32
Interest rate and currency swaps	70	94	146	310	13	36	-23
Purchased currency options	438			438	17		17
Written currency options	438			438	6		6
Total	**9,830**	**1,934**	**1,033**	**12,797**	**147**	**224**	**-77**
Of which long-term *)					74	128	-54
Short-term					73	96	-23

*) Fair values of hedging interest rate swaps have been netted against fair value change of the bonds in the balance sheet.
**) Consist of deals without hedge-accounting status.

Interest rate and currency derivatives by use

	31 December 2004						
	Notional amount Remaining lifetimes				Fair value		
EUR million	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Fair value hedging interest rate derivatives *)			800	800	36		36
Non-hedging interest rate derivatives **)	792	1,756	87	2,635	39	120	-81
Net investment hedging							
foreign exchange derivatives	826			826	0	4	-4
Cash flow hedging foreign exchange derivatives	1,186	84		1,270	34	8	26
Non-hedging foreign exchange derivatives	6,956			6,956	25	56	-31
Non-hedging interest rate and							
currency derivatives **)	70	94	146	310	13	36	-23
Total	**9,830**	**1,934**	**1,033**	**12,797**	**147**	**224**	**-77**

*) Fair values of hedging interest rate swaps have been netted against fair value change of the bonds in the balance sheet.
**) Consist of deals without hedge-accounting status.

Group Treasury's transaction exposure 31 December 2005

EUR million	Net position	Hedge	Open
SEK	4,810	4,811	-1
USD	78	78	0
NOK	359	361	-2
Other	270	264	6
Total	5,517	5,514	3

Group Treasury's translation exposure 31 December 2005

EUR million	Investment	Hedge	Open	Hedge %
SEK	1,447	131	1,316	9
Other	174	65	109	37
Total	1,621	196	1,425	12

Credit Risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. Electricity derivatives are mainly traded and cleared on the Nord-pool electricity exchange and the credit exposure is thereby eliminated. Other financial derivative counterparties and cash transactions are limited to high-credit financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. The maximum credit risk is the carrying amount of the receivables and the financial assets.

35 Subsidiaries by segment as at 31 December 2005

1) Name change
2) Acquired
3) Founded
*) Shares hold by the parent company
x) Dormant

■ = Power Generation
▲ = Heat
● = Distribution
◆ = Markets
▼ = Other Operations

Company Name		Country	Segment	Group holding %
Asunto Oy Imatran Voimakaari		Finland	▼	100
Fortum Assets Oy		Finland	▼	100
Fortum Heat and Gas Oy	*)	Finland	■ ▲ ▼	100
Fortum Lämpö Oy		Finland	▲	100
Fortum Markets Oy	*)	Finland	◆	100
Fortum Nuclear Services Oy		Finland	■	100
Fortum Power and Heat Oy	*)	Finland	■ ▲ ● ◆ ▼	100
Fortum Sähkönsiirto Oy	*)	Finland	●	100
Hexivo Oy		Finland	■	52
Imatran Voima Oy		Finland	●	100
Imatrankosken Voima Oy		Finland	●	100
Jyväskylän Energiantuotanto Oy		Finland	▲	60
Killin Voima Oy		Finland	■	60
Koillis-Pohjan Energiantuotanto Oy		Finland	■	100
Koillis-Pohjan Holding Oy		Finland	◆	100
Koskivo Oy		Finland	●	100
Kotkan Putkityö Oy		Finland	■	100
KPPV-Sijoitus Oy		Finland	●	100
Linnankosken Voima Oy		Finland	●	100
Lounais-Suomen Lämpö Oy		Finland	●	100
Mansikkalan Voima Oy		Finland	●	100
Oy Tersil Ab		Finland	●	100
Oy Tertrade Ab		Finland	●	100
Rajapatsaan Voima Oy		Finland	●	100
Saimaanrannan Voima Oy		Finland	●	100
Tunturituuli Oy		Finland	●	55
Varsinais-Suomen Sähkö Oy		Finland	■	100
Fortum Liegenschaftsverwaltungs GmbH	x)	Austria	●	100
Fortum Energi A/S	x)	Denmark	▼	100
AS Anne Soojus		Estonia	▲	60
AS Fortum Tartu		Estonia	▲	60
AS Tartu Joujaam		Estonia	▲	60
AS Tartu Keskkatlamaja		Estonia	▲	60
Fortum Elekter AS		Estonia	●	99
Fortum Termest AS		Estonia	▲	100
Lauka Turvas OU	2)	Estonia	■	60
Olstens France S.a.r.l.	x)	France	▼	100
Fortum Service Deutschland GmbH		Germany	■	100
Fortum Capital Ltd		Great Britain	▼	100
Fortum Direct Ltd		Great Britain	■	100
Fortum Energy Ltd		Great Britain	■	100

Company Name		Country	Segment	Group holding %
Fortum Gas Ltd		Great Britain	■	100
Fortum Insurance Ltd		Great Britain	▼	100
Fortum O&M(UK) Limited		Great Britain	■	100
Grangemouth CHP Limited		Great Britain	■	100
IVO Energy Limited		Great Britain	■	100
Fortum Investments Ltd		Ireland	▼	100
Kildare Energy Ltd	x)	Ireland	■	55
UAB Fortum Ekosiluma	1)	Lithuania	▲	90
UAB Fortum Heat Lietuva	1)	Lithuania	▲	90
UAB Joniskio energija	2)	Lithuania	▲	59
UAB Svencioniu energija	2)	Lithuania	▲	50
Fortum Project Finance S.A.	*)	Luxemburg	▼	100
Fortum Sendi Prima Sdn Bhd		Malaysia	■	100
Baerum Fjernvarme AS		Norway	▲	100
Fortum Distribution AS		Norway	●	100
Fortum Förvaltning AS		Norway	■	100
Fortum Heat AS		Norway	▲	100
Fortum Heat Sarpsborg AS		Norway	▲	80
Fortum Holding Norway AS		Norway	■	100
Fortum Markets AS		Norway	◆	100
Fortum Service AS		Norway	■	100
Fortum DZT Service Sp.z.o.o		Poland	▲	83
Fortum Czestochowa S.A.		Poland	▲	88
Fortum DZT S.A.		Poland	▲	83
Fortum Heat Polska Sp z.o.o.		Poland	▲	100
Fortum Plock Sp z o.o.	2)	Poland	▲	85
Fortum Wroclaw SA	1), 2)	Poland	▲	57
Nowe Wiadomosci Walbrzyskie S.p.z.o.o		Poland	▲	78
LLC Fortum Energy OOO Fortum Energija	3)	Russia	▼	100
AB Fortum Värme Holding samägt med Stockholms stad		Sweden	▲	50
AB Fortum Värme samägt med Stockholms stad		Sweden	▲	50
AB Ljusnans Samkörning		Sweden	●	80
Akallaverket AB		Sweden	▲	75
Arvika Fjärrvärme AB		Sweden	▲	60
Bergviken Kraft AB	*)	Sweden	■	100
Blybergs Kraft AB		Sweden	■	67
Bromölla Fjärrvärme AB		Sweden	▲	91
Brännälven Kraft AB		Sweden	■	67
Bullerforsens Kraft AB		Sweden	■	88
Cajero AB	1)	Sweden	■	100
Ekerö Energi AB		Sweden	●	82
Ekerö Energi Försäljning AB		Sweden	◆	82
Fortum Alfa AB	2)	Sweden	▼	100
Fortum Beta AB	2)	Sweden	▼	100
Fortum Dalälvens Kraft AB	1)	Sweden	■	100
Fortum Distribution AB		Sweden	●	100
Fortum Distribution Ryssa AB		Sweden	●	100

Company Name		Country	Segment	Group holding %
Fortum Energy Securities AB		Sweden	●	100
Fortum Fastigheter AB		Sweden	▼	100
Fortum Generation AB		Sweden	■	100
Fortum Holding AB	*)	Sweden	▼	100
Fortum Indalskraft AB	1)	Sweden	■	100
Fortum Ljunga Kraft AB	1)	Sweden	■	100
Fortum Ljusnans Kraft AB	1)	Sweden	■	100
Fortum Markets AB		Sweden	◆	100
Fortum Power and Heat AB		Sweden	▼	100
Fortum Service AB		Sweden	■	100
Fortum Service Industripartner AB		Sweden	■	100
Fortum Service Öst AB		Sweden	■	100
Fortum Värme Fastigheter AB		Sweden	▲	50
Fortum Värme Nynäshamn AB		Sweden	▲	100
Fortum Älvkraft i Värmland AB	1)	Sweden	■	100
Hällefors Värme AB		Sweden	▲	95
Ljusnans Fiskodling AB		Sweden	■	100
Mellansvensk Kraftgrupp AB		Sweden	■	87
Netcircle AB		Sweden	■	100
NetCircle Sverige AB	x)	Sweden	■	100
NGI Naturgasinvest AB	x)	Sweden	▲	52
Nybroviken Kraft AB		Sweden	■	53
Oreälvens Kraft AB		Sweden	■	65
Parteboda Kraft AB		Sweden	■	53
Recotech AB		Sweden	■	100
Ryssa Energi AB		Sweden	◆	100
Sigtuna-Väsby Fastighets AB		Sweden	▲	50
Streamgate AB	3)	Sweden	■	100
Svensk Naturgas AB		Sweden	▲	100
Säffle 5:35 Fastighets AB		Sweden	▲	50
Säffle Fjärrvärme AB		Sweden	▲	50
Uddeholm Kraft AB	x)	Sweden	▼	100
Voxnan Kraft AB		Sweden	■	53
Värmlandsenergi AB	**)	Sweden	▼	100
Värmlandskraft OKG-delägarna AB		Sweden	■	73
Fortum Energy Solutions (Thailand) Ltd		Thailand	■	100
FB Generation Services B.V.	1)	The Netherlands	■	75
Fortum East China Energy Investments B.V.		The Netherlands	■	100
Fortum Finance B.V.		The Netherlands	▼	100
Fortum Holding B.V.	*)	The Netherlands	■	100
Fortum Power Finance CV		The Netherlands	▼	100
Fortum Power Holding B.V.		The Netherlands	■	100
Fortum Russia Holding B.V	3)	The Netherlands	▼	100
Fortum Yellow Sea Energy Investments B.V.		The Netherlands	▼	100

Merged and dissolved subsidiaries

Energycon AB
Etelä-Hämeen Kunnossapito Oy
Fortum Distribution Yngeredsfors AB
Fortum Energiantuotanto Oy
Fortum Ltd
Fortum Service Oy
Kiinteistö Oy Helsingin Hietalahdenranta 6
Kiinteistö Oy Lahden Launeenkatu 14
Kopparkraft AB
Neste Exploration (Services) Ltd.

36 Contingencies and commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

EUR million	2005	2004
Property, plant and equipment	80	305
Intangible assets	1	11

Contingent liabilities

EUR million	2005	2004
On own behalf		
For debt		
Pledges	144	160
Real estate mortgages	49	113
For other commitments		
Real estate mortgages	66	59
Other contingent liabilities	94	76
Total	353	408
On behalf of associated companies and joint ventures		
Pledges and real estate mortgages	3	12
Guarantees	208	335
Other contingent liabilities	125	182
Total	336	529
On behalf of others		
Guarantees	2	3
Other contingent liabilities	3	5
Total	5	8
Total contingent liabilities	694	945

Fortum's 100% owned subsidiary Fortum Heat and Gas Oy has a collective contingent liability with Neste Oil Oyj of the demerged Fortum Oil and Gas Oy's liabilities based on the Finnish Companies Act's Chapter 14a Paragraph 6.

Operating leases

Fortum leases office equipment and cars under various non-cancellable operating leases, some of which contain renewal options.

The future costs for non-cancellable operating leasing contracts are:

Present value of minimum lease payments on operating leases

EUR million	2005	2004
Not later than 1 year	17	87
Later than 1 year and not later than 5 years	31	81
Later than 5 years	9	64
Total	57	232

Lease rental expenses amounting to EUR 24 million (EUR 87 million) are included in the income statement in other operating expenses.

37 Auditors' fees

EUR million	2005	2004
Audit fees	1	1
Other fees		
IFRS assignments	-	1
Other assignments	1	1
Total	2	3

38 Legal actions and official proceedings

Fortum's subsidiary Grangemouth CHP Limited is involved in a dispute regarding greenhouse gas emissions allowances. Grangemouth CHP Limited is a party to an Electricity Supply Agreement with Innovene Manufacturing Scotland Limited, pursuant to which Grangemouth CHP Limited provides electricity from its CHP plant to the Grangemouth site in Scotland. Innovene Manufacturing Scotland Limited claims that it is entitled to all of the emissions allowances allocated under the EU scheme for greenhouse gas emission allowance trading with respect to the CHP plant. However, no court proceedings have been initiated. Grangemouth CHP Limited denies these claims.

The Energy Authority (EMI) in Sweden has performed supervision of 2003 year's distribution prices on basis of the Nätnyttomodell. The authority notified 16 companies in June and two companies in December of over debiting. All of these companies have filed a complaint.

Fortum has three grid areas that are affected by the supervision of 2003 distribution prices. A minor subsidiary of Fortum (Ekerö Energi) received a decision of over debiting in 2003 and filed a complaint. Decisions on two other Fortum areas are expected during the first quarter of 2006. Final court decisions on prices in 2003 are expected during the third quarter of 2007, at the earliest.

In November, EMI published information on those companies that will be supervised more closely for their 2004 distribution prices. Based on EMI's decision on supervision, five Fortum areas exceeded the stipulated charge rate limit. However, Fortum believes that the charge rate calculation concerning two of its areas is not in compliance with EMI's own instructions. Fortum has applied for withdrawal of the supervision decision for these two areas. If Fortum will receive a decision of over debiting regarding the other three areas selected for supervision of 2004 distribution prices, Fortum expects to appeal to court.

In addition to the litigations described above, some Group companies are involved in disputes incidental to their business. Management believes that the outcome of such disputes will not have material effect on the Group´s financial position.

39 Events after the balance sheet date

Fortum issued in December 2005 a public tender offer for all currently publicly traded shares in subsidiary MPEC Wroclaw. In the final closing of the public tender on 24 January 2006, Fortum reached over 90% of the share capital of the company.

The Espoo City Council approved in its meeting on 16 January 2006 the agreement, according to which Fortum acquires all the 5,351,859 E.ON Finland Oyj shares held by the City of Espoo, corresponding to 34.2% of the shares and the voting rights of the company. The agreement was signed on 18 January. The agreed purchase price was EUR 68 per share, i.e. approximately EUR 364 million in total. A prerequisite for the transaction to take effect is that the 10,246,565 E.ON Finland shares held by E.ON Nordic have been transferred to Fortum's ownership.

On 2 February 2006, Fortum and E.ON Nordic signed an agreement on the acquisition of E.ON Finland shares held by E.ON Nordic. Fortum will pay around EUR 380 million for this 65.56% stake in the company. As all open issues between E.ON and Fortum will be settled in connection to this transaction, Fortum will pay a compensation of EUR 16 million to E.ON. Fortum intends to redeem the remaining 0.2% of shares currently owned by minority shareholders. The E.ON Finland acquisition is still subject to the approval of competition authorities.

Fortum is participating in the fifth Finnish nuclear power plant with a share of approximately 25%. In January, TVO, the company that is building and owns the plant, informed that the reactor building civil works and the manufacture of certain primary components are delayed as compared to the original schedule. The delays presently exceed six months. However, TVO still believes that the new power plant will produce electricity in 2009.

Fortum's affiliate OKG announced in January that it is going to increase the capacity of the third unit of the Oskarshamn nuclear power plant from the current 1,200 megawatts to 1,450 megawatts. OKG will implement and fund the power increase and renovation investments through its own balance sheet, i.e. the investment will not increase Fortum's capital expenditures. However, Fortum may support OKG's financing through shareholder loans or guarantees. The investment will be mainly realised in 2008. Fortum's share of ownership in the Oskarshamn nuclear power plant entitles the company to a share of over 43% of the production of the power plant, which Fortum buys at cost price. Fortum's share of the power increase of the power plant's third unit is slightly over 100 megawatts.

At the end of January, Fortum agreed to sell its 40.67% ownership in Enprima Ltd to Swedish ÅF Group.

40 Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The company's critical accounting estimates and judgments are described below.

Impairment of property, plant and equipment

The Group has significant carrying values in property, plant and equipment which are tested for impairment according to the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates of future cash-flows.

The Group has not recognised any impairment losses during 2005 based on these calculations. If the revised estimated operating profit before depreciation at 31 December 2006 was 10% lower than management's estimates at 31 December 2005 or pre-tax discount rate applied to the discounted cash flows was 10% higher than management's estimates, the Group would not have recognised impairment against property plant and equipment.

Deferred and income taxes

Fortum has deferred tax assets and liabilities which are expected to be realised through the income statement over the extended periods of time in the future. In calculating the deferred tax items, Fortum is required to make certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets and liabilities as recorded in the financial statements and their tax basis.

Assumptions made include the expectation that future operating performance for subsidiaries will be consistent with historical levels of operating results, recoverability periods for tax loss carry-forwards will not change, undistributed earnings of foreign investments have been permanently invested and that existing tax laws and rates will remain unchanged into foreseeable future. Fortum believes that it has prudent assumptions in developing its deferred tax balances.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Were the actual final outcome (regarding tax audits) to differ negatively from management's estimates with 10%, the Group would need to increase the income tax liability by EUR 1 million.

Liabilities related to nuclear production

The provision for future obligations for nuclear waste management including decommissioning of Fortum´s nuclear power plant and related spent fuel is based on long-term cash-flow forecasts of estimated future costs. The main assumptions are technical plans, timing, costs estimates and discount rate. The technical plans, timing and cost estimates are approved by governmental authorities.

Any changes in the assumed discount rate would affect the provision. If the discount rate used would be lowered the provision would increase. Fortum has contributed cash to the Finnish Nuclear Waste Fund based on a non discounted legal liability, which leads to that the increase in provision would be offset by an increase in the recorded share of Fortum´s part of the Nuclear Waste Fund in the balance sheet. The effect on the income statement would be positive since the decommissioning part of the provision is treated as an assets retirement obligation. This situation will prevail as long as the legal obligation to contribute cash to the Nuclear Waste Fund is based on a non discounted liability and IFRS is limiting the carrying value of the assets to the amount of the provision since Fortum do not have control or joint control over the fund. (See Note 30)

Key Ratios

	2004 IFRS	2005 IFRS
Continuing operations:		
Sales, MEUR	3,835	3,877
EBITDA, MEUR	1,583	1,754
Operating profit, MEUR	1,195	1,347
- of sales %	31.2	34.7
Comparable operating profit, MEUR	1,148	1,334
Profit before income tax, MEUR	962	1,267
- of sales %	25.1	32.7
Profit for the period from continuing operations, MEUR	703	936
- of which attributable to equity holders, MEUR	670	884
Capital employed, MEUR	12,890	11,357
Capital employed continuing operations, MEUR	10,739	11,357
Interest-bearing net debt, MEUR	5,095	3,158
Capital expenditure and investments in shares continuing operations, MEUR	514	479
Capital expenditure continuing operations, MEUR	335	346
Net cash from operating activities continuing operations, MEUR	1,232	1,271
Return on capital employed, %	15.8	16.6
Return on capital employed continuing operations, %	11.4	13.5
Return on shareholders' equity, %	18.2	18.7
Interest coverage	8.0	11.6
Funds from operations/interest-bearing net debt, %	36.4	43.2
Gearing, %	67	43
Net debt / EBITDA	2.1	1.4
Net debt / EBITDA continuing operations	-	1.8
Equity-to-assets ratio, %	44	49
Average number of employees continuing operations	8,592	8,939

	2001 FAS	2002 FAS	2003 FAS	2004 IFRS	2005 IFRS
Total Fortum:					
Sales, MEUR	10,410	11,148	11,392	11,659	5,918
Operating profit, MEUR	914	1,289	1,420	1,916	1,864
- of sales %	8.8	11.6	12.5	16.4	31.5
Profit before income tax, MEUR	702	1,008	1,184	1,700	1,776
- of sales %	6.7	9.0	10.4	14.6	30.0
Capital employed, MEUR	11,032	13,765	12,704	12,890	11,357
Interest-bearing net debt, MEUR	3,674	5,848	5,626	5,095	3,158
Capital expenditure and investments in shares, MEUR	713	4,381	1,136	830	578
- of sales %	6.8	39.3	10.0	7.1	9.8
Return on capital employed, %	8.7	11.1	11.4	15.8	16.6
Return on shareholders' equity, %	8.3	10.5	12.3	18.2	18.7
Gearing, % 1)	54	80	85	67	43
Equity-to-assets ratio, %	48	41	40	44	49
Net cash from operating activities, MEUR	1,145	1,351	1,577	1,758	1,404
Dividends, MEUR 2)	220	262	357	506	[3] 980
Research and development expenditure, MEUR	53	33	35	26	14
- of sales %	0.5	0.3	0.3	0.2	0.2
Average number of employees	14,803	14,053	13,343	12,859	10,026

[1] Gearing is defined as interest-bearing net debt over shareholders' equity plus minority interest. In 2001 and 2002 minority interest included the preference shares amounting to EUR 1.2 billion, carrying fixed income dividend of 6.7 percent, issued by Fortum Capital Ltd.

[2] In addition to cash dividend Fortum distributed approximately 85% of Neste Oil Corporation shares as dividend in 2005.

[3] Board of Directors proposal for the Annual General Meeting in March 2006. The total amount is calculated based on the number of registered shares as of 31 December 2005.

Years 2001–2003 have not been restated to comply with IFRS. They are presented under Finnish Accounting Standards (FAS).

	2001 FAS	2002 FAS	2003 FAS	2004 IFRS	2005 IFRS
Earnings per share total Fortum, EUR	0.57	0.79	0.91	1.48	1.55
Earnings per share continuing operations, EUR				0.79	1.01
Earnings per share discontinued operations, EUR				0.69	0.54
Diluted earnings per share total Fortum, EUR	0.57	0.78	0.90	1.46	1.53
Diluted earnings per share continuing operations, EUR				0.78	1.00
Diluted earnings per share discontinued operations, EUR				0.68	0.53
Cash flow per share total Fortum, EUR	1.43	1.60	1.86	2.06	1.61
Cash flow per share continuing operations, EUR				1.44	1.46
Equity per share, EUR	6.49	6.97	7.55	8.65	8.17
Dividend per share total Fortum, EUR 1)	0.26	0.31	0.42	0.58	[2] 1.12
Dividend per share continuing operations, EUR					[2] 0.58
Dividend per share discontinued operations, EUR					[2] 0.54
Payout ratio total Fortum, %	45.6	39.2	46.2	39.2	[2] 72.3
Payout ratio continuing operations, %					[2] 57.4
Dividend yield, %	5.5	5.0	5.1	4.3	[2] 7.1
Price/earnings ratio Fortum (P/E)	8.3	7.9	9.0	9.2	10.2
Share prices					
At the end of the period, EUR	4.75	6.25	8.18	13.62	15.84
Average share price, EUR	4.79	5.87	6.94	10.29	13.87
Lowest share price, EUR	4.05	4.75	5.66	7.45	10.45
Highest share price, EUR	5.70	6.52	8.75	13.99	16.90
Market capitalisation at the end of the period, MEUR	4,017	5,286	6,943	11,810	13,865
Trading volumes					
Number of shares, 1 000 shares	134,499	251,216	270,278	478,832	900,347
In relation to the weighted average number of shares, %	16.8	29.7	31.9	59.2	103.2
Number of shares, 1 000 shares	845,609	845,776	849,813	867,084	875,294
Average number of shares, 1000 shares	798,346	845,642	846,831	852,625	872,613
Diluted adjusted average number of shares, 1 000 shares	798,308	851,482	858,732	861,772	887,653

[1] In addition to cash dividend Fortum distributed approximately 85% of Neste Oil Corporation shares as dividend in 2005

[2] Board of Directors proposal for the Annual General Meeting in March 2006.

Years 2001-2003 have not been restated to comply with IFRS. They are presented under Finnish Accounting Standards (FAS).

Definitions of key ratios

Comparable operating profit	=		Operating profit - non-recurring items - other items effecting comparability
Non-recurring items	=		Mainly capital gains and losses
Other items effecting comparability	=		Includes effects from financial derivatives hedging future cash-flows where hedge accounting is not applied according to IAS 39 and effects from the accounting of Fortum´s part of the Finnish Nuclear Waste Fund where the asset in the balance sheet cannot exceed the related liabilities according to IFRIC interpretation 5.
Return on shareholders' equity, %	=	100 x	Profit for the year / Total equity average
Return on capital employed, %	=	100 x	Profit before taxes + interest and other financial expenses / Capital employed average
Return on capital employed continuing operations, %	=	100 x	Profit before taxes continuing operations + interest and other financial expenses continuing operations / Capital employed continuing operations average
Return on net assets, %	=	100 x	Operating profit + Share of profit (loss) in associated companies and joint ventures / Net assets average
Comparable return on net assets, %	=	100 x	Comparable operating profit + Share of profit (loss) in associated companies and joint ventures (adjusted for IAS 39 effects) / Comparable net assets average
Capital employed	=		Total assets - non-interest bearing liabilities - deferred tax liabilities - provisions
Net assets	=		Non-interest bearing assets + interest-bearing assets related to the Nuclear Waste Fund - non-interest bearing liabilities - provisions (non-interest bearing assets and liabilities do not include finance related items, tax and deferred tax and assets and liabilities from fair valuations of derivatives where hedge accounting is applied)
Comparable net assets	=		Net assets adjusted for non-interest bearing assets and liabilities arising from financial derivatives hedging future cash-flows where hedge accounting is not applied according to IAS 39
Interest-bearing net debt	=		Interest-bearing liabilities - cash and cash equivalents
Gearing, %	=	100 x	Interest-bearing net debt / Total equity
Equity-to-assets ratio, %	=	100 x	Total equity including minority interest / Total assets

Net debt / EBITDA	=	$\frac{\text{Operating profit + Depreciation, amortisation and impairment charges}}{\text{Interest-bearing net debt}}$
Net debt / EBITDA continuing operations	=	$\frac{\text{Operating profit continuing operations + Depreciation, amortisation and impairment charges continuing operations}}{\text{Interest-bearing net debt}}$
Interest coverage	=	$\frac{\text{Operating profit}}{\text{Net interest expenses}}$
Earnings per share (EPS)	=	$\frac{\text{Profit for the period - minority interest}}{\text{Average number of shares during the period}}$
Cash flow per share	=	$\frac{\text{Net cash from operating activities}}{\text{Average number of shares during the period}}$
Equity per share	=	$\frac{\text{Shareholder's equity}}{\text{Number of shares at the end of the period}}$
Payout ratio, %	=	$100 \times \frac{\text{Dividend per share}}{\text{Earnings per share}}$
Payout ratio continuing operations, %	=	$100 \times \frac{\text{Dividend per share continuing operation}}{\text{Earnings per share continuing operation}}$
Dividend yield, %	=	$100 \times \frac{\text{Dividend per share}}{\text{Share price at the end of the period}}$
Price/earnings (P/E) ratio	=	$\frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$
Average share price	=	$\frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$
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 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	2005	2004
Sales	2	73	86
Other income	3	420	8
Employee costs	4	-33	-48
Depreciation, amortisation and write-downs		-9	-9
Other expenses		-85	-77
Operating profit		366	-40
Financial income and expenses	5	873	1,238
Profit before extraordinary items		**1,239**	**1,198**
Extraordinary items	6	482	838
Profit before income taxes		**1,721**	**2,036**
Income tax expense	7	-157	-588
Net profit for the period		1,564	1,448

Balance Sheet

EUR million	Note	2005	2004
ASSETS			
Non-current assets	8		
Intangible assets		10	14
Tangible assets		11	10
Investment in group companies		5,166	6,093
Interest-bearing receivables from group companies		7,803	10,180
Investments in associated companies		5	5
Interest-bearing receivables from associated companies		14	13
Other non-current asset		1	3
Total non-current assets		13,010	16,318
Current assets			
Trade and other receivables from group companies	9	519	887
Trade and other receivables from associated companies	9	4	4
Trade and other receivables	9	112	13
Deferred tax assets		2	1
Cash and cash equivalents	10	643	22
Total current assets		1,280	927
Total assets		14,290	17,245

EUR million	Note	2005	2004
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	12		
Share capital		2,976	2,948
Share issue		2	13
Share premium		2,818	2,810
Retained earnings		997	1,024
Net profit for the period		1,564	1,448
		8,357	8,243
Provisions for liabilities and charges		-	1
Liabilities			
Non-current liabilities			
External interest-bearing liabilities	13	2,280	3,192
Interest-bearing liabilities to group companies	13	2,445	4,610
Interest-bearing liabilities to associated companies	13	157	152
Other non-current liabilities	13	43	66
Total non-current liabilities		**4,925**	**8,020**
Current liabilities			
External interest-bearing liabilities	13	736	648
Trade and other payables to group companies	14	178	225
Trade and other payables to associated companies	14	3	3
Trade and other payables	14	91	105
Total current liabilities		1,008	981
Total liabilities		5,933	9,001
Total equity and liabilities		14,290	17,245

Cash flow statement

EUR million	2005	2004
Cash flow from operating activities		
Net profit for the period	1,564	1,448
Adjustments:		
Income tax expense	157	588
Extraordinary items	-482	-838
Financial costs - net	-873	-1,238
Depreciations, amortisation and write-downs	9	9
Operating profit before depreciations	375	-31
Non-cash flow items and divesting activities	414	1
Interest and other financial income	308	318
Interest and other financial expenses paid, net	-243	-310
Dividend income	726	862
Group contribution received	443	1098
Realised foreign exchange gains and losses	104	72
Income taxes paid	-134	-252
Funds from operations	1,993	1,758
Decrease in trade and other short-term receivables	5	-
Increase/decrease in trade and other short-term payables	1	-1
Change in working capital	6	-1
Net cash from operating activities	**1,999**	**1,757**
Cash flow from investing activities		
Capital expenditures	-12	-15
Acquisition of shares in subsidiaries, net of cash	-213	-343
Acquisitions of shares in associated companies	-	-1
Proceeds from sales of tangible assets	6	4
Proceeds from sales of shares in subsidaries, net of cash	171	-
Proceeds from sales of other shares	-	1
Change in interest-bearing receivables and other non-current assets	-	-515
Net cash used in investing activities	-48	-869
Cash flow before financing activities	1,951	888
Cash flow from financing activities		
Proceeds from long-term liabilities	28	323
Payment of long-term liabilities	-481	-454
Change in short-term liabilities	-393	-713
Stock options exercised	22	95
Dividends paid	-506	-357
Net cash used in financing activities	-1,330	-1,106
Net increase (+)/decrease (-) in cash and cash equivalents	621	-218
Cash and cash equivalents at the beginning of the period	22	240
Cash and cash equivalents at the end of the period	643	22
Net increase (+)/ decrease (-) in cash and cash equivalents	**621**	**-218**

Parent Company notes to the financial statements

1 Accounting policies

The financial statements of Fortum Oyj are prepared in accordance with Finnish Accounting Standards (FAS).

Sales

Sales include sales revenues from actual operations and exchange rate differences on trade receivables, less discounts and indirect taxes such as value added tax.

Other income

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

Foreign currency items and derivative instruments

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 financial net in the income statement.

Fortum Oyj enters into derivative contracts mainly for hedging foreign exchange and interest rate exposures.

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. The interest element on forward contracts is accrued for the period.

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 expense of the liabilities.

Extraordinary items

Group contributions paid and received are reported in extraordinary items.

Income taxes

Income taxes presented in the income statement consist of accrued taxes for the financial year and tax adjustments for prior years.

Tangible assets and depreciation

The balance sheet value of tangible assets consists of historical costs less depreciation and other deductions. Tangible assets are depreciated using straight-line depreciation based on the expected useful life of the asset.

The depreciation is based on the following expected useful lives:

Buildings and structures	15–40 years
Machinery and equipment	3–15 years
Other intangible fixed assets	5–10 years

Pension expenses

Statutory pension obligations 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.

Equity and equity-related 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.

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.

2 Sales by market area

EUR million	2005	2004
Finland	66	82
Sweden	7	4
Total	73	86

3 Other income

EUR million	2005	2004
Gains on the sales of shareholdings	414	1
Rental income	6	7
Total	420	8

4 Employee costs

EUR million	2005	2004
Personnel expenses		
Wages, salaries and remunerations	31	35
Indirect employee costs		
Pension costs*	-3	8
Other indirect employee costs	3	3
Other personnel expenses	2	2
Total	33	48

*During the period the pension liabilities that were funded through Neste Pension Fund were transferred to insurance companies which resulted in a positive effect in pension costs 2005.

Salaries and remunerations		
President and CEO and members of the Board of Directors	1	2
Average number of employees	576	717

5 Financial income and expenses

EUR million	2005	2004
Income from group companies	733	1,214
Income from associated companies	-	1
Other interest and financial income from Group companies	282	293
Other interest and financial income	19	9
Exchange rate differences	39	-9
Write-downs on other long-term investments	2	-4
Interest and other financial expenses to Group companies	-96	-96
Interest and other financial expenses	-106	-170
Total	873	1,238
Total interest income and expenses		
Interest income	301	296
Interest expenses	-207	-257
Net interest income	94	39

6 Extraordinary items

EUR million	2005	2004
Group contributions from group companies	482	838

7 Income tax expense

EUR million	2005	2004
Taxes on regular business operations	37	378
Taxes on extraordinary items	120	210
Total	157	588
Current taxes from the period	157	591
Current taxes from prior periods	1	-2
Changes in deferred tax	-1	-1
Total	157	588

8 Non-current assets

Intangible assets

EUR million	Intangible assets total
Cost 1 Jan 2005	21
Additions	3
Disposals	-4
Cost at 31 Dec 2005	20
Accumulated depreciation 1 Jan 2005	7
Disposals	-2
Depreciation for the period	5
Accumulated depreciation 31 Dec 2005	10
Carrying amount 31 Dec 2005	10
Carrying amount 31 Dec 2004	14

Tangible assets

EUR million	Buildings and structures	Machinery and equipment	Advances paid and construction in progres	Total
Cost 1 Jan 2005	1	19	-	20
Additions	-	5	4	9
Disposals	-	-7	-1	-8
Cost 31 Dec 2005	1	17	3	21
Accumulated depreciation 1 Jan 2005	-	10	-	10
Disposals		-4		-4
Depreciation for the period	-	4	-	4
Accumulated depreciation 31 Dec 2005	-	10	-	10
Carrying amount 31 Dec 2005	1	7	3	11
Carrying amount 31 Dec 2004	1	9	-	10

Investments

EUR milllion	Shares in Group companies	Receivables from Group companies	Shares in associated companies	Receivables from associated companies	Other non current assets	Total
At 1 Jan 2005	6,093	10,180	5	13	1	16,292
Additions	213	4,426	-	1	-	4,640
Disposals	-1,140	-6,803	-	-	-	-7,943
At 31 Dec 2005	5,166	7,803	5	14	1	12,989
Carrying amount 31 Dec 2005	5,166	7,803	5	14	1	12,989
Carrying amount 31 Dec 2004	6,093	10,180	5	13	1	16,292

9 Trade and other receivables

EUR million	2005	2004
Trade and other receivables from group companies		
Trade receivables	10	13
Other receivables	491	840
Accrued income and prepaid expenses	18	34
Total	**519**	**887**
Trade and other receivables from associated companies		
Accrued income and prepaid expenses	4	4
Trade and other receivables		
Trade receivables	1	-
Other receivables	1	-
Accrued income and prepaid expenses	110	13
Total	112	13

10 Cash and cash equivalents

EUR million	2005	2004
Cash at bank and in hand	496	22
Commercial papers	147	-
Total	643	22

11 Pension commitments to corporate management

The executive directors of Fortum Corporation are eligible for retirement at the age of 60. The pension obligations are covered either through insurance companies or pension fund.

12 Changes in shareholders' equity

EUR million	Share capital	Share issue	Share premium	Retained earnings	Total
Balance at 31 December 2004	2,948	13	2,810	2,472	8,243
Stock options excercised	28	-11	8	-	25
Cash dividend	-	-	-	-506	-506
Share dividend	-	-	-	-969	-969
Net profit for the period	-	-	-	1,564	1,564
Balance 31 December 2005	2,976	2	2818	2,561	8,357
Balance 31 December 2003	2,886	5	2,784	1,381	7,056
Stock options excercised	62	8	26	-	96
Cash dividend	-	-	-	-357	-357
Net profit for the period	-	-	-	1,448	1,448
Balance 31 December 2004	2,948	13	2,810	2,472	8,243

EUR million	2005	2004
Distributable funds 31 December	2,561	2,472

13 Interest-bearing liabilities

EUR million	2005	2004
External interest-bearing liabilities		
Bonds	1,547	2,212
Loans from financial institutions	97	356
Other long-term interest-bearing debt	636	624
Total long-term interest-bearing debt	2,280	3192
Current portion of long-term bonds	660	250
Current portion of loans from financial institutions	54	55
Commercial papers	21	343
Other short-term interest-bearing debt	1	-
Total short-term interest-bearing debt	736	648
Total external interest-bearing debt	3016	3840
Maturity of external interest-bearing liabilities		
Year		
2006	735	
2007	11	
2008	541	
2009	0	
2010	499	
2011 and later	1,230	
Total	3,016	
External interest-bearing liabilities due after five years		
Bonds	498	996
Loan from financial institutions	95	97
Other long-term liabilities	637	5,170
Total	1,230	6,263
Other interest-bearing liabilities due after five years		
Interest-bearing liabilities to group companies	14	15
Interest-bearing liabilities to associated companies	157	152
Total	171	167

14 Trade and other payables

EUR million	2005	2004
Trade and other payables to group companies		
Trade payables	1	1
Other liabilities	170	212
Accruals and deferred income	7	12
Total	**178**	**225**
Trade and other payables to associated companies		
Accruals and deferred income	3	3
Total	3	3
Trade and other payables		
Trade payables	9	7
Interests	1	2
Other short-term accruals and deferred income	81	96
Total	91	105

15 Contingent liabilities

EUR million	2005	2004
Undertakings on behalf of Group companies		
Guarantees	493	455
Undertakings on behalf of associated companies		
Guarantees	13	98
Other contingent liabilities	4	5
Total	17	103
Contingent liabilities total	510	558

Derivatives

EUR million	2005			2004		
	Contract or notional value	Fair value	Not recog nised as an income	Contract or notional value	Fair value	Not recog nised as an income
Interest rate swaps	914	47	43	957	39	37
Forward foreign exchange contracts [1), 2)]	11,045	101	-4	11,460	-26	-
Currency swaps	1,926	-2	-1	-	-	-
Purchased currency options	-	-	-	877	10	-
Written currency options	-	-	-	877	-10	-

1) Includes also closed forward and future positions
2) Includes net investment against shareholders equity in foreign group companies

Proposal for the distribution of earnings

The Group's distributable equity as of 31 December 2005 amounted to EUR 3,776 million. Parent company's distributable equity as of 31 December 2005 amounted to EUR 2,561 million.

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a cash dividend of EUR 1.12 per share for 2005, totalling EUR 980 million based on the number of shares registered as of 31 December 2005. Of this dividend, EUR 0.58 per share is attributable to the profit from the continuing operations in 2005, and EUR 0.54 per share to the profit from discontinued operations.

Espoo, 2 February 2006

Peter Fagernäs

Birgitta Kantola

Birgitta Johansson-Hedberg

Lasse Kurkilahti

Matti Lehti

Marianne Lie

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 administration of Fortum Corporation for the period 1 January – 31 December 2005. The Board of Directors and the Managing Director have prepared the report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that include the parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements and on the administration.

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 administration is to examine that the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies' Act.

Consolidated financial statements

In our opinion the consolidated financial statements give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company's financial statements and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The financial statements can be adopted and the members of 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.

Helsinki 2 February 2006

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Tuomala
Authorised Public Accountant

Statement by the supervisory board

The Supervisory Board has today in their meeting reviewed Fortum Corporation's income statement, balance sheet and notes to the financial statements for the year 2005 as well as consolidated financial statements, the Board of Director's proposal for the distribution of earnings and the review by the Board of Directors', 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 states that its instructions have been followed and that it has received adequate information from the Board of Directors and the company's management.

Espoo, 8 February 2006

Timo Kalli

Jouni Backman Martti Alakoski Lasse Hautala

Rakel Hiltunen Jorma Huuhtanen Mikko Immonen

Kimmo Kalela Kimmo Kiljunen Jari Koskinen

Oras Tynkkynen Ben Zyskowicz

Equity analysts covering Fortum in 2005

ABG Sundal Collier, Oslo
Alfred Berg Finland Oy, Helsinki
Carnegie Investment Bank AB, Finland Branch, Helsinki
Citigroup Smith Barney, London
Crédit Agricole Indosuez Cheuvreux Nordic AB, Stockholm
Danske Equities, Copenhagen
Deutsche Bank AG, Helsinki Branch, Helsinki
Dresdner Kleinwort Wasserstein Securities, London
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Evli Bank Plc, Helsinki
EQ Bank Ltd., Helsinki
FIM Securities Ltd, Helsinki
Handelsbanken Securities, Helsinki
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Mandatum Stockbrokers Ltd, Helsinki
Merrill Lynch, London
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Opstock Investment Banking, Helsinki
Raymond James Euro Equities, Paris
Societe Generale, London
Standard & Poor's Equity Research, London
Valuatum, Helsinki
E. Öhman J:or Fondkomission AB, Finland Branch, Helsinki

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

Domicile Espoo, VAT NO FI1463611-4