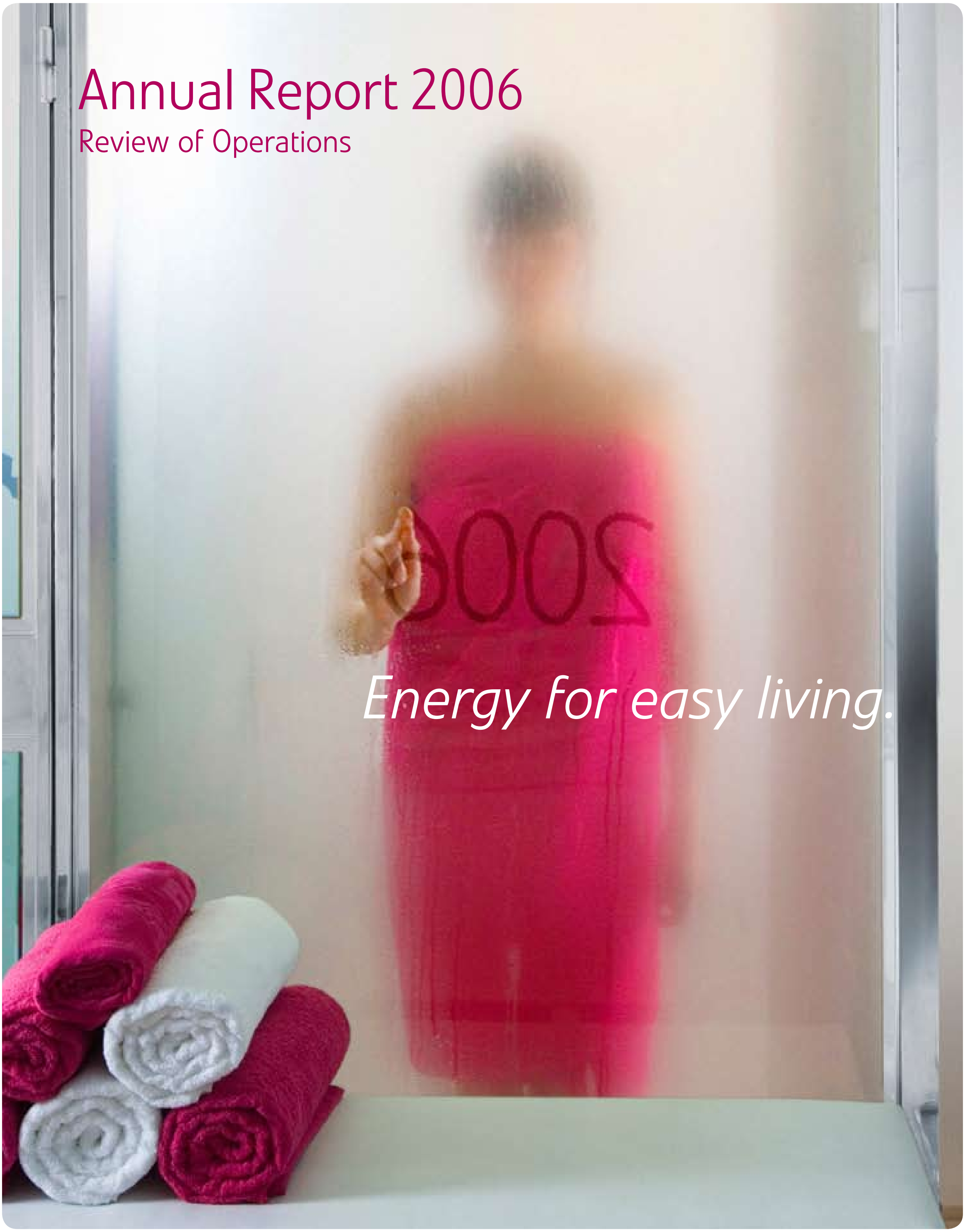
# Annual Report 2006

## Review of Operations




Fortum

Fortum Corporation Annual Report 2006 – Review of Operations



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 as well as the operation and maintenance of power plants. We make sure that sustainable energy services are available today and tomorrow.

In 2006, Fortum's sales totalled EUR 4.5 billion and operating profit was EUR 1.4 billion. The company employs approximately 8,100 people. Fortum's shares are quoted on the Helsinki Stock Exchange.

Fortum's Annual Report 2006 consists of two separate volumes: The Review of Operations and the Financials.
Sustainable development is reported in the Review of Operations.

# Fortum

## *Continued growth*

We will continue to seek growth in all feasible ways in our market areas.

## *Performance excellence*

Our success in 2006 was a result of favourable hedging, successful portfolio management and operational efficiency.

## *Mitigating climate change*

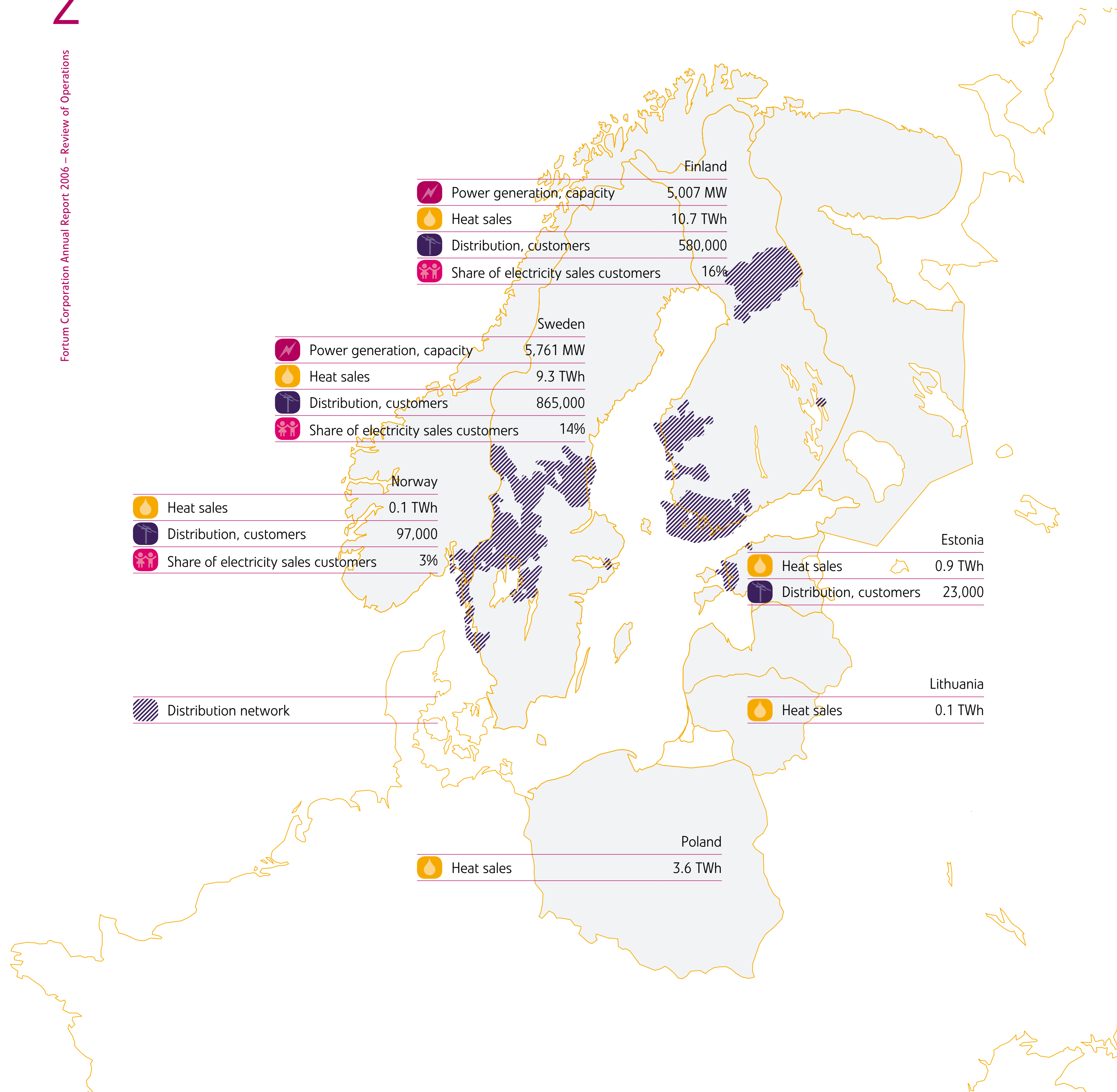
We invest in new $CO_2$-free power production and strive to keep our greenhouse gas emissions among the industry's lowest in Europe.

## *Encouraging individual initiative*

Our company culture provides growth opportunities for motivated people.

# Fortum in brief

Fortum's competitiveness is 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.



| Finland | |
|---|---|
| Power generation, capacity | 5,007 MW |
| Heat sales | 10.7 TWh |
| Distribution, customers | 580,000 |
| Share of electricity sales customers | 16% |

| Sweden | |
|---|---|
| Power generation, capacity | 5,761 MW |
| Heat sales | 9.3 TWh |
| Distribution, customers | 865,000 |
| Share of electricity sales customers | 14% |

| Norway | |
|---|---|
| Heat sales | 0.1 TWh |
| Distribution, customers | 97,000 |
| Share of electricity sales customers | 3% |

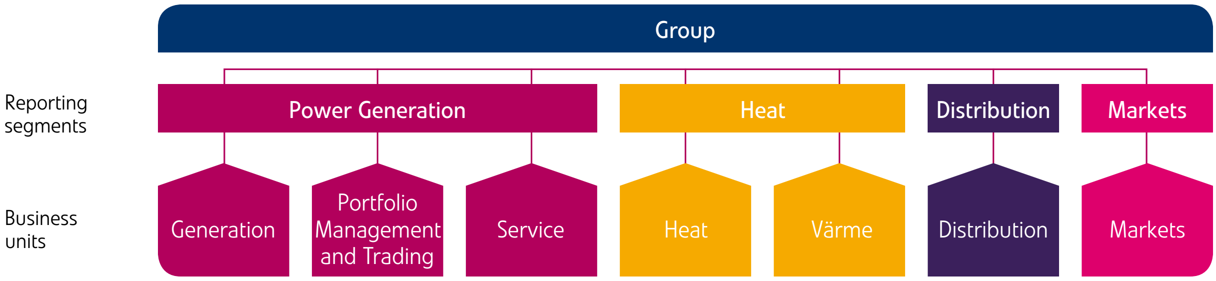
| Estonia | |
|---|---|
| Heat sales | 0.9 TWh |
| Distribution, customers | 23,000 |

| Lithuania | |
|---|---|
| Heat sales | 0.1 TWh |

| Poland | |
|---|---|
| Heat sales | 3.6 TWh |

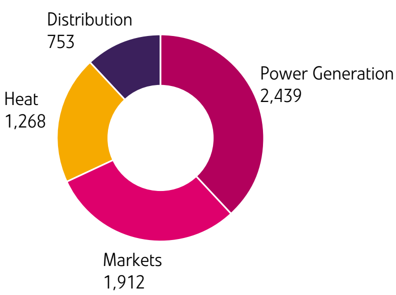
Distribution network

# Group structure

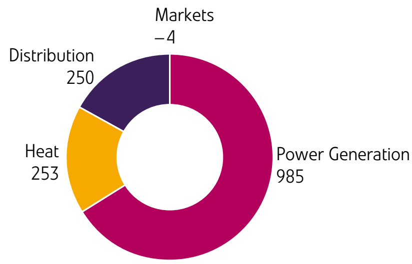



| Business | Power Generation | | | Heat | | Distribution | Markets |
|---|---|---|---|---|---|---|---|
| Sales | EUR 2,439 million | | | EUR 1,268 million | | EUR 753 million | EUR 1,912 million |
| Comparable operating profit | EUR 985 million (66%) | | | EUR 253 million (17%) | | EUR 250 million (17%) | EUR –4 million (–0%) |
| Business units | **Generation** | **Portfolio Management and Trading** | **Service** | **Heat** | **Värme** | **Distribution** | **Markets** |
| | Leading power plant efficiency<br><br>14% Nordic market share | Optimal operation of power plants<br>Sale of electricity and financial operations at Nord Pool | Superior operation and maintenance services | Market leader in Finland<br><br>Growth platform in the Baltics and Poland | Market leader in Sweden<br><br>City of Stockholm has a 50% economic interest | Improving 99.9% network reliability<br><br>1.6 million customers | Biggest Nordic seller of eco-labelled electricity<br><br>1.3 million customers |
| Nordic market position | #2 Power Generation | | | #1 Heat | | #1 Distribution | #1 Electricity sales |

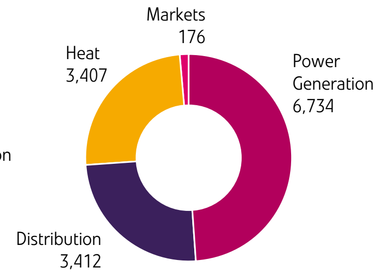
**Sales,** EUR million




**Comparable operating profit,** EUR million




**Net assets,** EUR million



# Financial summary

## In 2006, Fortum's sales increased, operating results improved and the financial position remained strong. The group's key financial targets, ROCE 12% and ROE 14%, were exceeded.

### Financial summary, continuing operations

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sales, MEUR | 4,491 | 3,877 | 3,835 |
| EBITDA, MEUR | 1,884 | 1,754 | 1,583 |
| Operating profit, MEUR | 1,455 | 1,347 | 1,195 |
| Comparable operating profit, MEUR | 1,437 | 1,334 | 1,148 |
| Profit for the period attributable to equity holders, MEUR | 1,071 | 884 | 670 |
| | | | |
| Capital employed, MEUR | 12,663 | 11,357 | 10,739 |
| Interest-bearing net debt, MEUR | 4,345 | 3,158 | 5,095 |
| Net debt/EBITDA | 2.3 | 1.8 | N/A |
| Return on capital employed, % | 13.4 | 13.5 | 11.4 |
| Return on shareholders' equity, % | 14.4 | 13.5 | N/A |
| Capital expenditure and gross investments in shares, MEUR | 1,395 | 479 | 514 |
| Net cash from operating activities, MEUR | 1,151 | 1,271 | 1,232 |

### Key figures by segment, continuing operations

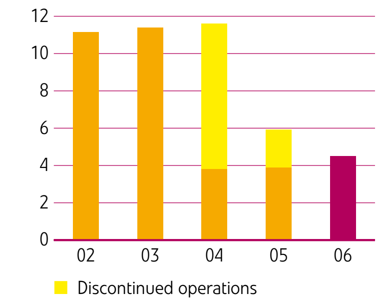
| | Sales | | | Comparable operating profit | | | Comparable RONA% | | |
|---|---|---|---|---|---|---|---|---|---|
| EUR million | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| Power Generation | 2,439 | 2,058 | 2,084 | 985 | 854 | 730 | 16.1 | 14.5 | 11.5 |
| Heat | 1,268 | 1,063 | 1,025 | 253 | 253 | 207 | 9.2 | 11.0 | 9.3 |
| Distribution | 753 | 707 | 707 | 250 | 244 | 240 | 8.3 | 8.6 | 8.3 |
| Markets | 1,912 | 1,365 | 1,387 | –4 | 30 | 23 | –0.8 | 16.4 | 17.1 |
| Other | 78 | 91 | 90 | –47 | –47 | –52 | | | |
| Eliminations | –1,959 | –1,407 | –1,458 | – | – | – | | | |
| **Total** | 4,491 | 3,877 | 3,835 | 1,437 | 1,334 | 1,148 | | | |

### Key ratios per share

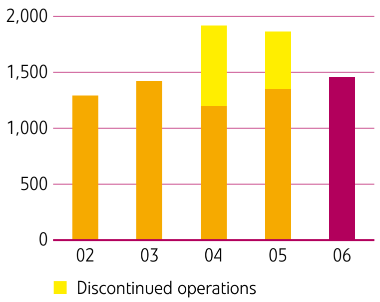
| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Earnings per share, total Fortum, EUR | 1.22 | 1.55 | 1.48 |
| Earnings per share, continuing operations, EUR | 1.22 | 1.01 | 0.79 |
| Earnings per share, discontinued operations, EUR | – | 0.54 | 0.69 |
| | | | |
| Dividend per share total Fortum, EUR | 1.26 [2)] | 1.12 [1)] | 0.58 |
| Dividend per share continuing operations, EUR | 0.73 [2) 3)] | 0.58 | N/A |
| Dividend per share additional in 2006 / discontinued operations in 2005, EUR | 0.53 [2)] | 0.54 | N/A |
| | | | |
| Payout ratio total Fortum, % | 103.3 [2) 5)] | 72.3 | 39.2 |
| Payout ratio continuing operations, % | 59.8 [2) 5)] | 57.4 [4)] | N/A |
| Payout ratio additional dividend in 2006 / discontinued operations in 2005, % | 43.4 [2) 5)] | 100.0 [4)] | N/A |

[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 2007.
[3)] In accordance with Group's dividend policy.
[4)] 2005 payout ratio for continuing and discontinued operations are calculated based on the respective earnings per share from continuing and discontinued operations.
[5)] Payout ratios for proposed dividends in 2006 are based on the total earnings per share.

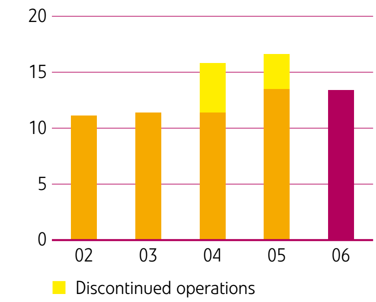
**Sales,** EUR billion



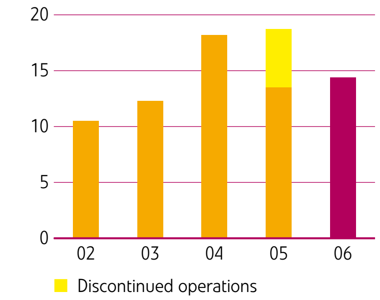

**Operating profit,** EUR million



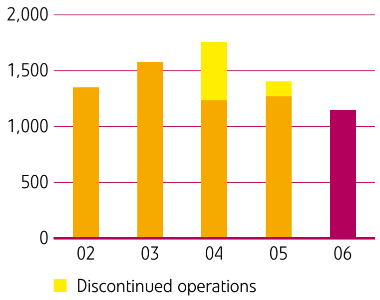

**Return on capital employed,** %



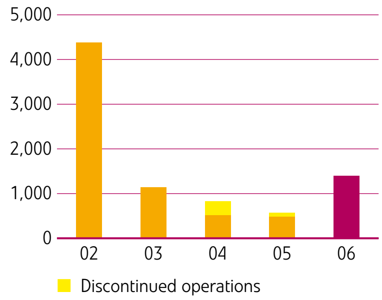

**Return on shareholders' equity,** %



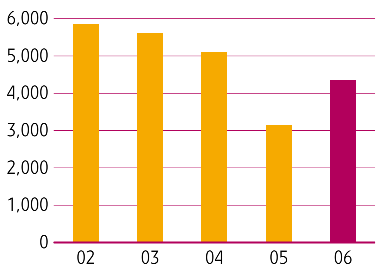

**Net cash from operating activities,** EUR million



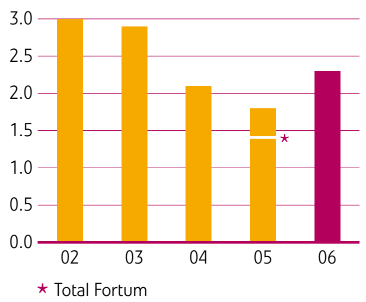

**Capital expenditure and gross investments in shares,** EUR million



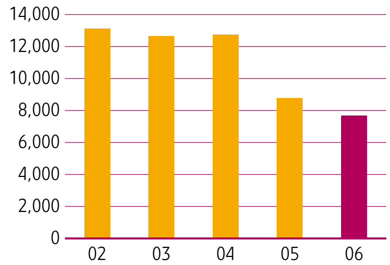

**Interest-bearing net debt,** EUR million



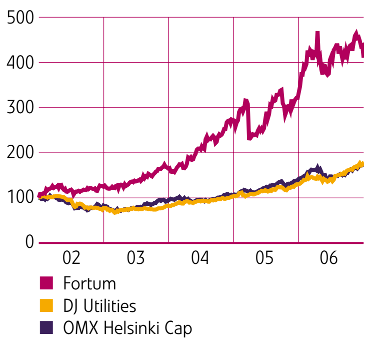

**Net debt / EBITDA**



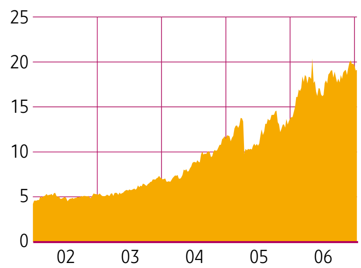

**Number of permanent employees**




**Share quotations,** index




**Market capitalisation,** EUR 1,000 million




2004, 2005 and 2006 under IFRS.
Years 2002–2003 presented according to Finnish Accounting Standards (FAS).

# President and CEO's Review



## Yet another good year in a challenging environment.

Last year was yet again successful for Fortum; all key indicators show substantial improvement.

Over the year, we successfully followed our growth strategy in the chosen market areas. In Finland, we closed the E.ON Finland (now Fortum Espoo) acquisition. Consequently, our Finnish electricity and district heating customer base grew substantially. We also continued to grow in the Baltic Rim area by acquiring a district heating company in Poland, a minority share in a district heating company in Lithuania as well as heat operations in Estonia and Latvia. Our presence was further strengthened in Russia as our ownership in the Territorial Generating Company No.1 (TGC-1) increased to over 25%. We are now the second-largest owner of TGC-1, which has generation assets of nearly 6,000 MW, i.e. half of Fortum's. Furthermore, TGC-1 plans to increase its production by 50% by 2015.

Another strong foothold in the St. Petersburg area is our 33% share in the district heat and electricity distribution company Lenenergo. Fortum continued to be well perceived as the only foreign strategic investor in the Russian power sector.

During most of 2006, the Nordic electricity prices were historically high. This was due to a significant deficit in the Nordic water reservoirs, volatility in the EU emission allowance prices and unplanned shutdowns in several Swedish nuclear power plants. Again, Fortum proved the importance of a versatile production portfolio as we were able to offset the lost nuclear capacity and deficit in hydro power with other types of generation.

### Need for assertive energy policies

Policy making in the energy sector is a demanding undertaking, because of the need to balance the goals of competitiveness, sustainability and security of supply. Furthermore, as the electricity markets are converging, the effects of national policies spill over the country borders. Consequently, even if energy policy is primarily a competence of the member states, it is quite necessary for national governments to take the overall European development into consideration when defining the national way forward. 2006 saw examples where this did not occur. Instead, we have witnessed a development dominated by short-term national interests. In the Nordic area this has lead to a stagnation of the further development of the region's common electricity market.

For energy companies in Central Europe and the Nordic countries alike, this environment has been politically challenging. The discussion around the Nordic electricity market continued throughout the year in Finland and Sweden, and several assessments of market functioning were executed in both countries.

Several studies have shown that the Nordic wholesale power market functions rather well. However further development is needed, e.g. in reducing bottlenecks between the grid areas and improving the co-operation between the Nordic Transmission System Operators. These measures targeting an even better functioning market were agreed among the Nordic energy ministers already in 2004, and their execution should be accelerated.

Another politically agreed goal, also strongly supported by Fortum, is a common Nordic retail market. Fortum will continue to promote equal treatment of different market actors as well as harmonised national rules and practices that are necessary to create a single Nordic electricity end-user market.

Whether the question is about the consumer or wholesale markets, decisions about the future must be done in light of a common Nordic power market and integrating European market.

The security of supply issue has been widely and repeatedly commented in the public discussion. The energy industry is alleged to be unwilling to invest in new capacity. This is surprising in light of the facts of the matter. During recent years, the electricity sector has by far been the biggest investor of all industry sectors in both Sweden and Finland, and recent studies indicate that the trend will continue.

Furthermore, ensuring the future supply of electricity is one of Fortum's key growth opportunities. In the Nordic countries, the overcapacities inherited from the era of national electricity markets are gradually turning to a tighter demand/supply balance. In the coming years, there is a significant need for new capacity in the Nordic market. The industry has already committed to nearly 40 TWh of new power generation by 2020. Fortum alone has an investment programme of 2.8 billion euros, increasing our Nordic power generation by 1,500 MW, i.e. 10 TWh, of which 90% is non-emitting, in the next 5–6 years. Further opportunities are continuously investigated.

From the industry's point of view, the investment issue is highly political. Which production forms are acceptable and how can the licencing procedures become shorter and more predictable? When given the opportunity, Fortum is ready to extend its investment programme on a large scale.

## Active work to mitigate climate change

Fortum welcomes the active discussion around climate change. The report on the economic impacts of climate change by Sir Nicholas Stern and the IEA world energy outlook to 2030 at the end of 2006, as well as the report by the Intergovernmental Panel on Climate Change in early 2007 all boosted the global discussion on climate change. These reports, together with the subsequent EU Energy Package published in January 2007, will guide the European development in coming years. Since the majority of greenhouse gases are emitted in the production and use of energy, this industry needs to assume an active role in climate change mitigation.

At Fortum, we have taken this responsibility seriously. During the 2000's we have invested 7 billion euros in $CO_2$-free hydro and nuclear capacity, increased the use of biomass fuels, and enhanced the efficient use of resources by promoting re-use and recycling of by-products and waste in power and heat production. Our $CO_2$-free capacity has almost doubled to more than 8,100 MW and the on-going investment programme will increase it further. Already today, we are among the lowest-emitting companies in Europe. In 2006, 84% of our electricity generation was $CO_2$-free.

In 2006, we joined efforts with the Russian RAO UES to utilise the Kyoto mechanisms in Russia. Through a Memorandum of Understanding, we confirmed an intention to collaborate in identification and development of joint implementation projects. The aim is to search for opportunities, develop, and carry out projects of potential greenhouse gas emission reductions in the frames of the Kyoto Protocol mechanisms within RAO UES subsidiaries in Russia. In addition to environmental benefits, the cooperation will help to attract additional financing to the extensive investment programme on Russian power and heat sector modernization.

Also our R&D efforts are directed to promote sustainable development: improving the utilisation of bio and recycled fuels and developing know-how in zero-emission fossil fuel technologies, e.g. clean coal technologies.

## Continuing on the chosen path

The EU strategy is to create an internal energy market, as a larger marketplace can provide more benefits to societies and their citizens. A common market also provides Fortum with good growth opportunities. We will continue our strategy to seek growth in all feasible ways in our market areas, with the European and Russian market development as the main drivers.

Fortum's Core Purpose – Our energy improves life for present and future generations – expresses our commitment to grow and act in a sustainable manner. For a utility company, it means helping customers in the smart use of electricity, including improved energy efficiency. Eco-labelled products and a reliable supply of electricity are already available to Fortum customers. Automated meter management, which is being installed for our Nordic customers, is a new important means of managing electricity consumption. It provides consumers with the possibility to follow their own consumption and price in real time and thus manage their energy bill. This smart use of electricity also brings clear environmental benefits.

Sustainability also means continuing our efforts towards non-emitting production and keeping our occupational safety at a world-class level. Our extensive safety programme has been successful, and during the past years the number of injuries has decreased substantially. Although the injury frequency decreased also in 2006, two fatal accidents were a severe setback. Despite our excellent trend, it is clear that we need to continue to focus on safety.

The EU Energy Package will inevitably concern all of us, as will the implications of the policies adopted. The firm targets for climate change mitigation and security of supply are crucial, but will bear a cost. In order to minimise these economic impacts to societies, a good dialogue between policymakers and market actors is vitally needed.

The year 2006 was turbulent, yet successful. Let me express my gratitude to all our stakeholders, especially to Fortum employees. I believe Fortum is in an excellent position to succeed also in 2007.

Mikael Lilius

# Strategy

Fortum's Compass is the key management tool of Fortum. It is the link between the group and business units' strategies. All businesses have their own adapted versions of the compass.



Fortum's vision is to be the benchmark power and heat company. According to our strategy, we focus on the Nordic and the Baltic Rim area markets. To secure profitable growth there and become the leading power and heat company and the energy supplier of choice, we aim at benchmark business performance in all our operations.

## *Our strategic agenda consists of four focus areas*

### Performance excellence – aiming for world-class performance

- Make sustainability a success factor
- Efficiency and reliability in the whole energy chain
- Continuous people development

### 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 and infrastructure development
- Promoting integration towards Continental Europe
- Ensuring viability of regulated businesses

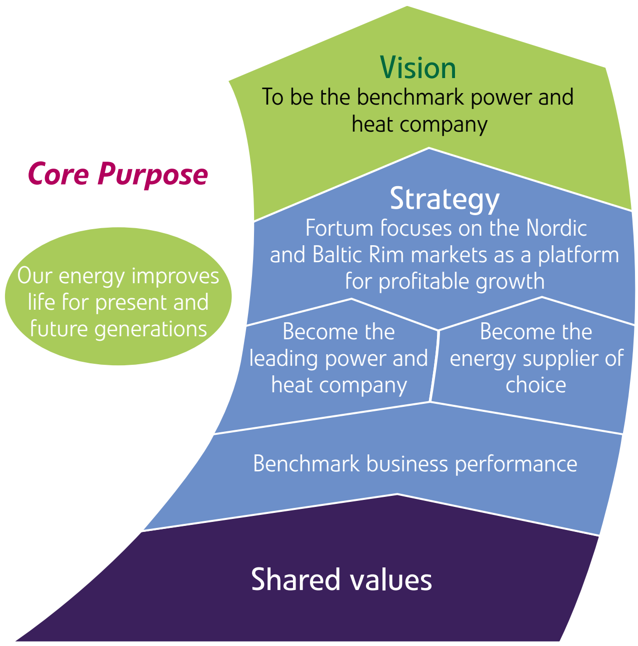
### Best customer experience

- Driving a customer-focused sales and service culture in all our customer interfaces

### Group financial targets, continuing operations

| | Target | 2006 | 2005 |
|---|---|---|---|
| ROCE, % | 12 | 13.4 | 13.5 |
| ROE, % | 14 | 14.4 | 13.5 |
| Capital structure: Net debt / EBITDA | 3.0–3.5× | 2.3 | 1.8 |

In 2005 oil operations were separated through share dividend distribution and sale of shares. Oil operations have been presented as discontinued operations in the Fortum Group Financials.




## *Shared values*

### Excellent performance

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

### Creativity and innovation

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

### Co-operative spirit

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

### High ethics

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

## *Strategy in action 2006*

### Progress in structural development and growth

- E.ON Finland (Fortum Espoo) acquisition finalised
- Capacity investment programme accelerated, including a new CHP plant to Espoo and a new peak load gas turbine plant to Inkoo, in Finland, a CHP plant to Częstochowa in Poland and a bio-fuel CHP plant in Stockholm, Sweden
- Installing of automated meter management to 835,000 distribution customers in Sweden until 2009
- Shareholding in the Territorial Generating Company No. 1 (TGC-1) was increased to over 25% through the purchase of 12.5% shares in St. Petersburg Generating Company
- District heating operations expanded through acquisition of a company in the city of Wroclaw in Poland, a minority share in a company in the city of Klaipeda in Lithuania and Vattenfall's heat businesses in Estonia and Latvia
- Significant operation and maintenance (O&M) agreements: a six-year agreement for a new gas turbine power plant in Germany and a four-year agreement for a new waste-to-energy power plant in the UK, and a technical audit contract with TGC-9 in Russia
- Industrial maintenance service business of Fortum Service divested

### Further steps in sustainability

- Memorandum of Understanding with RAO UES to utilise the Kyoto mechanisms in Russia
- Two-million-euro investment in the Baltic Sea Region Testing Ground Facility carbon fund
- Included in the international DJSI World Indexes as the only Nordic power and heat company
- Named the most responsible electricity company and awarded 'Best in Class' recognition by Norwegian banking group Storebrand as a sign of qualifying as an investment target that best supports their environmental and social responsibility
- An honourable mention and placing among the top three in the EU environmental technology competition

### Fortum's strategic route year 2000 onwards

| Established 1998 | 2000–2001 | 2002–2004 | 2005–2006 | Development |
|---|---|---|---|---|
| **Growth**<br>in core business and geographical focus | – Stora Enso's hydro and nuclear generation assets, Sweden and Finland<br>– Länsivoima, Finland<br>– Wesertal, Germany | – Decision to participate in the Olkiluoto 3 nuclear power unit<br>– 30% stake in Lenenergo, Russia<br>– 34% Stake in Hafslund, Norway<br>– 100% of Birka, Sweden (50% acquired in 1999)<br>– Shares in district heating companies in Estonia, Lithuania, Latvia and Poland | – E.ON Finland (now Fortum Espoo)<br>– >33% stake in Lenenergo, Russia<br>– 12.5% in St. Petersburg Generating Company, Russia<br>– District heating in Poland, Lithuania, Estonia and Latvia | EUR 7.8 billion |
| "Become the benchmark power and heat company" | – Strategic focus on the Nordic and Baltic Rim areas<br>– Begin restructuring non-core businesses<br>– Strong focus on financial performance<br>– Participation in World Bank Prototype Carbon Fund | – Pan-Nordic organisation<br>– Birka transformation programme<br>– Focus on leadership development<br>– Included in the Dow Jones Sustainability Index | – Place on the global DJSI World maintained<br>– Memorandum of Understanding with RAO UES on utilisation of Kyoto mechanisms in Russia<br>– EUR 2 million in the Baltic Sea Region Testing Ground Facility carbon fund<br>– Integration of Fortum Espoo | Shareholder value added: +EUR 21 billion [2] |
| **Divestments**<br>non-core businesses and non-core geographical areas | – Power and heat in Hungary | – Power plant and transmission engineering<br>– Power and Heat in Germany, UK, Hungary and Thailand<br>– Oil in Oman and Norway<br>– Wesertal, Germany | – North Transgas<br>– Neste Oil<br>– Hämeenlinna and Haapavesi power plants, Finland [1]<br>– Industrial maintenance service business | EUR 6.3 billion |

[1] As part of the Finnish Competition Authority's conditions for the E.ON Finland acquisition.
[2] Based on 20 February 2007 quotation.

# Energy in focus – everywhere

In 2006, energy proved to be a challenge – and perhaps even more so than previously anticipated. Energy prices, security of supply and climate change took centre stage as hot topics in the Nordic area, the EU and globally.







The analyses published late fall 2006 by the International Energy Agency (IEA) on the world energy outlook until 2030 and by Sir Nicholas Stern on the economic impacts of climate change depicted a highly challenging global energy future. According to the IEA, the global electricity demand is projected to double by 2030 and the total primary energy demand to increase substantially. Furthermore, the IEA foresees a huge need for investments in both the primary energy supply chain and in the power sector.

As the bulk of the additional primary energy was seen to originate from fossil sources, IEA estimated a 55% increase in global energy-related $CO_2$ emissions by 2030 given the existing policy framework. The IEA's outlook paints a dire picture for $CO_2$ emissions and the resulting climate challenge, which Stern in his report further elaborated from an economic point of view. Stern stated that actions are needed today in order to avoid the worst impacts of climate change; taking action now would be far cheaper than postponing them to a later date. Stern foresees an inevitable cost to climate change mitigation, however. The cost could be limited to 1% per year instead of 5–20% per year of global GDP if measures are taken immediately as opposed to no measures taken at all. The need for global action was further stressed by the report of the Intergovernmental Panel on Climate Change (IPCC) in February 2007.

## Strong EU push towards an integrated European power market

EU legislation and the EU Commission strategy define the framework for the liberalisation and integration of the European power markets. A competitive Europe is the driver for this development and the role of energy is becoming increasingly important. Higher fuel prices, the price of $CO_2$ and a tightening supply/demand balance increased electricity prices throughout the EU in 2006. The growing dependence on imported fossil fuels together with an ageing infrastructure and a growing demand increased concerns about the internal security of supply.

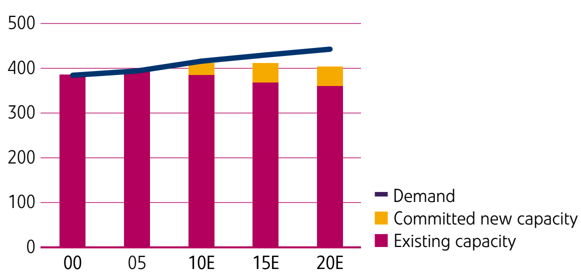
EU focuses on three issues in its energy policy development: competitiveness of European industries, security of energy supply and sustainable development. Following the heavy criticism on the European electricity markets, the Commission continued to push for a more integrated and developed marketplace during the year. In February 2006, the Commission published its preliminary conclusions of the EU Energy Sector Inquiry kicking-off a discussion on a new liberalisation package.

The Green Paper for secure, competitive and sustainable energy for Europe was approved in March 2006 and was planned to be followed by more concrete proposals in early 2007.

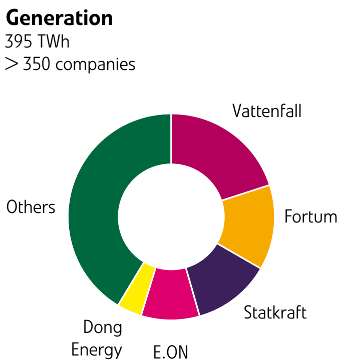
In January 2007, the Commission presented its so-called Energy Package, in which it gave its views on the future climate change policies, actions to promote security of supply and competitiveness. The Commission proposes that the EU should adopt a unilateral $CO_2$ reduction target of 20% by 2020 compared to 1990 levels. If other industrialised countries would agree, the target for all of them should be 30%. Furthermore, a proposal on a binding target for the share of renewable energy, also 20% for 2020, was put forward. These were accompanied by a target for energy efficiency improvements as well as improved R&D actions. On the other hand, the Commission is showing a strong commitment to further push the development of the internal electricity market. This commitment is explained by the cost benefits of a larger marketplace. They will be needed in order to balance the inevitable costs of meeting the climate and security of supply targets.

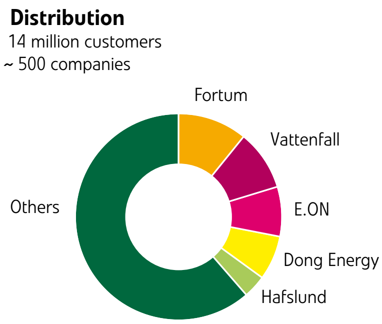
In the context of the EU-Russia energy dialogue, reports on trade, investments, infrastructure and energy efficiency were finalised with only the latter containing a concrete action plan. In addition to the implementation of the energy efficiency plan, the future dialogue will touch on market development and energy strategies with the aim of increasing the level of information on the targets and actions by each party. The final decision to start negotiations to renew the bilateral partnership and co-operation agreement between the EU and Russia was not achieved by year end 2006. The intention is to include a large chapter on energy relations between the two in the new agreement

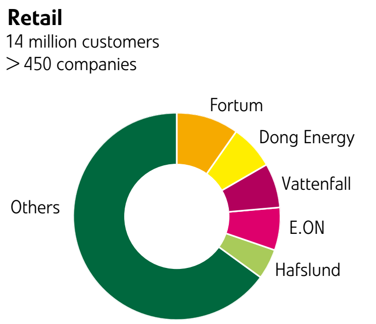
**Electricity demand and supply in the Nordic market,** TWh/a



## Still a highly fragmented Nordic electricity market




Source: Fortum, company data, shares of the largest actors, 2005 figures. Effects of structural changes taken into account.

## Generation and consumption in the Nordic countries

**Electricity consumption,** TWh

| | 2006 | 2005 |
|---|---|---|
| Finland | 90 | 85 |
| Sweden | 146 | 147 |
| Norway | 121 | 126 |
| Denmark | 36 | 36 |
| Total | 392 | 394 |

**Power generation by source,** TWh

| | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| Hydro | 191 | 222 | 182 | 168 |
| Nuclear | 87 | 92 | 96 | 87 |
| Other thermal | 96 | 73 | 91 | 101 |
| Wind | 8 | 8 | 7 | 6 |
| Total | 381 | 395 | 376 | 362 |
| Net import* | 10 | –1 | 12 | 17 |

* import-export

that will replace the current one, which expires at the end of 2007.

### Nordic market recognised as forerunner but functionality still questioned

The Nordic electricity market continued to be a model when developing other regional markets inside the EU. Several studies during recent years have concluded that the Nordic market functions rather well. Politicians and authorities have a key role in setting the framework for energy market operations. Throughout 2006, politicians focused more on nationally-driven issues than on actively promoting further development of the Nordic power market. This phenomenon was further amplified by the parliamentary elections in Sweden and Finland.

In Finland, the Ministry of Trade and Industry ordered yet another assessment of the functionality of the power market and appointed the former head of the Finnish Competition Authority to carry out the study. The report, published in October, called for measures to ensure an adequate supply of electricity, to reduce the alleged market power of large actors, essentially Fortum in Finland, to renew the structures of Nord Pool and the Nordic transmission system operators (TSO) and to broaden the roles and mandates of the Energy Market Authority and competition authorities supervising the power market. Even though the proposals were initially widely discussed, no concrete actions were furthered based on them.

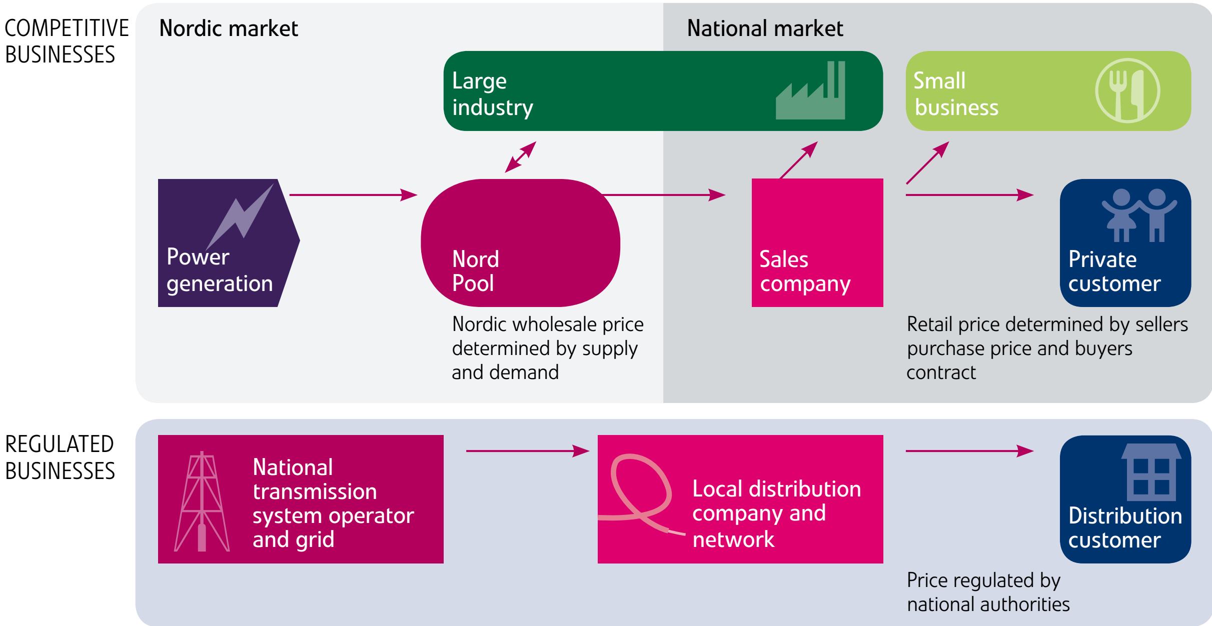
In Sweden, the government called for further regulation measures even though the Energy Market Authority STEM concluded proper market functioning in its report from March 2006. The Swedish energy minister also proposed setting up a separate industrial power market not eligible for small users. Later during the fall, a government investigator concluded that splitting the market would not result in lower power prices. The new Swedish government has not announced any initiatives aiming at changing the market set-up.

In December, the Swedish Competition Authority published its annual competition assessment on several markets, including energy. The report concentrated on the situation in Sweden and raised market concentration as one potential problem area. However, the report considered the obstacles for new investments in electricity production, for example nuclear and hydro, as the biggest challenge when it comes to the functioning of the electricity market.

### Enhancing the functionality of the Nordic market

Market transparency is central for wholesale market functionality. It increases market liquidity and efficiency, makes market entry easier for new entrants, increases market trust and enables better market surveillance by the authorities. The EU Commission considers the Nordic market design a model for functioning power markets: the Nordic power exchange Nord Pool makes information on marketplace

## Fortum and the electricity value chain




and price formation as well as information on transmission, generation and demand and its impact on market price publicly available. Strict rules on insider information are in use.

An efficient TSO operation is key for good functioning of the wholesale power market, i.e. access to the grid, pricing, handling of bottlenecks, grid investments including cross-border capacity and market information. According to the Commission, all European TSOs do not fulfil these requirements, especially when it comes to cross-border connections. The Nordic TSOs publish information on the power system, e.g. real-time production data and balancing power market information. Also, grid operations in the Nordic market are unbundled and the national TSOs work to further develop the regional market through their co-operation body, Nordel.

Following the Akureyri Declaration in 2004 by the Nordic energy ministers, Nordel was given the task of proposing actions to enhance the functionality of the Nordic power market. Nordel presented its first report in 2005 on the proposed actions: harmonisation of rules and practices, peak-load balancing rules, co-operation in extreme situations and grid investments according to a priority plan. A status report followed in April 2006. At the Nordic energy ministers meeting in September 2006, the importance of a harmonised Nordic power market was stressed. However, it was recognised that further work on all the issues initially proposed by Nordel would be needed. In 2007, Nordel will publish a new Nordic system development plan and a proposal for new Nordic grid investment projects.

The five priority grid projects proposed by Nordel in June 2004 support further Nordic integration and thus enable a better functioning market. When completed, the projects will add over 2,200 MW of transmission capacity to reduce bottlenecks in the Nordic grid, excluding the capacity addition from the Mid to Southern Sweden line. Three of the projects are planned to be commissioned by 2010 and the remaining two by 2012, a two-year delay from the initial plan.

In addition to preparing enhancements for the Nordic grid, also integration to the Continental European markets proceeded in 2006. In January 2007, a 350-MW cable between Finland and Estonia was commissioned. An additional 750-MW connection has also been proposed. The NorNed link between Norway and the Netherlands by 2008, a pre-feasibility study on a 1,000-MW cable between Lithuania and Sweden, and the signing of an agreement in December on the Poland-Lithuania interconnection were all important steps towards further market integration. A negative decision by the Finnish Ministry of Trade and Industry on the 1,000-MW cable between Finland and Russia was made in late December 2006.

The EU promotes cross-border trade and infrastructure that is essential for developing an integrated European power market. Guidelines for TEN-E (Trans-European Energy Networks) were adopted in July 2006 with identification of 32 projects of European interest. Five projects within the Nordic market on further integrating the Nordic and Continental markets were included in the EU TEN-E projects. A priority interconnection plan was adopted in the beginning of 2007 as part of the EU Energy Package. This plan assesses the possibilities of the EU to further accelerate the building of new interconnections, which falls under the competence of the member states. Guidelines for congestion management were adopted in October 2006 and implemented as of 1 January 2007.

The physical spot volumes in the Nordic power exchange Nord Pool continued to grow. The volume traded corresponded to 64% of the total Nordic demand in 2006. Also the over-the-counter (OTC) derivatives clearing volume grew somewhat whilst the financial derivatives volume was slightly below the 2005 level. In June, Nord Pool decided to offer an additional two years to the existing three year financial forward contracts. In September, Nord Pool began to offer intra-day trading of power between the Nordic and German markets.

Despite a reasonably well functioning wholesale market, the Nordic retail markets still remain national. The goal set by the Nordic regulators is to establish a Nordic retail market by 2010. Some progress was made during 2006, for instance through a proposal by the Nordic TSO's on a common balance service. Significant efforts are still needed, though, in terms of harmonisation and agreement on key procedures related to, for example, data structures and handling, supplier switching, metering and billing components. A proactive approach by the Nordic stakeholders to Automatic Meter Management (AMM) would make it a powerful tool to strengthen the link between the wholesale and retail markets and improve consumption information to the consumers, thus opening up to new opportunities for energy saving and efficiency.

## EU emissions trading – getting prepared for the Kyoto period

The first phase of the EU ETS (Emission Trading Scheme) will be concluded by the end of 2007. Preparations for the Kyoto period 2008–2012 proceeded in the member states and the Commission during 2006, although the National Allocation Plans, NAPs, for the 2005–2007 period were not finalised until June 2006 when the Polish NAP was finally approved.

The Commission decided to postpone the revision of the Emissions Trading Directive, initially planned for mid-2006 untill the end of 2007. The key reason for the delay was the Commission's reluctancy to move ahead before all member states had submitted their draft NAPs for the Kyoto period. Key areas for foreseen revisions were a wider scope of the Directive, further harmonisation, especially the allocation methods with special attention given to auctioning, compliance and enforcement of implementation, and linking the EU ETS with emissions trading schemes of other countries.

The draft NAPs of the Member States for the Kyoto period were to be submitted to the Commission for adoption by June 2006. Typically in the plans, the manufacturing industry was allocated close to its expected need whilst the allocations to the energy industry were well below the foreseen need. All but two of the national allocation plans for the years 2008-2012 were submitted by year end. When reviewing the ten first draft plans submitted, the Commission adopted a strict line and required an average 6% cut. The Commission has also indicated that the remaining draft NAPs will be reviewed as rigorously as the first ten. This had a clear impact on the 2008 allowance prices.

The targets set in the EU Energy Package are the basis for the EU in the UN negotiations starting in 2007 on the post-2012 agreement. It is already clear that emissions trading will continue as the main instrument in the EU's climate policy.

## Huge need for new capacity

The IEA report on the global energy outlook until 2030 suggests a remarkable need for investments in the energy sector, not only to fulfil the growing demand but also to upgrade the existing energy infrastructures. According to the IEA base case scenario, more than USD 20 trillion are needed to develop the global energy supply infrastructure by 2030. Of the total, more than USD 11 trillion would be needed to double the global power generation capacity, refurbish the existing power generation and distribution infrastructure and construct new power connections. For Europe alone, the IEA foresees a need for 928 GW of new capacity and USD 1,7 trillion in power infrastructure investments.

The total Nordic installed power capacity was 91,300 MW at year end 2005. In addition to modernising the existing generation fleet, new generation capacity is needed to cover the growth in demand and future capacity closures, mostly from ageing CHP plants but also from some closures of fossil fuel-fired condensing units.

Demand in the Nordic market is expected to grow to almost 450 TWh by 2020, i.e. on average somewhat less than 1% annually. In 2006, plans for new generation capacity in the order of 40 TWh by the year 2020 were in place for the area. Despite ongoing plans and projects to increase capacity, some 40 TWh of new generation is still needed to fill the supply gap until 2020. New generation capacity will require a long-term electricity price of above EUR 40/MWh to cover the capital and operating costs of the plant during its lifetime. As the lifetime of a power generation plant is typically 30 years or longer, a stable, consistent and predictable investment framework is essential for the investors.

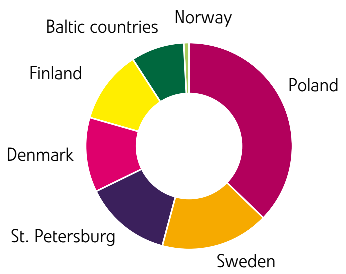
## Consolidation proceeded but mostly in Continental Europe

The Nordic electricity market is highly fragmented in a European comparison, with consolidation proceeding slowly. More than 350 power generators, some 500 distribution companies and over 450 electricity retailers still remain.

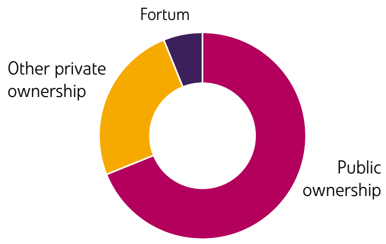
The European majors took actions to strengthen their positions as the future leading companies in Europe both through acquisitions and investments. The majors continued to aim for strong footholds in the gas market and to increase their investments in renewables. E.ON actively

## District heating in the Baltic Rim area

**Market size**
Total demand: ~300 TWh/a




**Ownership structure, %**




sought growth in the European utilities sector, e.g. through bidding on the Spanish Endesa. Iberdrola made an offer for Scottish Power, and Enel expressed its interest in growth. Also Gazprom and CEZ were actively seeking growth opportunities.

While free competition is the cornerstone of EU development, not least regarding the power sector, national protectionism was again present in the power play as governments took steps to prevent foreign acquisitions. Several countries acted to establish a strong national energy champion: in Spain, the competition authority set hurdles on the E.ON takeover of Endesa, and in France the merger of Suez and GdF proceeded. In Poland, the government reversed its policy regarding the state-owned power assets from earlier planned privatisation to vertical consolidation and retained state control.

## Russian power reform moves ahead

The Russian economy continued to boom on high oil and gas prices. This also means growth in electricity demand and a need for new capacity. In 2006, the Government of the Russian Federation adopted a demand increase forecast of almost 500 TWh at minimum by the year 2015, compared to 939 TWh demand in 2005.

The power sector reform, launched to secure the vast future investments needed in the power sector and to increase sector efficiency, proceeded in 2006 with important steps in both the restructuring and liberalisation of the market. Restructuring of the energos, i.e. unbundling of the businesses into competitive businesses and regulated monopolies, and the formation of Territorial Generating Companies, TGCs, and Wholesale Generating Companies, WGCs, was for the most part implemented by end 2006. Also the reorganisation of RAO UES' asset ownership started with the first IPO of a restructured generating company, WGC-5, in October. WGC-5 and TGC-5 are the first companies planned to be spun off from RAO UES during the first part of 2007. Reorganising the RAO UES asset ownership is planned to be finalised by mid-2008. Additional share issues are planned to take place in several WGCs and TGCs already during 2007, with TGC-1, in which Fortum has an approximately 25% stake, scheduled for July 2007.

A key enabler of the power reform is the liberalisation of the competitive businesses. In September 2006, the launch of a new wholesale market model, NOREM, signalled the political commitment to the reform. At this stage, the implicit price cap was removed and the spot price started to be determined by supply and demand at each moment.

As of 1 September 2006, all supply and demand was matched through the spot market. However, financial agreements with regulated prices, called vesting agreements, which cover most of the volume, still exist. These agreements reduce the effect of a liberalised power price on the business result of the generation and sales companies. The share of the vesting agreements is planned to be reduced gradually, and completely abolished by 2011, according to a proposed accelerated schedule, except for the residential sector. During 2007, the market is planned to be further developed by establishing a capacity market and a financial derivatives market.

The good progress of the Russian power sector reform, the huge investment need, the efficiency improvement potential and the strong demand growth outlook was reflected in the re-emerging interest in Russia by western companies. Most of the European majors expressed an interest to take part in the Russian power sector development.

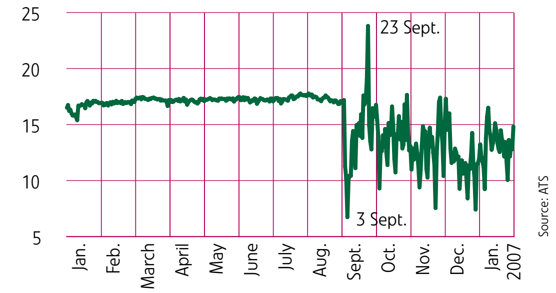
## Continued growth in Poland and the Baltics

The annual power generation in Poland and the Baltic countries is some 170 TWh and district heating production is around 140 TWh. In all these countries, both the power and heat demand are expected to grow steadily with high annual growth rates on a European scale driven by continuing strong economic expansion.

In 2006, Poland reversed its earlier plans to privatise individual power assets and cancelled all pending processes. In March 2006, the government adopted a new programme

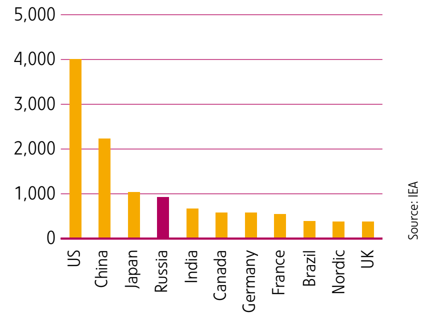
## Russian power market

**Electricity price* in day-ahead market in European part of Russia,** EUR/MWh




* Excluding capacity tariff

**The Russian power market is the fourth largest in the world,** TWh, generation 2004




for the energy market in Poland, including the formation of four vertically integrated entities across the power value chain with assets from coal mining to power supply. The planned entities have an installed power generating capacity from 700 to more than 10,000 MW, electricity sales ranging from 15 to almost 30 TWh and roughly 2–5 million customers. Following the integration process, the consolidated entities will eventually be partially privatised. According to the current view, the state will continue to have a controlling stake in these companies.

In the Polish heat sector, the privatisation of the largest assets in the bigger cities has mostly been completed. Privatisation of smaller companies is either pending or not yet in the works. The privatisation of municipally-owned heating companies has slowed down, however.

The electricity market in Estonia and Latvia is dominated by vertically integrated incumbents. In Lithuania, power distribution and supply are partially privatised but generation is mostly under state control. The closure of the Ignalina nuclear power plant in Lithuania by the end of 2009 will have an important impact on the power balance in the area. The national power companies have formed a joint venture to build a new plant. The Baltic countries are proceeding in their market liberalisation as demanded by the EU Directive and are going for a full market opening on 1 July 2007 – except for Estonia, where a transition period until 2013 has been granted.

# Accelerated investments

## During the year Fortum announced new capacity investments increasing the company's Nordic investment programme to EUR 2.8 billion and 1,500 MW of new power generation capacity.







Globally, there is a huge need for investments in power generation to meet the growing demand and to replace retiring capacity. Demand in the Nordic market is expected to grow to almost 450 TWh by 2020.

In 2006, plans for new generation capacity in the order of 40 TWh by year 2020 were in place for the Nordic market. The nuclear upgrading plans in Sweden progressed; however, upgrades in Forsmark were postponed by one year to 2009–2011 following the problems at the plant during summer and fall 2006. The construction of the fifth nuclear unit in Finland went forward as well, but also here commission was delayed until 2011 instead of the initially planned 2009. Several combined heat and power (CHP), combined cycle gas turbine (CCGT) and wind park plans were moving ahead, however.

As a responsible market actor, Fortum continuously assesses opportunities to invest in new generating capacity. At year-end 2006, Fortum had an investment programme of EUR 2,800 million representing some 1,500 MW of new power generating capacity in the Nordic market.

As a minority owner, Fortum is participating in the upgrades of the Forsmark and Oskarshamn nuclear power plants in Sweden. Fortum's share of the planned capacity additions is estimated at 250 MW. The upgrades are scheduled to be completed by 2012, but some of them still require licences. In Finland, Fortum is participating in the country's fifth nuclear unit with an approximately 25% share representing some 400 MW in capacity.

Fortum has a hydropower refurbishing plan extending to 2015, however mostly to be completed by 2010. The plan covers several of Fortum's own or part-owned plants in Finland and Sweden and will result in some 150 MW of additional capacity.

Fortum is a leading company in district heating and CHP-production in the Nordic market. Fortum plans to build a biomass fuel-fired CHP-plant in Stockholm, Sweden, with an approximate production capacity of 140 MW of electricity and 300 MW of heat. The commissioning of the plant is scheduled by 2010. At year-end the proceedings for an environmental licence application were ongoing. In summer 2006, Fortum announced the construction of a new CHP plant in Espoo, Finland, after having acquired E.ON Finland (now Fortum Espoo) from E.ON. The unit is planned to have a production capacity up to 300 MW of electricity and 240 MW of heat at an estimated cost of EUR 200 million. An environmental licence was granted during the fall and the construction tenders were out at year-end. Scheduled commissioning is in late 2009.

In addition to investing in new CHP-capacity, Fortum continuously assesses the opportunities for fuel conversion in its existing plants towards more environmentally benign fuels. Fortum has several such plans underway.

In December 2006, Fortum announced the plan to build a peak load gas turbine power plant in Inkoo, Finland. The unit is scheduled to be in operation latest in 2009 with a capacity of up to 300 MW. An environmental licence application was submitted before year-end. The final investment decision is planned to be made during 2007.

In addition to investing in new power and heat generation in the Nordic market, Fortum also carries out investments in its other focus market areas. Fortum has a slightly over 25% share in the Territorial Generating Company No. 1 (TGC-1) in north-west Russia. TGC-1 is carrying out a huge investment programme in order to increase its electricity production capacity by 50% or over 3,000 MW by 2015. To raise additional financing for the investment programme, an additional share emission is planned for summer 2007.

Towards year-end 2006 Fortum announced a plan to invest in a new CHP plant in Częstochowa, Poland. The biomass fuel and coal-fired plant is scheduled to be in operation by the end of 2009 with a production capacity of 120 MW heat and 64 MW electricity. The estimated cost of the plant is EUR 95 million.

In early January 2007 Fortum also announced the plan of AS Fortum Tartu, owned by Fortum (60%) and AS Giga (40%), to construct a new CHP plant in Tartu, Estonia. The plant will have a production capacity of 52 MW heat and 25 MW electricity. It will utilise local biomass fuels and peat and replace natural gas-fired production. The cost estimate is EUR 60 million and the plant is scheduled for commissioning year-end 2008.

In addition to investments in power and heat generation, Fortum has a substantial, EUR 700 million investment plan to increase its distribution network reliability. Fortum is also investing EUR 240 million in Automated Meter Management (AMM). In the first phase, AMM will be implemented in Sweden with other Nordic countries to follow at a later stage. In total, Fortum made EUR 412-million operational investments during 2006. These investments aimed at compliance with future legislation and improved productivity and maintenance in current facilities.

To read on Fortum's investments in R&D and personnel development, please refer to pages 17 and 36 respectively.

# New R&D programmes launched

## In 2006, the activity level in research and development increased with the launch of several new programmes and with a focus shift towards long-term development initiatives.



The need for technology know-how is inherent in striving for sustainable, efficient and reliable power and heat generation. Modern technologies are also a central component in improving the reliability of electricity distribution and in the development of top-class operation and maintenance services. Furthermore, the role of technologies is becoming more prominent in the customer interface, especially with regard to the growing demand for solutions that optimise energy use.

### Four focus areas in R&D

Fortum has identified four areas in which R&D is crucial to securing and strengthening the company's technological competitiveness in the future. Development efforts are concentrated in the following areas:

- **Enable growth** by creating investment opportunities in new production technologies; by creating new business opportunities; and by facilitating structural growth.
- **Promote sustainable development** by creating new investment opportunities in renewable energy sources; by improving the utilisation of bio and recycled fuels; and by developing knowledge in zero-emission fossil fuel power production.
- **Secure a long-term technology base** by conducting long-term technology scenario work and by accumulating early understanding and predicting of paradigm change in the energy business.
- **Support the company's current operations** by ensuring the technological expertise needed for Fortum to be a benchmark company within power and heat generation and distribution.

In 2006, Fortum initiated several new R&D programmes within the above mentioned focus areas. Compared with previous years, more programmes are now geared toward attaining a competitive edge in the long-term as opposed to mainly securing the competitiveness of current operations. Ongoing programmes are shown in the table below.

### Efficiency through networking

Fortum wants to be in the forefront in understanding and applying new technologies profitably and has chosen a pragmatic approach to organising its R&D work.

A central characteristic to the approach is the forming of well functioning networks and partnerships with research organisations, engineering companies and technology vendors. Partnerships and participation in research programmes enable Fortum to accumulate valuable insights to energy technology development, which would require extensive investments if pursued internally.

Internal efforts are concentrated on carefully identified key areas in which Fortum strives to achieve a benchmark competence level. These areas are of strategic significance to Fortum, such as nuclear safety.

### Mainstream R&D expenditure

The group's total R&D expenditure in 2006 was EUR 17 million (EUR 14 million in 2005). The increase in expenses is mainly attributable to new programmes and activities initiated in 2006.

Fortum's R&D expenditure amounted to 0.4% of sales (0.4% in 2005), and 0.6% (0.6%) of total expenses, and is on an average level when compared with the typical reported R&D expenditure (% of sales) in other European power and heat companies.

| Fortum R&D programme | R&D focus area: Enable growth | Promote sustainable development | Secure long-term technology base | Support current operations |
|---|---|---|---|---|
| Production technologies for future | ● | ● | ● | |
| Zero-emission fossil power production | ● | ● | | |
| Biogrowth | ● | ● | | |
| Energy optimisation for customers | ● | ● | | |
| Growth in Russia | ● | ● | | |
| Nuclear and dam safety, nuclear materials, fuel, waste research etc. | | | | ● |

*Use energy to recharge yourself.*

# Segment reviews

## Fortum boosted its growth through acquisitions and a capacity investment programme in 2006. Development efforts in the customer interface continued.

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 (CHP) 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. It also sells the electricity it generates at CHP plants. Fortum's distribution and regional network transmissions are reported in the Distribution segment.

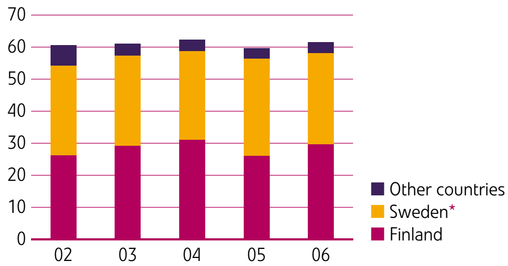
**Fortum's power generation capacity,** 31 December 2006, MW

| | Finland | Sweden | Other | Total |
|---|---|---|---|---|
| Hydropower | 1,454 | 3,148 | | 4,602 |
| Nuclear power | 1,433 | 1,674 | | 3,107 |
| Combined heat and power | 673 | 530 | 145 | 1,348 |
| Condensing power | 1,441 | 297 | | 1,738 |
| Other | 6 | 112 | | 118 |
| Total | 5,007 | 5,761 | 145 | 10,913 |

**Fortum's power generation by source,** TWh

| | 2006 | 2005 |
|---|---|---|
| Hydropower | 19.8 | 21.2 |
| Nuclear power | 24.4 | 25.8 |
| Thermal power | 10.2 | 5.3 |
| Total | 54.4 | 52.3 |

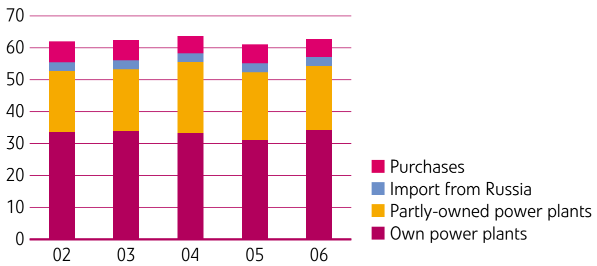
**Fortum's total electricity sales by area,** TWh



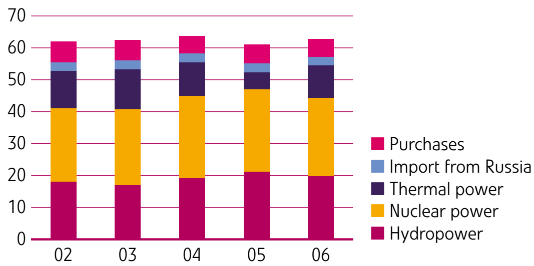

* Sweden 2002, Birka Energi is 100% March–Dec. and 50% Jan.–Feb.

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.

**Fortum's total electricity procurement by type,** TWh




**Fortum's total electricity procurement by source,** TWh



# Increased generation in a volatile environment

## In a year characterised by large price variations and a challenging operating environment, Fortum increased its power generation and announced new capacity investments to pave the way to continued excellent performance.

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

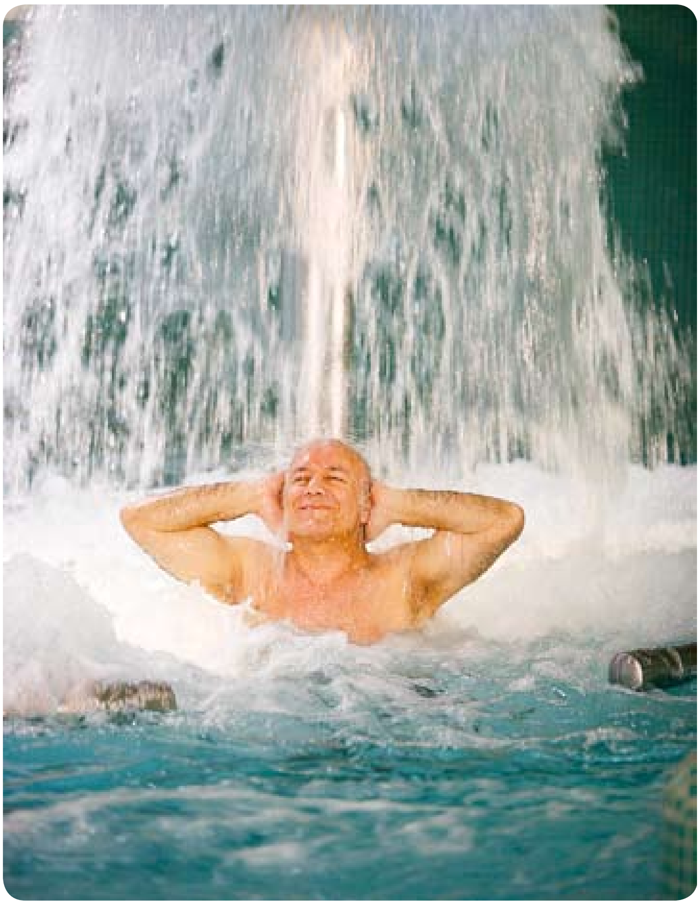
Power Generation plays a key role in Fortum's strategy of becoming the leading power and heat company in the Nordic and Baltic Rim areas. The focus is on securing a high level of power plant availability, upgrading production assets, and on operational excellence in physical and financial portfolio management. In addition to a long-term investment plan reaching beyond 2010, Fortum is looking for new investment opportunities in order to secure future capacity needs. In 2006, Fortum also strengthened its position in Russia as the Russian electricity market restructuring is proceeding.

The main performance driver in the power generation business is the wholesale price for electricity. The main factors affecting the wholesale price are the inflow to the Nordic water reservoirs, prices for emission allowances and fuels in the international markets as well as the overall supply and demand balance. The main factors affecting the price development in 2006 were a significant deficit in the Nordic water reservoirs for most of the year and volatility in the prices for emission allowances in the EU emissions trading scheme as well as the unplanned shutdowns in the Swedish nuclear power plants during the autumn.

### Large variations in prices during the year

After a fairly normal hydrological year in 2005, 2006 started with a slight surplus in the Nordic water reservoirs. At the same time there was a deficit in the Nordic snow reservoirs due to low snow accumulation during the winter. The snow deficit, the cold first three months of the year and a dry summer caused the water reservoirs to decrease from a slight surplus at the beginning of the year to a significant deficit during the summer. The deficit peaked in August and was 30 TWh below the reference level. This deficit is about a third of the annual Nordic nuclear power production. Warm weather and thus low consumption combined with high precipitation helped to fill in the water reservoirs during the late autumn and early winter. At the end of December, the Nordic water reservoirs were 2 TWh below the reference level.

The average price for $CO_2$ emission allowances in the European emission trading scheme was about EUR 18 per tonne $CO_2$ in 2006, which is about the same as in 2005. The price fluctuated significantly over the year. In April, the price for $CO_2$ peaked at over EUR 30 per tonne and in early May, dropped to EUR 10 per tonne $CO_2$ following the release of realised emission data for 2005. During the summer prices levelled at about EUR 16 per tonne $CO_2$ to drop again during the autumn and early winter. At year-end, the price for emission allowances for 2007 stood at EUR 6.5 per tonne $CO_2$. The emission allowance price for the period 2008–2012 traded at EUR 18–20 per tonne. Coal prices increased moderately in 2006. Oil prices reached historically high levels during the summer but decreased during autumn. At



Investments to increase power generation capacity will continue also in 2007. Fortum wants to keep all production methods available when making decisions on the future.

* 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.

**Key figures,** EUR million

| | 2006 | 2005 | Change % |
|---|---|---|---|
| Sales | 2,439 | 2,058 | 19 |
| power sales | 2,059 | 1,682 | 22 |
| other sales | 380 | 376 | 1 |
| Operating profit | 980 | 825 | 19 |
| Comparable operating profit | 985 | 854 | 15 |
| Net assets | 6,734 | 5,954 | 13 |
| Return on net assets, % | 16.1 | 14.0 | 15 |
| Comparable return on net assets, % | 16.1 | 14.5 | 11 |
| Gross investments | 240 | 130 | 85 |
| Average number of employees | 4,147 | 4,374 | −5 |

**Segment's power generation by source,** TWh

| | 2006 | 2005 |
|---|---|---|
| Nuclear power | 24.4 | 25.8 |
| Hydropower | 19.8 | 21.2 |
| Thermal power | 5.2 | 1.3 |
| Total | 49.4 | 48.3 |

the end of 2006 oil prices were on the same level as at the end of 2005.

Both the price development for emission allowances and the hydrological situation have affected the electricity prices in the forward market. Forward prices increased in early 2006 but dropped in early May with the falling emission allowance prices, while the dry hydrological situation drove the quotations again up during summer and early autumn. During the last quarter, the forward quotations dropped again due to improved hydrological situation and falling $CO_2$ prices. At the end of the year 2006, the quotations for 2007 ended at about EUR 37 and the quotations for 2008–2011 at about EUR 43 per MWh.

The average spot price for electricity in 2006 in the Nord Pool was EUR 48.6 (29.3) per megawatt-hour, or 66% higher than in 2005. The increase was due to the dryer hydrological situation and unplanned shutdowns at the Swedish nuclear power plants. The prices were historically high for the Nordic area.

Electricity prices in the Nordic area are also affected by the prices in Continental Europe and especially prices in Germany. The average German spot price in 2006 was slightly higher compared to the Nordic spot price. There were periods during the year when the Nordic price was above the German price. As the power flows are to the direction of the country with the higher prices, there was both import and export from the Nordic area to Germany during the year.

## Increased power generation

The segment's power generation in 2006 was 49.4 (48.3) TWh, of which 48.3 (47.2) TWh originated in the Nordic countries. Of the segment's power generation in the Nordic countries, 19.8 (21.2) TWh, or 41% (45%), was based on hydropower, 24.4 (25.8) TWh, or 51% (55%), was based on nuclear power, and 4.1 (0.2) TWh, or 8% (0.4%), was based on thermal power.

The decrease in hydropower generation was due to the weakened hydrological situation. The decrease in nuclear production was due to unplanned shutdowns in the Swedish Forsmark and Oskarshamn nuclear power plants in which Fortum is a minority owner. These shutdowns were caused by an incident at the Forsmark unit 1. High spot prices enabled increased usage of thermal power plants.

The unplanned shutdowns in the Swedish nuclear power plants caused Fortum a production loss of approximately 1.6 TWh in nuclear power generation. The availability of the Fortum-owned Loviisa and the Olkiluoto nuclear power plant, partly-owned by Fortum, in Finland remained high.

In 2006, 84% (93%) of Fortum's power generation was $CO_2$-free. The decrease was caused by higher use of thermal power, which compensated for lower hydropower and nuclear power production. At year end, the segment's power generating capacity totalled 9,540 (10,003) MW, of which 9,400 (9,863) MW was in the Nordic countries and 140 (140) MW in other countries.

Power Generation's achieved Nordic power price (excluding pass-through sales) was EUR 37.1 (31.2) per MWh, 14% higher than the year before, mainly due to improved hedging prices and higher spot prices. The related sales volume was 49.4 (48.1) TWh.

In 2006, a new production tax for nuclear power in Sweden was applied and the property tax for hydropower plants both in Finland and Sweden was raised. These tax increases negatively affected Fortum's profits by about EUR 65 million.

## Investing in new capacity

Fortum's investment programme includes refurbishment investments in several hydropower plants to increase capacity and maintain good plant availability. During 2006, Fortum completed three refurbishment projects. The currently most extensive hydro refurbishment project at the Månsbo hydropower plant in Sweden has proceeded according to schedule. The old power plant has been completely modernised and will start operation in 2007 under a new name, Avestaforsen.

Capacity increases at existing nuclear power plants in Sweden are also an important part of the investment programme. Fortum, as a minority owner, will participate in the planned upgrades of the Oskarshamn and Forsmark power plants. Fortum's share of the added generation capacity is estimated to be 250 MW. The upgrades are subject to approval by the Swedish government and are scheduled for completion by 2012. In June, the Swedish government approved the 250-MW capacity increase for the Oskarshamn third unit, of which Fortum's share is slightly over 100 MW. This capacity increase is planned for 2008.

At the Loviisa nuclear power plant, work is ongoing to modernise the plant's automation system. All new automation systems will be in operation in 2014. In 2006, in addition to normal refuelling outages, a more detailed inspection was completed in the Loviisa 2 unit. In November, Fortum applied for an additional 20-year operating licence for the Loviisa power plant. The decision from the Ministry of Trade and Industry is expected during summer 2007. In December, Fortum signed a long-term agreement to purchase nuclear fuel from the Russian TVEL Corporation for Loviisa.

Fortum is participating in the fifth Finnish nuclear power unit, Olkiluoto 3, with a share of approximately 25%. The supplier (Consortium AREVA-Siemens) has reported to TVO, the company that is building and owns the new unit, that it should be ready for commercial operation at the turn of 2010–2011.

Fortum has announced a plan to build a new gas turbine power plant in Inkoo, Finland. According to the plan, the power plant will be in commercial use in 2009. The fuel of the power plant will be light fuel oil, and the power generation output will be about 250 to 300 MW.

Fortum completed an asset swap arrangement with Mälarenergi in January 2006. In the transaction, Fortum swapped the ownership of 17 small hydro plants and an 82.5% shareholding in Aroskraft AB against hydro and nuclear power generation that was leased to Mälarenergi.

## Divestments required by the Competition Authority

In June, the Finnish Competition Authority set conditions for Fortum's E.ON Finland (now Fortum Espoo) acquisition. Fortum was to divest its Haapavesi power plant and its Hämeenlinna combined heat and power plant. Furthermore, Fortum was to lease out its 308-MW share of the Meri-Pori power plant until 30 June 2010 and to sell the equivalent of annual 1 TWh of constant generation capacity in the Finnish area until 31 March 2011. All of these conditions were met by the end of the year.

## Moving forward on the Russian market

The Russian electricity market restructuring proceeded during 2006. This progress makes the Russian electricity sector an increasingly attractive business environment for Fortum. During 2006, Fortum strengthened its position in the Territorial Generating Company No. 1, TGC-1, the regional power generation company of north-west Russia.

Since October 2005, TGC-1 has operated based on a leasing model whereby TGC-1 leases and operates the generation and heat assets of its three owners Lenenergo, Kolenergo and Karelenergo. In November 2006, the merger of the regional generation companies was finalised and TGC-1 was registered as a legal company.

In October 2006, Fortum acquired a 12.5% share of St. Petersburg Generating Company. This ownership combined with Fortum's 33% ownership in Lenenergo, entitled Fortum to a 25.7% share of TGC-1, which gives Fortum a blocking minority in the company. The other major owners of TGC-1 are RAO UES with 55.7% and Interros with 7.2%. At the end of December, the stocks started trading on the Russian Trading System stock exchange RTS.

Fortum also participated at the end of October in the IPO of the Russian Wholesale Generating Company No. 5 (WGC-5), which has four production branches around Russia. In the IPO, Fortum obtained less than 1% of WGC-5.

## Performance excellence in O&M

Service offers operation and maintenance (O&M) services for energy and 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. Service is looking for growth in selected international O&M markets, for example the UK, Germany and Russia.

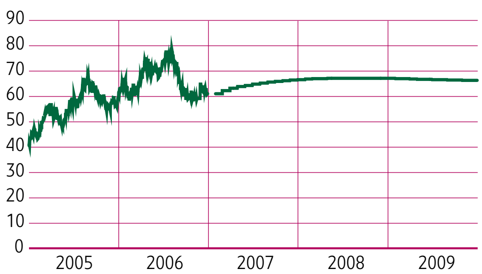
The availability and efficiency of Fortum's own power plants as well as that of those operated globally by Fortum is very good by international standards. In 2006, the operation-time energy availability (tgdE) of power plants in Fortum's O&M fleet excluding hydropower was 95.3% (96.9 in 2005).

During 2006, Service redefined its focus mainly on operation and maintenance services for the energy industry as well as on specialist services. In October, Fortum Service completed the sale of its industrial maintenance business to funds managed by the equity investor CapMan. Some 900 employees transferred in connection with the deal.

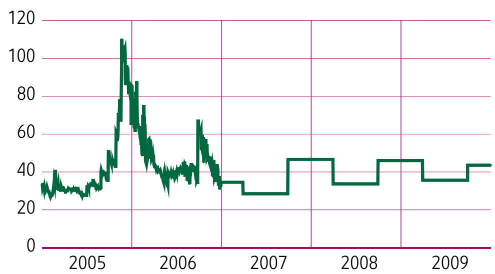
Service also divested its 40% holding in the energy consultancy Enprima Oy, as well as its subsidiary in Thailand.

In Russia, Fortum conducted technical audits and prepared proposals for improving the operational efficiency of the power plants of the Russian Territorial Generating

**Oil price,** USD/bbl




**Gas price (UK),** GBp/therm



Company No. 9, TGC-9. The audits were completed by the end of the year. Additionally, Fortum signed a consulting contract on refurbishing the hydropower plants of Svetogorsk and Lesogorsk at the river Vuoksi in Russia with TGC-1. The refurbishing work will continue for 8 to 10 years.

Fortum also signed a 6-year operation and maintenance contract with Knapsack Power GmbH & Co. in Germany. The contract covers an 800-MW combined cycle gas turbine plant situated in Hürth-Knapsack near Cologne that will begin commercial operation in summer 2007. The contract is the second of its kind and strengthens Fortum's position as a significant gas turbine plant operation and maintenance operator in Germany.

In the UK, Fortum secured a four-year contract on operation and maintenance of a waste-to-energy plant, which is under construction near London Heathrow Airport. The plant will be ready in summer 2008.

## R&D for enhanced sustainability

The majority of Fortum's research and development is conducted in Power Generation. The work is aimed at securing the continuous and successful operation of Fortum's power plants and developing sustainable solutions for power generation. For more information on Fortum's R&D, turn to page 17.

All of the company's Nordic power generation operations have ISO 14001 environmental certification. Emissions reduction opportunities at Fortum's own facilities have been systematically reviewed. For example, in October, Fortum completed a project to change all burners at the Haapavesi peat-fired plant into low-$NO_x$ burners. The new burners were designed using advanced mathematical modelling that Fortum has developed in collaboration with VTT Technical Research Centre of Finland for use in power generation. At the same time, adjustments were made to plant processes to reduce dust emissions.

At the Loviisa nuclear power plant, the construction of a solidification facility for liquid low- and medium-active waste is proceeding and the new facility will be taken into use in 2007.

About 4 TWh, 20%, 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.

## Investments in new capacity continue

Fortum's investment programme to increase its power generation capacity will continue also in 2007. Planned investments in new power generation will be executed and additional investment possibilities will be studied. Fortum wants to keep all production methods available when making decisions on future capacity investments.

**Fortum's Nordic electricity sales volume,** TWh

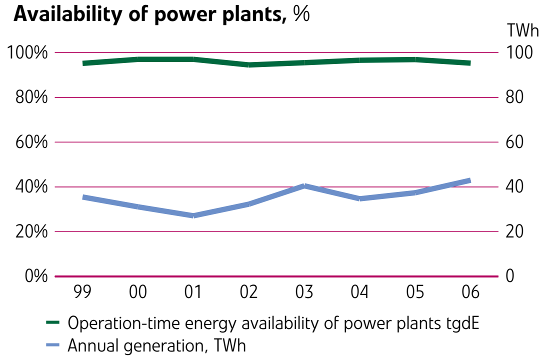
| | 2006 | 2005 |
|---|---|---|
| Sales | 53.9 | 52.6 |
| of which pass-through sales | 4.5 | 4.5 |

**Nordic sales price,** EUR/MWh

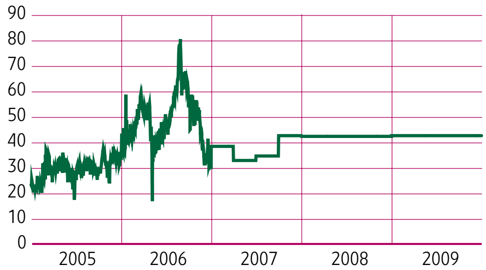
| | 2006 | 2005 |
|---|---|---|
| Segment's power price* | 37.1 | 31.2 |

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

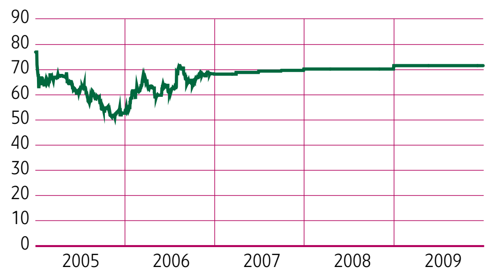
**Availability of power plants,** %



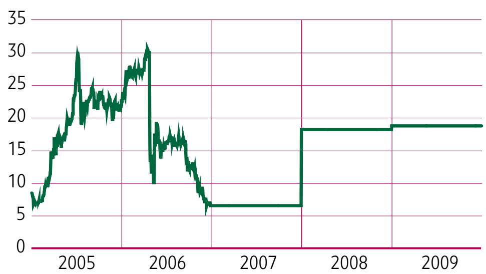

**Nordic wholesale electricity price on Nord Pool,** EUR/MWh




**Coal price,** USD/t




**$CO_2$ allowance price (EU),** EUR/t$CO_2$




Source: Reuters. Future prices at the end of 2006

# Growth in the customer base



Thanks to successful acquisitions, the number of district heating customers grew significantly. The usage of renewable fuels in heat production continued to increase.


Fortum is increasing its heat production capacity. New CHP plants are planned in Finland, Sweden, Poland and Estonia.

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 21 (23) combined heat and power plants (CHP) and several hundred heat plants in the Nordic and Baltic countries as well as Poland. The segment consists of two business units: Värme, operating in Sweden, and Heat, operating in other markets. The City of Stockholm in Sweden has a 50% economic interest in Värme.

The segment's goal is to become the benchmark of the heat industry in the Nordic countries and the Baltic Rim area. Today, Heat is the leading heat provider in the Nordic countries and the primary district heating provider for Stockholm. It also has four district heating companies in Poland providing heating to around 30 cities and towns across the country. Heat is the competence centre for CHP production, waste incineration, district heating and outsourced energy services for local communities and industries.

## Finnish operations grew significantly

The segment's heat sales totalled 24.7 (21.7) TWh. Finland and Sweden accounted for 10.7 (9.8) and 9.3 (9.5) TWh respectively, and the other countries for 4.7 (2.4) TWh. In the Nordic countries, industrial steam accounted for 5.2 (5.1) TWh and district heating for 14.9 (14.3) TWh. Power generation at CHP plants was 5.0 (4.1) TWh.

During the year, Fortum continued to leverage its growth platforms in the Nordic countries and in the Baltic Rim area with an emphasis on integrating and further developing the acquired businesses. As part of the integration process, Fortum delisted its subsidiary Fortum Wroclaw S.A. from the Warsaw Stock Exchange in April.

Thanks to the acquisition of E.ON Finland (now Fortum Espoo), the number of Finnish district heating customers almost quintupled. Several new heat contracts were also signed with industrial customers in different markets.

As a prerequisite set by the Finnish Competition Authority for the implementation of the E.ON Finland acquisition, Fortum sold its combined heat and power plant in Hämeenlinna, Finland, in October.

## Environmentally benign investments

Fortum applied for an environmental permit for a new biomass fuelled CHP plant in Värtan, Stockholm. The planned production capacity is 300 MW heat and 140 MW electricity. The plant will cover around 25% of Stockholm's heat demand.

Fortum is also planning to build a new gas-fired CHP plant adjacent to the existing one in Espoo, Finland. The new plant's power production capacity will be approximately 260–300 MW and its district heating capacity around 200–240 MW. The plant is planned to be ready for production by the end of 2009.

In Poland, Fortum is investing in a new CHP plant in the city of Częstochowa. The plant can use up to 30% biomass fuels. The production capacity will be around 120 MW of heat and 64 MW of electricity. The plant will be ready by the end of 2009.

During the year, Fortum also modernised its coal-based heat plants in several regions in Poland. Thanks to the

**Key figures,** EUR million

| | 2006 | 2005 | Change % |
|---|---|---|---|
| Sales | 1,268 | 1,063 | 19 |
| heat sales | 976 | 834 | 17 |
| power sales | 198 | 145 | 37 |
| other sales | 94 | 84 | 12 |
| Operating profit | 264 | 269 | –2 |
| Comparable operating profit | 253 | 253 | 0 |
| Net assets | 3,407 | 2,551 | 34 |
| Return on net assets, % | 9.6 | 11.6 | –17 |
| Comparable return on net assets, % | 9.2 | 11.0 | –16 |
| Gross investments | 773 | 211 | 366 |
| Average number of employees | 2,345 | 2,186 | 7 |

project, the energy efficiency of the plants and the air in the regions will improve considerably.

In Estonia, Fortum is investing in a new CHP plant in the city of Tartu. The new power plant will use peat and biomass as its main fuel, and it is expected to be in commercial use at the end of 2008.

The use of renewable fuels in heat production increased compared to 2005. The amount of heat produced with biomass fuels and thus meeting the eco-label criteria was 2,429 (2,031) GWh in Finland. In Sweden, the successful reduction of fossil fuels continued and the total amount of renewables was close to 75% of the fuel usage.

## Certifications and international co-operation for sustainability

In 2005, Heat committed to acquiring environmental certificates for its operations in the Baltic Rim area by the end of 2006. In Poland, three of the five Fortum companies received the following environmental, quality and occupational safety certificates in July 2006: ISO 9001:2000, ISO 18001:2004 and OHSAS 18001:1999. The two remaining companies, acquired in late 2005, are to be ready for certification by the end of 2008.

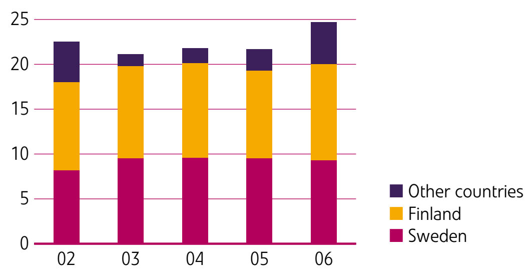
In Estonia, Fortum's subsidiary Fortum Termest was granted the same certificates in December 2006.

Fortum Värme became an active member of the Round Table on Sustainable Palmoil and of the WWF Global Forest and Trade Network. The first aims at promoting sustainable use of palmoil and the latter at eliminating illegal harvesting and at improving the management of threatened forests.

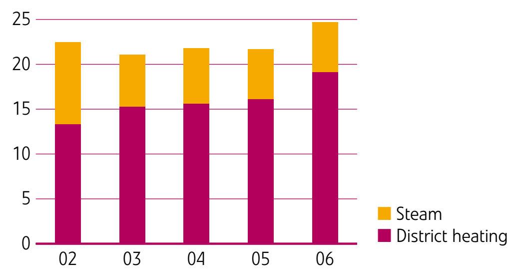
## Growth and enhanced customer care

Heat will continue its growth investments and to enhance customer care in the selected markets also during 2007. New online services will be developed in order to further improve the quality of customer service. Heat also aims to increase the usage of biomass fuels in its plants.

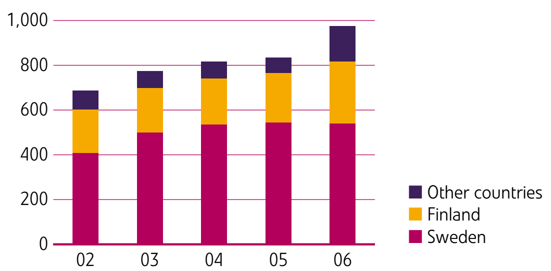
**Segment's district heating and industrial steam sales by area,** TWh



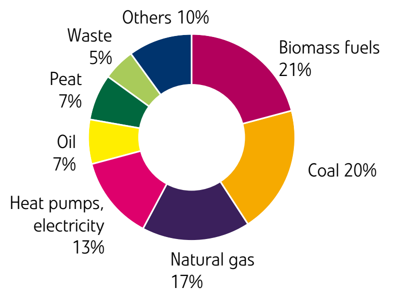

**Segment's district heating and industrial steam sales,** TWh




**Segment's district heating and industrial steam sales by area,** EUR million




**Fortum's heat production,** 25.8 TWh in 2006



# Improving network reliability

## Fortum continued its investments in network reliability and launched the delivery of automatic meter management in Sweden.




The reliability of Fortum's networks is over 99.9%.

Distribution is responsible for a reliable and secure electricity supply with excellent service to its customers. Fortum owns and operates distribution and regional networks in Sweden, Finland, Norway and Estonia and distributes electricity to a total of 1.6 million customers.

By ensuring uninterrupted 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 leading power and heat company.

The market share of electricity distribution, based upon volume transmitted in under 20 kV-distribution network, was 20% (14%) in Finland, 15% (14%) in Sweden, 3% (3%) in Norway and 3% (3%) in Estonia.

The acquisition of E.ON Finland (now Fortum Espoo) further strengthened Fortum's position as the leading Nordic distribution company. Distribution's volume in Finland increased by 6% and the customer base grew by some 162,000. Proximity to Fortum's other distribution networks is a clear benefit.

### Reliability investments proceeded

Distribution is committed to continuous improvement of its network reliability. By 2011, Fortum will invest EUR 700 million in the Nordic networks. As part of this, the EUR 200 million Reliability Investment Programme launched in 2005 continued according to plan. The aim of the programme is to halve the average yearly outage time. Fortum's current network reliability is already over 99.9%.

In Sweden, 1,350 km of overhead lines were placed under ground or otherwise secured, and in Finland, some 50 remote-controlled substations were installed. These measures will speed up fault repair and ultimately reduce the average outage times experienced by customers.

In general, Distribution's operations developed favourably during 2006 with improved network reliability for the customers. Good weather conditions, together with reliability enhancement actions contributed to these good results.

### Automatic meter management and improved two-way communication

Fortum invests in automatic meter management (AMM) in order to develop the Nordic electricity market. A standardised metering system is of utmost importance to the further integration of the Nordic market. A central characteristic of AMM is that it enables customers to be invoiced based on their actual electricity consumption and gives them the chance to monitor their consumption in real-time. Fortum believes that an improved understanding of electricity consumption through AMM will not only change individual consumption patterns, but will bring benefits to society at large.

**Number of electricity distribution customers by area,** 31 December 2006, thousands

| | 2006 | 2005 |
|---|---|---|
| Sweden | 865 | 860 |
| Finland | 580 | 410 |
| Norway | 97 | 97 |
| Estonia | 23 | 23 |
| Total | 1,565 | 1,390 |

**Volume of distributed electricity in distribution networks,** TWh

| | 2006 | 2005 |
|---|---|---|
| Sweden | 14.4 | 14.4 |
| Finland | 7.7 | 6.3 |
| Norway | 2.3 | 2.2 |
| Estonia | 0.2 | 0.2 |
| Total | 24.6 | 23.1 |

**Key figures,** EUR million

| | 2006 | 2005 | Change % |
|---|---|---|---|
| Sales | 753 | 707 | 7 |
| distribution network transmission | 636 | 592 | 7 |
| regional network transmission | 80 | 82 | –2 |
| other sales | 37 | 33 | 12 |
| Operating profit | 252 | 251 | 0 |
| Comparable operating profit | 250 | 244 | 2 |
| Net assets | 3,412 | 3,021 | 13 |
| Return on net assets, % | 8.4 | 8.8 | –5 |
| Comparable return on net assets, % | 8.3 | 8.6 | –4 |
| Gross investments | 313 | 115 | 272 |
| Average number of employees | 983 | 1,008 | –2 |

In May, Fortum signed a service agreement for the delivery of an AMM system in Sweden. In October 2006, Fortum started installing the new system to 835,000 distribution customers in its Swedish network areas. This means that all distribution customers will have automatic reading by 1 July 2009. The total value of the AMM procurement agreement is approximately EUR 240 million.

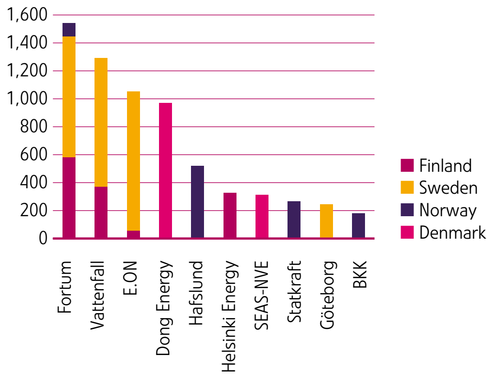
During the year Distribution put great emphasis on informing customers and communicating its reliability measures in Sweden and Finland. Fortum has responded to a growing customer demand for information about outages in its distribution network. Planned interruptions due to network construction and maintenance as well as outages caused by failure are shown in real-time on maps on Fortum's internet pages in Sweden and Finland. A similar service is being planned for Norway.

In Norway, Fortum implemented customer guarantees that ensure that a customer's electricity services are handled in a timely manner or the customer is entitled to compensation. Fortum is the country's only energy company to give these kinds of guarantees. Similar guarantees are already in place in Sweden and Finland.

## Regulatory challenges remain at centre stage

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. Judgements as to whether the tariffs applied are reasonable or not can be made either before 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.

**Largest Nordic distribution companies,** thousand customers




Fortum's distribution business consists of

- the distribution and regional transmission of electricity and network asset management in Sweden, Finland, Norway and Estonia
- distribution network: 147,300 km of 0.4–20 kV cable and overhead lines and 52,600 distribution transformers
- regional network: 7,600 km of 20–220 kV cable 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 2006, Fortum's share stood at 21%.

In Sweden, the regulator has made decisions concerning the network prices for 2003 for a subsidiary of Fortum, Ekerö Energi. According to the decision the company should repay about EUR 1.9 million to its customers. Ekerö Energi has appealed the decision to court. The supervision of the prices for 2003 continues for Fortum areas, Stockholm and the West Coast. No decisions have been given yet. Additionally, the authority has decided on supervision of the network prices for 2004 for Stockholm, Hälsingland, Värmland, the West Coast and Ekerö Energi. Concerning 2005 there is a decision on supervision of Stockholm, the West Coast and Ekerö Energi. The authority has also revised the rate of return (WACC), and thus the potential sum to be repayed has been reduced.

In Finland, regulatory changes by the authority and a decision by the market court on the regulator's pricing principles had a positive effect on Fortum's pricing: only a very small over income is estimated for 2005 and only minor adjustments of tariffs will be needed in order to avoid over income for the period 2005–2007.

## Nordic environment programme

As a part of Distribution's Nordic environment programme, the cleanup of contaminated soil in old pole impregnation facilities was finalised during 2006. Distribution continues its programme to equip substations situated in groundwater areas with oil leakage tanks.

A basic principle of Distribution is to avoid using the greenhouse gas sulphourhexafloride (SF6) as an isolation material in wiring equipment and use alternative solutions instead. In maintenance work and when rebuilding the network and transformer substations, dismantled material will be reused to the highest possible degree. Other dismantled material is screened, sorted out and reused as efficiently as possible.

In 2006, Distribution actively participated in developing Fortum's approach to promote sustainable development with the 'Energihjälpen' energy saving concept. To read more about the concept, please refer to page 29.

## Continued focus on network reliability

Distribution will continue to improve its network through its Nordic Reliability Investment Programme and to implement a system for automatic meter management in Sweden in 2007. Fortum supports and promotes a harmonised Nordic approach to regulation, based on the principles set forth in the EU directive on common rules for the European integrated electricity market.

# Leading seller of eco-labelled electricity

## In a challenging market situation, Markets increased the number of customers also in 2006. To a growing extent, consumers prefer eco-labelled electricity products.



Markets sells electricity and energy services to consumers and business customers in Finland, Sweden and Norway. The segment buys all the electricity it sells to customers from the Nordic power exchange, Nord Pool. Markets also provides comprehensive services within energy portfolio management and energy efficiency.

### Becoming the energy supplier of choice

Fortum's ambition is to become the energy supplier of choice in the Nordic market. Customer satisfaction surveys, activity tracking and other research have shown that the quality of customer service is one of the most significant drivers of customer satisfaction and loyalty. Therefore Markets has defined high-quality customer services as a key focus area. During the year, this work was recognised also externally and rewarded in the international European Utility Awards competition. Thanks to the focused product and service development work of Markets and Fortum's shared Customer Services Unit, Fortum placed second in the 2006 competition in the Customer Excellence category.

The range of energy services Markets offers both to consumers and business customers is among the widest in the Nordic countries. Household customers can choose between a convenient and eco-labelled current-price contract, a safe fixed-price contract or a flexible contract based on pricing directly from Nord Pool. A growing trend among consumers in 2006 was to choose the eco-labelled current-price alternative.

For business customers, Markets has developed a comprehensive set of solutions to secure both electricity procurement and price in accordance with the customer's own risk profile. These solutions range from fixed price contracts to professional portfolio and risk management services. Markets also offered its business customers environmentally benign electricity. The electricity sold to all Fortum Smart and Fortum Balance customers is 100% hydropower.

While competition on the market and the customer activity in changing electricity suppliers continued to increase during the year, Markets was chosen by many new customers – a confirmation of competitive customer offerings.

Fortum's competitive electricity offerings resulted in a positive customer inflow during 2006.

### Electricity price and margin challenges

Markets sold 42.1 (40.2) TWh of electricity to a total of 1.3 (1.2) million customers in the Nordic countries. Electricity sales in 2006 increased compared to 2005, despite the expiration of some large customer contracts at the end of 2005. The acquisition of E.ON Finland (now Fortum Espoo) and successful customer recruitment campaigns both contributed to the positive trend.

The average retail price levels rose throughout the year in the Nordic countries. Both current- and fixed-price levels increased following the wholesale price development on Nord Pool. However, competition in the retail market has constantly been increasing and sales margins have been pressed, particularly in Finland. Despite this development, Markets has offered its customers competitive prices and was even able to cancel a planned price increase in Finland in November following the decreasing wholesale prices.

During the year, Fortum both lost and gained customers. By the end of the year, Markets' cumulative customer net flow was positive.

Fortum's vision to be the benchmark power and heat company and Market's strategic goal to become the energy supplier of choice require continuous development and substantial investments in modern customer, billing and

**Key figures,** EUR million

| | 2006 | 2005 | Change % |
|---|---|---|---|
| Sales | 1,912 | 1,365 | 40 |
| Operating profit | –6 | 32 | –119 |
| Comparable operating profit | –4 | 30 | –113 |
| Net assets | 176 | 228 | –24 |
| Return on net assets, % | –1.6 | 17.4 | –109 |
| Comparable return on net assets, % | –0.8 | 16.4 | –105 |
| Gross investments | 14 | 10 | 40 |
| Average number of employees | 825 | 745 | 11 |

metering systems. During the year, Fortum faced challenges in implementing a new customer management and billing system in Sweden. Costs and provisions caused by the implementation had a negative effect on the segment's comparable operating profit.

## Customer guarantees

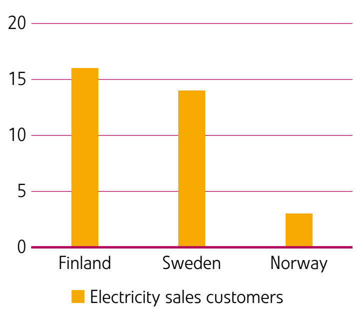
Markets' goal is to have the most satisfied and loyal customers, and consequently customer satisfaction is regularly monitored. Feedback is obtained from various channels and a Nordic customer satisfaction survey is conducted annually. In 2006, customers were satisfied especially with Fortum's wide product selection, good service standard and the high know-how of personnel. Areas of improvement included the negative image of Fortum's price-quality ratio and capability to convey its strong commitment to sustainability.

Fortum's retail electricity customers are served by Markets' sales representatives as well as by the staff of Fortum's shared Customer Services Unit. This unit manages Fortum's Customer Center, provides billing and back office services, meter reading management and technical customer service.

Consumer interests are looked after by a Customer Ombudsman, an independent function reporting 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. In 2006, the Ombudsmen helped to resolve a total of some 385 cases, around 300 in Sweden, 60 in Finland and 25 Norway.

The company's promise of customer service quality is expressed in the Customer Guarantees. They include financial compensation if the service is not up to standard. Services covered include meter-readings, billing, change of supplier and overall customer service. To further improve customer services, Markets actively works together with industry organisations to simplify and speed up the dialogue between customers and their electricity providers.

**Market share by Nordic country,** %




## Sustainable customer solutions

The importance of sustainable energy alternatives is growing and Markets is the leading provider of eco-labelled electricity in the Nordic countries. Fortum also governs a Nordic environmental fund. The fund's capital is based on the sale of electricity with the Bra Miljöval eco-label in Sweden. In 2006, the fund financed three projects to mitigate the impacts of hydropower generation.

Sustainable use of electricity is one of the strategic approaches in Markets' customer communication. In Sweden, Fortum successfully launched a new concept, Energihjälpen, which helps both large and small customers to cut down the total sum of their electricity bill through simple means and thereby also promote sustainable consumption. The lessons of the Swedish concept will be investigated and later applied in Finland. Helping customers to save energy is an investment in the future and may also become a vehicle for future growth.

## Automatic meter management will empower customers

Public interest in the electricity sales business has increased in the Nordic countries. Customers expect smooth market routines and competitive services. Saving energy will be an important trend in the future.

Metering is one of the cornerstones for the functionality of the market. Fortum has begun the rollout of a new automatic meter management (AMM) system in Sweden. AMM enables the remote collection of meter readings and ultimately leads to many significant improvements for customers. Invoicing is based on actual consumption, preliminary and settlement invoices will no longer be needed. Fortum's AMM system also enables a variety of features that exceed Swedish legislative requirements such as the possibility of real-time two-way communication and meter reading by the hour. Customers will also be able to access more detailed information about their electricity consumption patterns and costs.

Furthermore, the new system will give electricity providers the possibility to price electricity by the hour in the future. On an individual level, this means that customers will be better equipped to save energy and influence their costs by making simple changes in their electricity use. On a societal level it means that peak load consumption can be reduced, yielding significant environmental gains as the need for using reserve production capacity is reduced.

Fortum believes that empowering customers through AMM will improve Fortum's position and competitiveness as the leading customer-oriented electricity company.


*The power of positive energy.*
*The power of positive thinking.*

# Better for people, better for the environment

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



Fortum's commitment to sustainable development is expressed in its Core Purpose and its shared values, which are some of the key elements of the Fortum Compass. A balance between economical, environmental and social aspects is therefore a guiding factor for all decision making and activity in the company. Good environmental and social performance, together with a reputation as a reliable business partner, help Fortum in achieving its strategic goal to become the energy supplier of choice.

Fortum received two significant rewards for its environmental and social performance in 2006. In September, Fortum secured its place on the global Dow Jones Sustainability World Index and in December, Storebrand ranked Fortum the most responsible energy company in its global Best in Class report.

Dow Jones Sustainability Indexes
Member 2006/07

BEST IN CLASS
environmental and social performance
STOREBRAND SRI

### Turning principles into action

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*.

Our Sustainable Development Policy states that we:

- contribute to the responsible use of natural resources and the mitigation 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 for human rights with all 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 Environmental and Safety Guiding Principles that are available on our website at *www.fortum.com*. We turn the principles into action by setting development targets on Fortum's Sustainable Agenda.

### Sustainable Development Agenda

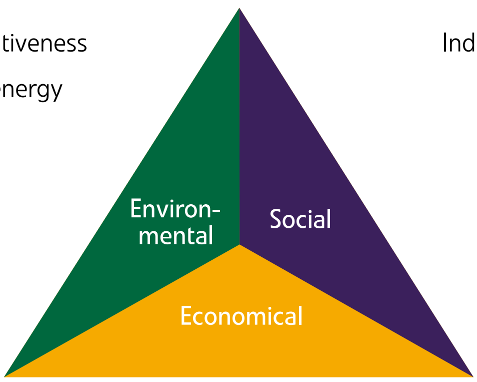
Enhanced carbon competitiveness

Promotion of renewable energy

Efficient use of resources

Mitigation of local environmental impacts

100% environmental certification




Industry benchmark in safety (employees & society)

Growth opportunities for highly-motivated people

Energy supplier of choice

Responsible supply chain management

Good corporate citizenship

Industry benchmark in financial performance

Operational excellence

# Focus on environmental performance







## Fortum continuously improves its environmental performance to meet the objectives defined 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. Fortum takes the threat of climate change seriously and tries to improve its performance especially in this area.

### Enhanced carbon competitiveness

Fortum aims at continuous improvement of its carbon competitiveness and strives to keep the specific greenhouse gas emissions of its power generation among the lowest in the European power industry. This goal was strengthened during 2006 by setting target values for the carbon exposure: annual target of 200 g/kWh or under, and five-year average target 120 g/kWh or under. Fortum continuously monitors its performance and takes the actions required to maintain the desired position.

In 2006, 84% of the electricity generated by Fortum was free of carbon dioxide emissions. $CO_2$ emissions from Fortum's own power plants in 2006 totalled 11.0 million tonnes, some 70% higher than the previous year. The clear rise was caused by low production of hydro power in the Nordic market area and a consequential increase in use of condensing power plants. The specific $CO_2$ emissions of the company's total electricity generation, including wholly and partly-owned power generation, rose to 107 g/kWh, which is still among the lowest of the major European power companies and clearly below Fortum's target value.

In 2006, Fortum revised its position on climate change and emissions trading. In this new position, the short- and long-term aspects of the further development of the EU emissions trading scheme were highlighted and an outline for a roadmap towards a global solution in climate change mitigation was given. In Fortum's opinion, the medium-term solution should be based on global, all-inclusive emissions trading with auctioning as the allocation method.

Fortum has been a pioneer in utilising the Kyoto mechanisms. During 2006, we extended our activity in this area by investing EUR 2 million in the Baltic Sea Region Testing Ground Facility. During 2000 and 2002, Fortum invested a total of USD 6 million in the World Bank Prototype Carbon Fund. These funds invest in projects that aim to reduce greenhouse gas emissions. Achieved emission reductions can be utilised in the EU emissions trading scheme as soon as an international registry system is in place.

Fortum is a pioneer in utilising the Kyoto mechanisms, which are important tools in the work against climate change.

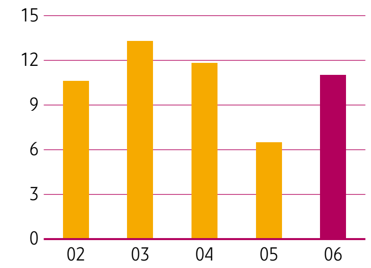
**Key figures**

| | 2006 | 2005 |
|---|---|---|
| $CO_2$ emissions, t | 11,000,000 | 6,500,000 |
| $SO_2$ emissions, t | 15,300 | 9,600 |
| $NO_x$ emissions | 16,500 | 10,600 |
| $CO_2$ emissions of power generation, g/kWh (own plants and partly-owned plants) | 107 | 38 |
| Overall efficiency of fuel use, % | 73 | 80 |
| Share of renewable energy sources in power generation, % | 40 | 42 |
| Share of carbon-free energy sources in power generation, % | 84 | 93 |
| Share of renewable energy sources in heat production, % | 43 | 39 |
| Utilisation of gypsum, % | 94 | 98 |
| Utilisation of ash, % | 65 | 72 |
| Utilisation of conventional waste, % | 49 | 38 |

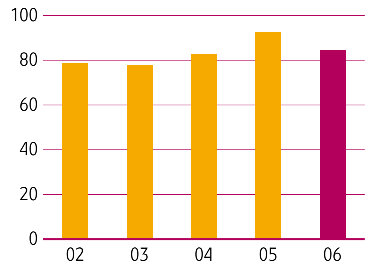
### Promotion of renewable energy

Fortum's goal is to continuously develop hydropower generation and to increase the use of biomass and waste-derived fuels whenever technically and economically viable.

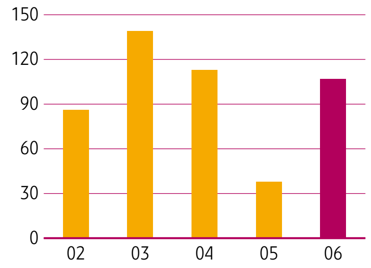
**Carbon dioxide emissions,** million tons



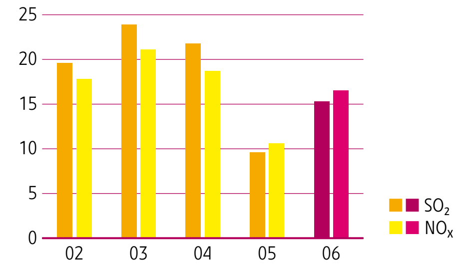

**Share of carbon-free energy sources in power generation at own and partly-owned power plants,** %



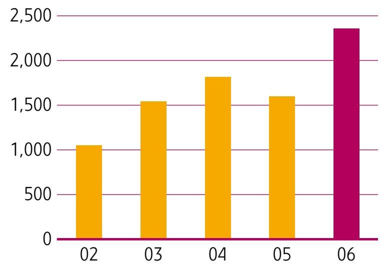

**$CO_2$ emissions from power generation at own and partly-owned power plants,** g/kWh



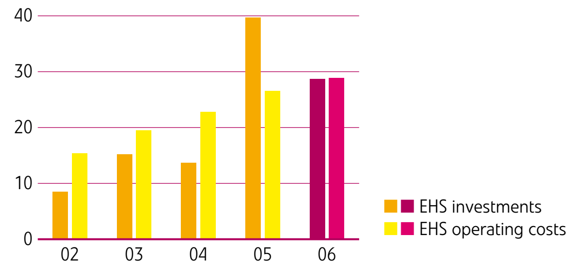

**Sulphur and nitrogen emissions,** 1,000 t



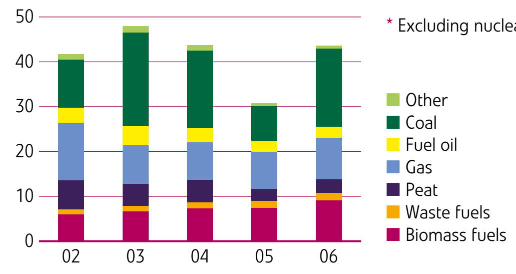

**Particulate emissions,** t




**EHS investments and operating costs,** EUR million

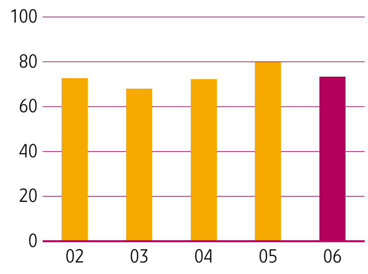



**Fuel use***, TWh

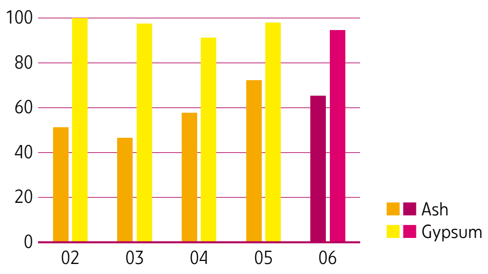



* Excluding nuclear fuel

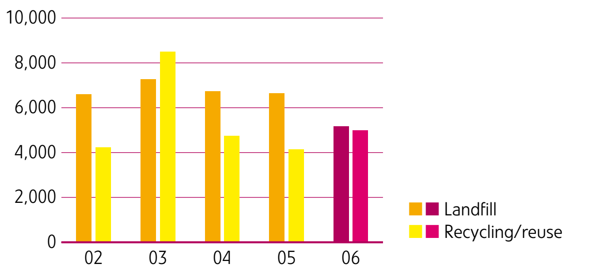
**Fuel use efficiency,** %




**Utilisation of by-products,** %




**Conventional waste,** t




Environmental indicators are unverified and minor changes are possible during a later assurance process. Compared to 2005, the figures for 2006 do not include Haapavesi and Hämeenlinna power plants, which were sold during 2006. On the other hand, the figures cover Fortum Ploc, Fortum Wroclaw, Fortum Lietuva and Fortum Espoo, which were acquired during 2005 and 2006.

During 2006, the company completed refurbishment projects at three hydropower plants, resulting in 7.1 GWh of additional renewable electricity annually. This equals the annual electricity consumption of 350 one-family houses with electric heating. In Finland, Fortum took into use two new heating boilers using biomass fuels.

In 2006, hydropower and biomass fuels accounted for 40% of Fortum's electricity generation. Biomass fuels and heat pumps accounted for 43% of Fortum's total heat generation. The total use of biomass rose to 9.1 TWh, representing an increase of 22% from the previous year. During 2006, the company continued the planning process of a large-scale biomass-fuelled CHP plant in Stockholm and an application for an environmental licence was submitted to the authorities. In Finland, Fortum decided to invest into two new heating boilers using biomass and peat.

To ensure an ethically and environmentally sustainable supply of biomass fuels, Fortum has also become an active member of the WWF's Global Forest and Trade Network.

## Efficient use of resources

Fortum promotes a responsible use of natural resources through systematic identification and implementation of measures to improve energy efficiency, 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. Combined heat and power production (CHP) with high energy efficiency plays a significant role in Fortum's energy production. A decision was made to start plans for a new gas-fired CHP plant in Espoo. CHP and heat plants accounted for 76% of Fortum's non-nuclear fuel usage in 2006, while overall efficiency in fuel use decreased compared to the year before as a result of the increased use of condensing power plants.

The utilisation of gypsum from flue gas desulphurisation remained at a high level, whereas the utilisation of ash dropped to 65% due to increased ash volumes. The use of waste-derived fuels rose by 6% to 1.6 TWh, representing 3.7% of Fortum's non-nuclear fuel use.

## Mitigation of local environmental impacts

Fortum mitigates the local environmental impacts around its facilities by applying proven, state-of-the-art technology and advanced operating and maintenance procedures. All the company's major power plants are equipped with technologies to reduce sulphur dioxide, nitrogen oxides and particulate emissions into the environment. In 2006, Fortum invested in enhanced air pollution control at the Haapavesi Power Plant. In hydropower generation, restoration projects are implemented in river systems to improve habitats for endangered species and to support the recreational use of waterways. During 2006, Fortum participated in conservation projects at the Gullspång and Klarälven rivers and Lake Sommen in Sweden and at the river Oulujoki in Finland.

## 100% environmental certification

Most of Fortum's business units and subsidiaries have certified their management systems in accordance with the ISO 14001 standard, and some units in accordance with ISO 9001/9002 and OHSAS 18001 as well. In 2006, new environmental, quality and safety certificates were granted to heating companies Fortum Heat Polska, Fortum DZT and Fortum Częstochowa in Poland and Fortum Termest in Estonia. Environmental and quality certificates were granted to Fortum Distribution in Estonia and to Fortum Markets in Norway. Furthermore, Fortum Service in Sweden, Finland and the UK was granted safety certificates. Today, certificates cover approximately 95% of Fortum's business volume. The newly acquired businesses will develop readiness for certification within three years of acquisition.

## Investing in the environment

In 2006, Fortum invested a total of EUR 29 (40) million in improving environmental and safety performance. These investments mainly relate to air-pollution control, dam safety and radioactive waste management. Environment, Health and Safety (EHS) related operating costs amounted to EUR 29 (27) million, covering e.g. air-pollution control, soil protection, effluent treatment, waste management and occupational safety.

Fortum's production facilities meet the current regulatory requirements. Some new requirements will be imposed in 2008 along with the implementation of EU environmental legislation for large combustion plants. Most of the required actions have already been taken and no major investment needs are foreseen in the near future.

## 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 has 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 2006, EUR 13 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.

# Being a good corporate citizen

## Fortum's corporate citizenship is clearly manifested in the company's Core Purpose: "Our energy improves life for present and future generations."

In this context, the word 'energy' means more than the energy we produce and sell. The strive to be a good corporate citizen is present in every aspect of our business.

Our **customers** want us to provide them with the products and services that best match their individual needs, at a reasonable price. We continuously develop our business to meet these expectations, and at the same time, we hope to promote sustainable energy use.

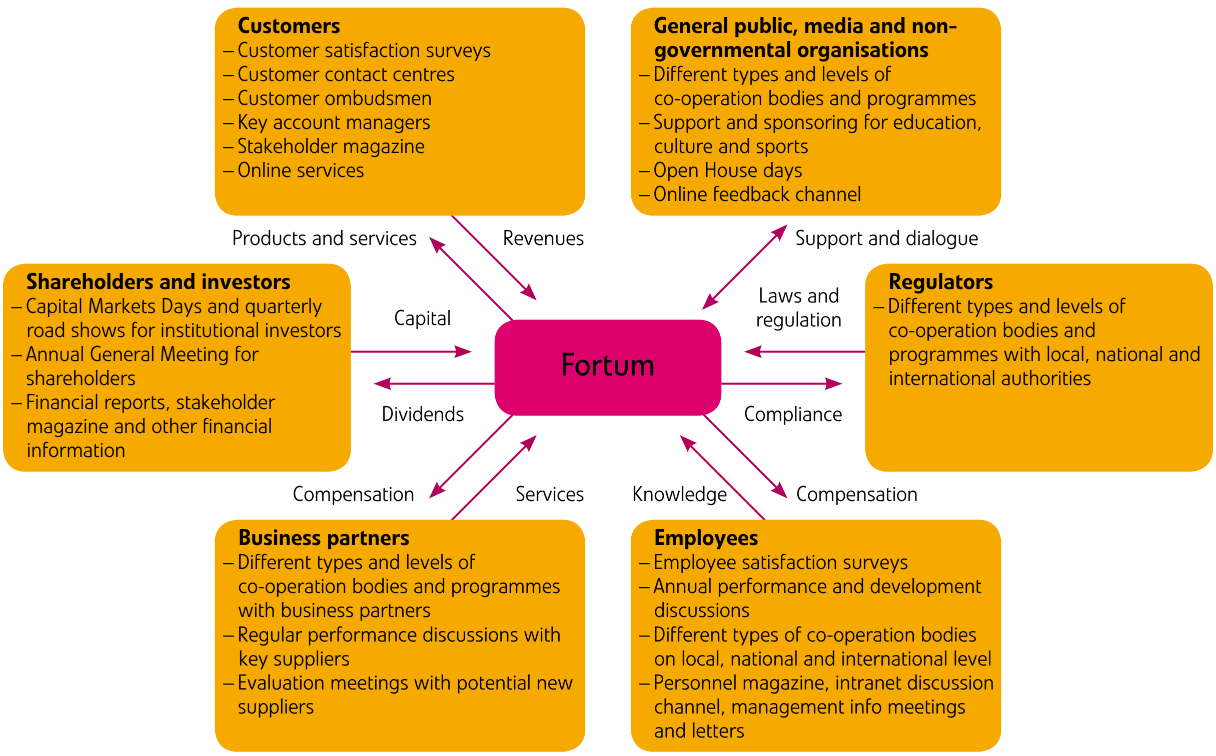
**The general public** wants us to operate in a manner that is good for society and the environment. We contribute to the society by paying taxes, being a responsible employer and a good neighbour and by supporting charitable causes. We work actively to maintain an open dialogue. We strive to reduce the environmental impact of our activities by modernising our facilities, and we co-operate closely with national and local environment authorities and organisations. We support research and development programmes related to our business and donate considerably to charity. To read about Fortum's economic impact, turn to page 40.

Our **employees** want to work for a company that takes care of its employees and a company they can be proud of. We strive to promote well-being through safe and stimulating working conditions. We respect the culture and values of individuals and groups, and we promote equality.

Our **business partners** want us to be a reliable partner with high ethics. They appreciate a good price/quality ratio, which improves the customer satisfaction both for them and Fortum.

At the end of 2006, the Finnish state owned 50.8% of Fortum and international investors 35.4%. The rest is owned by Finnish institutions and about 50,000 private **shareholders**. All owners expect us to achieve our financial targets and to provide a good return on their investment. Our share is quoted on the Helsinki Stock Exchange and the share price is affected by investor decisions. If Fortum makes a profit, shareholders are paid dividends according to our dividend policy, which corresponds to a payout ratio of 50% to 60% on the average.

### Relationships with stakeholders



# People development in an evolving business

## A rapidly changing organisation posed new opportunities and challenges to Fortum employees.

In 2006, Fortum employed an average of 8,910 (8,939) people. At the end of the year, the number of personnel was 8,134 (8,955) of which 7,681 (8,769) were permanent employees. Out of the permanent employees, 3.7% were part-time. Altogether there were 373 redundancies as result of mergers and reorganisations. A major restructuring in Poland caused 292 of them.

Women represented 23% (22%) of the total workforce and accounted for 34% (32%) of corporate and business unit management. In Finland, a new comprehensive survey and plan for promoting the equality between men and women was published in 2006.

### Acquisitions and divestments shape the organisation

After finalising the acquisition of E.ON Finland (now Fortum Espoo) in June, around 340 employees were integrated into Fortum's organisation during the autumn. At the same time, the Hämeenlinna power plant with 26 employees and the Haapavesi power plant with 50 employees were sold in Finland. During the autumn, Fortum divested its industrial maintenance services business involving some 930 employees. A centralisation of customer services and certain distribution operations was started in Finland. However, the overall geographical structure of Fortum remains almost the same as the previous year. Finland and Sweden are home to 77% of the employees.

### Growth opportunities for motivated people

As the business environment and Fortum's operations evolve, new competence requirements – and individual growth opportunities – emerge. Job rotation between business units, countries and functions plays a key role in supporting people to evolve. At Fortum, job rotation and workforce planning in the units are supported by group-wide career and development planning processes. A yearly development discussion and an individual development plan are every Fortum employee's right.

In 2006, internal recruitment had 207 (229) vacancies, and there were 215 (176) transfers between units. Fortum will continue to focus on job rotation and diversity also in management teams. One third of all business unit management team members accepted a new position in 2006.

The majority of employees participated in a workshop to discuss their teams' behaviour and how it reflects Fortum's shared values and brand.

### Improved job satisfaction

At Fortum, the annual job satisfaction survey is a central tool when developing the working environment and motivating people to improve the way of working and co-operation within the company. The employee response rate in the 2006 survey was again excellent at 82%.

The results showed improvements especially in the following areas: managerial work, working atmosphere, innovativeness of actions and mental well-being of employees. In addition, the overall work community index increased again by two points and is now at a very good level.

**Number of employees by segment,** 31 December 2006

| | 2006 | Change % (05–06) | 2005 | 2004 |
|---|---|---|---|---|
| Power Generation | 3,347 | –22.7 | 4,330 | 4,377 |
| Heat | 2,290 | –4.3 | 2,393 | 2,146 |
| Distribution | 1,032 | 9.1 | 946 | 1,079 |
| Markets | 901 | 17.2 | 769 | 709 |
| Other operations | 564 | 9.1 | 517 | 583 |
| Total | 8,134 | –9.2 | 8,955 | 8,891 |

### Key figures

| | 2006 | Change % (05–06) | 2005 | 2004 |
|---|---|---|---|---|
| Average number of employees | 8,910 | –0.3 | 8,939 | 8,592 |
| Number of employees at 31 Dec. | 8,134 | –9.2 | 8,955 | 8,891 |
| of whom permanently employed | 7,681 | –12.4 | 8,769 | 8,664 |
| Female, % | 23 | | 22 | 25 |
| Women in management positions, % | 34 | | 32 | 24 |
| Training days per person | 4.0 | 8.1 | 3.7 | 3.0 |
| Training expenditure, EUR mill. | 7.5 | –30.0 | 10.8 | 7.0 |
| Health care expenditure*, EUR per person | 445 | –1.5 | 452 | 425 |
| Expenditure on recreation and leisure activities*, % of salaries paid on working time | 0.4 | | 0.4 | 0.4 |
| Lost workday injury frequency (number of injuries resulting in absence of more than one day per million hours worked) | 3.7 | –22.9 | 4.8 | 5.9 |
| Fatalities | 2 | 0 | 2 | 2 |

* Finland

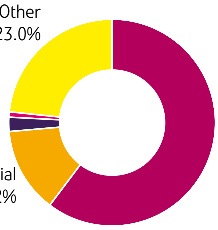
The results also show that attention paid to previous years' development areas is paying off – almost all of these areas are continuing to improve. Areas that have not shown adequate improvement from last year included the equal distribution of individual workloads and employees' perception on the possibility to affect their own work. The performance and development discussion process continues to be a development area as well. Detailed development plans based on the survey results are done in the business units and monitored thoroughly also at the corporate level.

## Systematic management development

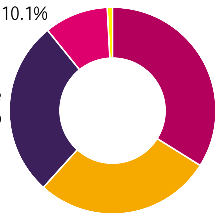
Since 2002, Fortum has consistently developed and implemented a management training strategy. During 2006, the development of internal management training took a step forward with the introduction of two new programmes while the existing training programmes continued as well.

The first new programme, Master, is a series of independent modules concentrating mainly on managers' day-to-day practical people management and development challenges. The programme aims at harmonising and ensuring the quality of managerial work. To further support this goal, the IT system for human resource management will be extended to include special manager's functionalities from the first half of 2007.

**Field of education,** 31 December 2006, %




**Level of education,** 31 December 2006, %




**Number of employees by country,** 31 December 2006

| | 2006 | Change % (05–06) | 2005 | 2004 |
|---|---|---|---|---|
| Sweden | 3,321 | –4.1 | 3,463 | 3,412 |
| Finland | 2,976 | –14.4 | 3,476 | 3,605 |
| Poland | 990 | –16.6 | 1,187 | 924 |
| Estonia | 280 | –6.7 | 300 | 427 |
| Norway | 261 | –2.6 | 268 | 286 |
| Other countries | 306 | 17.2 | 261 | 237 |
| Total | 8,134 | –9.2 | 8,955 | 8,891 |

The other new programme, Leading Fortum Forward, brings management teams together for a business-oriented learning process. The programme aims at developing management's leadership skills, improving strategy implementation and strengthening teamwork.

A total of 353 employees participated in Fortum's own management development programmes. In addition to corporate-level initiatives, people development was also promoted within the business units. Investments in people development during 2006 amounted to EUR 7.5 (10.8) million. Fortum employees spent an average of 4.0 (3.7) days in training.

## Making the Fortum Compass alive

Fortum's management tool, Fortum Compass, describes the key elements that are needed to steer individuals, teams and the whole company with the same purpose towards the same vision. The shared values of the company build the base for all actions.

Working with the Compass and building a shared understanding of it was emphasised heavily in 2006. The majority of Fortum employees participated in a workshop to discuss their teams' behaviour and actions and how they reflect Fortum's shared values and brand. An important topic in these workshops was also Fortum as a member of society. The teams sought concrete improvement areas and activities for issues of priority. At the same time, the understanding of the company's shared values and strategic targets and their connection to the daily work increased.

## Competitive remuneration to reach strategic targets

Fortum's remuneration strategy is aimed at supporting the company's strategic targets by strengthening a strong performance culture and building Fortum's position as an attractive employer. Fortum's goal is to offer competitive remuneration in each country of operation while maintaining cost efficiency. Benchmark studies conducted in 2006 in Sweden and Finland, for example, confirmed Fortum's remuneration to be competitive in both countries.

In addition to a base salary, a big majority of Fortum employees are covered by an annual performance-based bonus system. Individual bonus targets are set to support strategic business objectives and are mutually agreed between employee and superior in an annual performance discussion at the beginning of the year.

The final annual bonus is based on the financial results of the Group and each business unit and on the individual or team performance. Consequently, the average bonus payments in 2005 (paid in 2006) varied between units and individuals. On average, approximately 3-8.5% of the annual salary of a Fortum employee was paid as a bonus in 2006.

The Fortum Personnel Fund has been in operation since 2000 and it covered 3,659 Finnish employees in spring 2006 when it paid a total of EUR 2.9 million in shared profit to its members.


The number of occupational accidents decreased to 3.7 and was clearly below our target value of 4.0 injuries per one million working hours.

For more information on the Group's remuneration, please refer to pages 47–49.

## A safe workplace for all

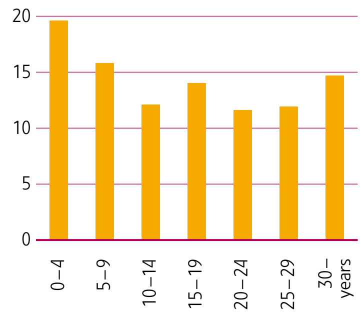
Fortum's goal is to provide a safe workplace for all employees. To attain this goal, a comprehensive safety development effort continued in 2006. The focus was on behaviour-based safety training as well as on the implementation of Fortum's Safety Handbook and related procedures throughout the company. Nearly 4,000 safety walks carried out by the company's management and supervisors also raised the general awareness and commitment to occupational safety.

Over 90% of Fortum employees have participated in safety trainings by the end of 2006. A corporate-wide data base system was introduced to facilitate the systematic recording and handling of occupational accidents and other safety-related incidents and improvement proposals.

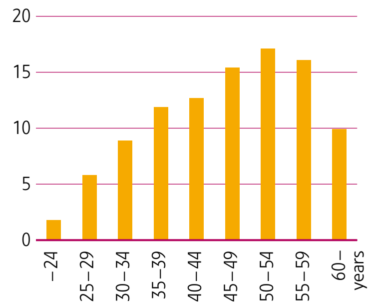
In 2006, there were 55 occupational accidents leading to an absence of more than one working day. This means 3.7 injuries per one million working hours, which is below Fortum's target value of 4.0 for 2006. The target for 2007 is less than 2 injuries per million working hours.

Although the injury frequency decreased, 2006 saw two fatal accidents. A Fortum employee died in an accident at a customer's manufacturing facility and a contractor's employee died in an accident at a district heat network construction site. These accidents, as all accidents at Fortum, have been thoroughly investigated to help preventing similar accidents in the future. Improving risk assessment practises and adherence to given instructions are key challenges in meeting the zero accidents goal.

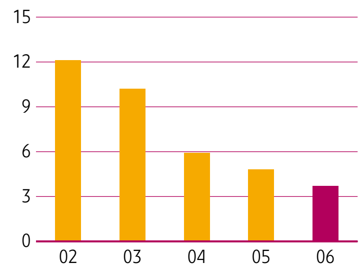
**Duration of employment,** 31 December 2006, %




**Age distribution,** 31 December 2006, %




**Lost workday injury frequency,** injuries/mill. hours worked




**Safety key figures**

| | 2006 | 2005 |
|---|---|---|
| Injury frequency (number of injuries/ million hours worked) | 3.7 | 4.8 |
| Number of safety observation tours | 4,000 | 1,500 |
| Number of improvement proposals and near-miss reports | 1,950 | 1,650 |

# The economic impacts



## Fortum's business creates economic well-being in societies through the monetary flows between the company and its stakeholders.

States and municipalities benefit from the income taxes paid by Fortum employees on their salaries.

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, while 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 customers in the Nordic countries and the Baltic Rim area

Fortum serves 1.3 million electricity sales customers and distributes electricity to 1.6 million households and businesses in its market area. Furthermore, the company provides customers with heating and cooling as well as operation and maintenance services. In Stockholm, Fortum also provides town gas. Income from customers from continuing operations in 2006 amounted to EUR 4,516 (3,983) million. Electricity sales in Finland represented 33% (31%) of the national consumption, while in Sweden the corresponding figure was 20% (21%). The percentage was considerably lower in all other markets served.

### International supplier network

Fortum's business is primarily the refining of natural energy sources into electricity and heat. Almost half of the income from customers was paid to suppliers of goods and services. In 2006, cash payments to suppliers totalled EUR 2,290 (1,672) million. Of this, Finnish, Swedish and Russian suppliers accounted for the main part.

### Employees in 15 countries

The number of employees in 2006 averaged 8,910 (8,939). The vast majority, 90%, of Fortum employees work in Finland, Sweden and Poland, but the remaining 10% are spread across in 12 different countries. The total value of wages, salaries, remunerations and indirect employee costs paid by Fortum to its employees was EUR 508 (481) million.

### Share value increased

Fortum had more than 50,000 shareholders at the end of 2006. The Finnish State owned 50.8% (51.5%), while international investors held 35.4% (33.2%). A proposal was made to the Annual General Meeting that Fortum should pay a total dividend of EUR 1,119 (987) million, or EUR 1.26 (1.12) per share to the shareholders for the financial year 2006. During the year, the price of Fortum's shares on the Helsinki Stock Exchange increased by 36%.

### Tax income to the community

In 2006, Fortum paid EUR 374 (298) million in taxes from continuing operations. States and municipal governments also benefit from the income taxes paid by Fortum employees on their salaries. Furthermore, Fortum paid a total of EUR 72 (63) million in environmental taxes and charges relating to its fuel use and emissions.

### Investments in growth

In 2006, Fortum acquired E.ON Finland (now Fortum Espoo) and majority holdings in two Polish district heat companies. In Russia, the company increased its share in Territorial Generating Company No. 1 to slightly over 25 percent. Fortum's future growth investments totalled EUR 972 (182) million, and cash from divesting activities amounted to EUR 125 (56) million.

## Support for research, education, culture and sports

The Fortum Foundation distributed a total of EUR 510,000 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 280,000 to various charitable causes. These included those aiding children and young people, environmental projects and culture.

Fortum was the main partner of WWF's Children's Environmental programme in Finland and made an additional EUR 100,000 donation to John Nurminen Foundation's Clean Baltic Sea project.

The main cultural support included Folkoperan in Stockholm, the Finnish Chamber Orchestra as well as the WeeGee exhibition center in Finland.

Fortum's main sponsorship projects within sports were the Swedish Athletic Association, Finnish Alpine Ski Team and Skiföreningen in Norway.

**Examples of Fortum's sponsorship programmes and donations to charitable causes**

| | |
|---|---|
| Sports: | Alpine World Cup events at Levi and Åre |
| | Football Club Honka |
| | Finlandia Junior Games and Stafettkarnevalen |
| | Finnish Alpine Ski Team |
| | Finnish Paralympic Committee |
| | Holmenkollen Ski Association |
| | Swedish Athletics Association |
| Culture: | Finnish Chamber Orchestra |
| | Folkoperan |
| | Jean-Baptiste Vuillaume violin |
| | Millennium Technology Prize |
| | WeeGee Exhibition Centre |
| Society: | The Finnish Children and Youth Foundation's project in Russian Carelia |
| | Keep the Archipelago Tidy |
| | Red Cross, informal carers programme |
| | WWF Naturewatch |

**Fortum's economic impact,** EUR million

| | 2006 | 2005 |
|---|---|---|
| Customers<br>Income from customers on the basis of products and services sold, and financial income | 4,516 | 3,983 |
| Suppliers<br>Cash payments to suppliers of raw materials, goods and services | –2,290 | –1,672 |
| Employee compensation<br>Wages, salaries, remunerations and other indirect employee costs | –508 | –481 |
| Funders compensation<br>Dividends, interest and financial expenses paid to investors | –1,180 | –767 |
| Taxes<br>Income taxes paid by Fortum | –374 | –298 |
| Usage of assets<br>Investments in fixed assets | –412 | –291 |
| **Deficit/Surplus cash continuing operations** | –248 | 474 |
| | | |
| Cash from divesting activities<br>Income from divestment of business activities or plants | 125 | 56 |
| Future growth investments<br>Investments made to expand business operations | –972 | –182 |
| Proceeds/Return from/to funders<br>Proceeds/Payments of liabilities from/to funders | 464 | –1,022 |
| **Cash flow from discontinued operations** | – | 1,317 |
| **Net change in cash** | –631 | 643 |


*Collect your thoughts and feelings.*
*Make good decisions every day.*

# 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.

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. For 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.

Furthermore, Fortum complies with the Rules of the Helsinki Stock Exchange.

### 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 (CEO) 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 person serves as a member of more than one of them.

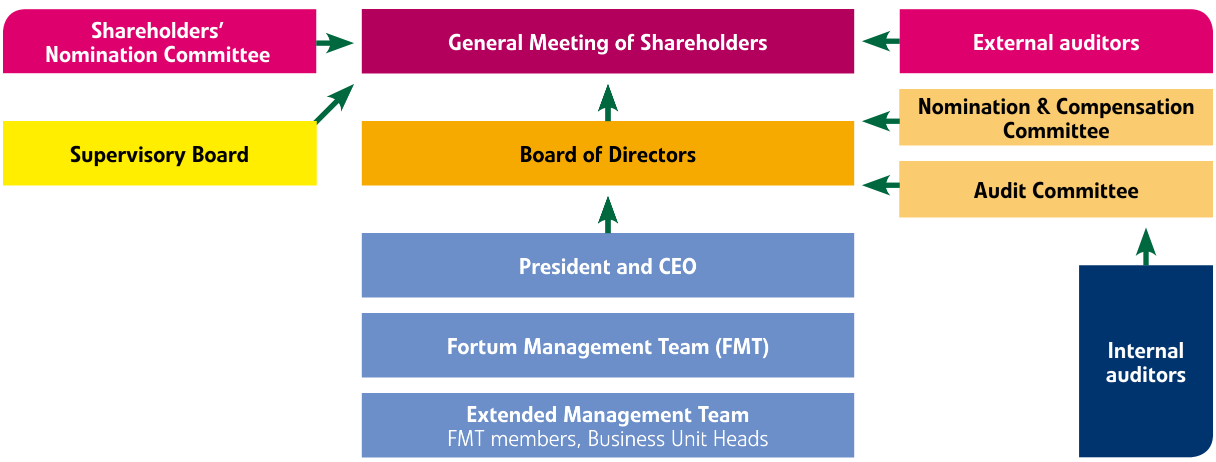
Day-to-day operational responsibility at the Group level rests with the President and CEO assisted by the Fortum Management Team, and at business unit level with each unit's head assisted by a management team (see corporate structure on page 3).

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 own staff and other resources.

### General Meeting of Shareholders

The right of shareholders to make decisions over company matters is exercised at an appropriately convened General Meeting 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. The duties of the Annual General Meeting are, among other things, to approve the parent company and consolidated income statement and balance sheet, agree on the amount of dividends, appoint the members of the Supervisory Board and the Board of Directors and decide on their compensation, and elect the auditor. 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 as shareholders in the company's shareholder register, which is maintained by the Finnish Central Securities Depository Ltd, 10 days prior to the meeting are entitled to attend the General Meeting



of Shareholders. Shareholders who hold their shares under the name of a nominee can be temporarily registered in the company's shareholder register to allow attendance at the General Meeting of Shareholders.

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 10 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.

A dividend as decided by the General Meeting is paid to shareholders who, on the date of record for dividend payment, are registered as shareholders in the company's shareholder register.

## Shareholders' Nomination Committee

By decision of Fortum's Annual General Meeting in 2006, 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 and 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 November preceding the Annual General Meeting and whose ownership is registered in the book-entry system, are entitled to appoint the members representing the shareholders on the Committee. Should a shareholder not wish to use its right to nominate, this right will be passed on to the next biggest shareholder.

In November 2006, the following persons were appointed to the Shareholders' Nomination Committee: **Markku Tapio** (Chairman), Director General, Ministry of Trade and Industry; **Harri Sailas**, President and CEO, Ilmarinen Mutual Pension Insurance Company; and **Jorma Huuhtanen**, Director General, Social Insurance Institution.

In its meeting on 30 January 2007, the Shareholders' Nomination Committee decided to propose to the Annual General Meeting, which will be held on 28 March 2007, that the following persons are elected to the Board of Directors: Mr Peter Fagernäs as chairman, Ms Birgitta Kantola as deputy chairman and Mr Esko Aho, Ms Birgitta Johansson-Hedberg, Mr Matti Lehti, Ms Marianne Lie and Mr Christian Ramm-Schmidt as members.

## 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 2007 there were 11 members. The Supervisory Board meetings are also attended by employee representatives who are not members of the Supervisory Board. More than half of its members must be present to constitute a quorum. In 2006, the Supervisory Board met five times. Average attendance at these meetings was 72%.

At the 2006 Annual General Meeting, the following persons were elected to the Supervisory Board for a one-year term of office:

Mr **Timo Kalli**, born 1951, Member of Parliament, Chairman
Ms **Rakel Hiltunen**, born 1940, Member of Parliament, Deputy Chairman
Mr **Martti Alakoski**, born 1953, Second Vice Chairman of City Council of Kurikka
Mr **Lasse Hautala**, born 1963, Member of Parliament
Mr **Mikko Immonen**, born 1950, Member of Parliament
Mr **Kimmo Kalela**, born 1941, Industrial Counsellor
Mr **Kimmo Kiljunen**, born 1951, Member of Parliament
Mr **Jari Koskinen**, born 1960, Member of Parliament
Ms **Sirpa Paatero**, born 1964, Member of Parliament
Mr **Oras Tynkkynen**, born 1977, Member of Parliament
Mr **Ben Zyskowicz**, born 1954, Member of Parliament

The employee representatives on Fortum's Supervisory Board were Mr **Jouni Koskinen**, Mr **Tapio Lamminen** and Ms **Satu Viranko**.

**Shares held by the members of the Supervisory Board on 31 December 2006**

| | Shares | Change |
|---|---|---|
| Rakel Hiltunen | 200 | 200 |
| Kimmo Kalela | 2,200 | –1,000 |

## 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 16 March 2006, the Annual General Meeting confirmed the following remuneration for Supervisory Board service:

Fortum's Annual General Meeting will be held on 28 March 2007 in Helsinki, Finland.

**Compensation for Supervisory Board service,** EUR/month

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Chairman | 1,000 | 1,000 | 1,000 |
| Deputy Chairman | 600 | 600 | 600 |
| Members | 500 | 500 | 500 |
| Meeting fee | 200 | 200 | 200 |

**Total compensation for Supervisory Board paid by Fortum,** EUR

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Chairman | 13,200 | 12,800 | 10,200 |
| Deputy Chairman | 8,400 | 8,000 | 8,600 |
| Other members | 63,500 | 67,800 | 66,900 |

## 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, 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 2006 Annual General Meeting, the following persons were elected to the Board of Directors:

Mr **Peter Fagernäs**, born 1952, Chairman
Ms **Birgitta Kantola**, born 1948, Deputy Chairman
Mr **Esko Aho,** born 1954
Ms **Birgitta Johansson-Hedberg,** born 1947
Mr **Matti Lehti**, born 1947
Ms **Marianne Lie**, born 1962
Mr **Christian Ramm-Schmidt,** born 1946

For more information on the Directors, please refer to pages 56–57.

In 2006, the Board of Directors met ten times, of which two were teleconferences. Average director attendance at all Board meetings was 88.6%. In addition to steering and supervising the company's operational and financial development, the main items during the year were Fortum's strategy, electricity market development and matters related to the acquisition of E.ON Finland Oyj. The Board also addressed issues relating to business development in Russia.

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

**Shares held by members of the Board of Directors on 31 December 2006**

| | Shares | Change |
|---|---|---|
| Peter Fagernäs | 30,591 | 0 |
| Christian Ramm-Schmidt | 1,000 | n.a. |

The President and CEO, the Chief Financial Officer and the General Counsel (being the secretary to the Board) 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 and to be decided upon at the Board of Directors' meetings.

The Board of Directors has approved a working order to govern its work. The main contents of the working order have been summarised below.

## The Board of Directors' working order

### The main tasks of the Board of Directors

- Strategic development and steering of the company's business and fields of activity
- Ensuring that the business complies with the relevant rules and regulation, the company's Articles of Association and instructions given by the Supervisory Board
- Defining the dividend policy
- Ensuring that the accounting and financial administration are arranged appropriately
- Appointing the top management
- Reviewing the central risks and instructing the President and CEO concerning the risks
- Confirmation of the annual operating plan and budget
- Approving interim reports, the annual report and financial statements
- Taking care of the duties of the company's Board of Directors specified in the Companies Act
- Deciding on major investments
- Nominating members to the Board Committees

### Assessment of the Board of Directors' work

- Annual self-assessment

### Procedures of Board Meetings

- Convened according to a previously agreed schedule to discuss specified themes and other issues and whenever considered necessary
- Chairman decides on the agenda based on proposals by the President and CEO and the secretary to the Board
- Chairman shall convene a meeting to deal with a specific item, if requested by a member of the Board or the President and CEO
- Dealing with the reports of the Board committees and the President and CEO
- Materials shall be delivered to the members 5 days before meetings

## The Board Committees

The Board of Directors appoints an Audit Committee, which has three members, as well as a Nomination and Compensation Committee, which has four members. A quorum is more than half of the 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. All the members of the Board of Directors have the right to participate in the committee meetings. The secretary to the Board of Directors acts as the secretary to the committees.

The Board has approved written charters for the committees. The main contents of these rules are outlined below.

**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 election of external auditors and monitors the independence and performance of the external auditors.

In 2006, the Audit Committee was chaired by Birgitta Kantola and its members were Birgitta Johansson-Hedberg and Christian Ramm-Schmidt. The Committee met five times in 2006.

The main items during the year included the review of the Audit Committee's charter, the IFRS accounting matters, the internal audit plan and reports, the auditor's plan and discussion on findings, a review of the company's risk management and interim report reviews as well as self-assessment of the Committee work.

**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 2006, the Nomination and Compensation Committee was chaired by Peter Fagernäs and its members were Esko Aho, Marianne Lie and Matti Lehti. The Committee met four times during 2006. 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 2006 confirmed the following compensation for Board service:

**Compensation for Board service,** EUR/year

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Chairman | 55,000 | 55,000 | 49,500 |
| Deputy Chairman | 42,000 | 42,000 | 38,500 |
| Members | 30,000 | 30,000 | 27,500 |
| Fee/meeting | 500 | 500 | 500 |

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Chairman | 63,000 | 60,925 | 56,100 |
| Deputy Chairman | 50,500 | 48,725 | 44,200 |
| Other members of the Board | 189,500 | 179,875 | 156,525 |

## 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 by the Board of Directors. 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.

For further information regarding the compensation of the President and CEO, please refer to page 48 in the Financials.

## Fortum Management Team

The Fortum Management Team 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, among other things, sets the strategic targets, prepares the Group's annual business plans, follows up on the results, plans and decides on investments, decides on mergers, acquisitions and divestments, reviews the key day-to-day operations and the implementation of operational decisions. For Fortum Management Team members and their individual responsibilities, please refer to pages 58–59.

**Shareholding, Fortum Management Team**

| Shares | 31 Dec. 2006 | 31 Dec. 2005 | Change |
|---|---|---|---|
| Lilius Mikael | 170,050 | 150,050 | 20,000 |
| Frisk Mikael | 14,900 | 14,900 | 0 |
| Karttinen Timo | 30,000 | 18,870 | 11,130 |
| Kuula Tapio | 50,050 | 50,050 | 0 |
| Laaksonen Juha | 20,000 | 20,000 | 0 |
| Lundberg Christian | 30,000 | 20,000 | 10,000 |
| Teir-Lehtinen Carola | 23,000 | 17,970 | 5,030 |

## Remuneration policy

Fortum offers a competitive compensation package for senior executives and other management in order to attract and retain key resources. This package is structured to offer competitive but not excessive base salaries, purposeful benefits, challenging short-term incentives and deferred share-based long-term incentives. The compensation package for each executive is determined according to the Group's remuneration policy. The policy takes into account the company's financial performance and external market data from independent sources, in particular, remuneration levels for similar positions among peer companies. The remuneration policy is determined by the Board of Directors.

## Annual bonus system

Fortum's short-term incentive system (called annual bonus below) 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 large 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 Nomina-

**Compensation for the President and CEO and the Fortum Management Team,** EUR

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Salaries and fringe benefits | | | |
| President and CEO | 795,844 | 769,164 | 732,312 |
| Other Management Team members | 1,415,023 | 1,460,323 | 1,521,137 |
| | | | |
| Performance bonuses | | | |
| President and CEO | 384,582 | 365,700 | 336,864 |
| Other Management Team members | 584,615 | 708,777 | 561,031 |
| | | | |
| Total | | | |
| President and CEO | 1,180,426 | 1,134,864 | 1,069,176 |
| Other Management Team members | 1,999,638 | 2,169,100 | 2,082,169 |

**Stock options held by the Fortum Management Team on 31 December 2006**

| Name | 2001A received | 2001B received | 2002A received | 2002B received | 2002B remaining |
|---|---|---|---|---|---|
| Lilius Mikael | 200,000 | 200,000 | 340,000 | 340,000 | – |
| Frisk Mikael | 100,000 | 100,000 | 150,000 | 150,000 | – |
| Karttinen Timo | 50,000 | 75,000 | 90,000 | 120,000 | – |
| Kuula Tapio | 100,000 | 100,000 | 200,000 | 200,000 | – |
| Laaksonen Juha | 100,000 | 100,000 | 250,000 | 175,000 | – |
| Lundberg Christian | | | 150,000 | 175,000 | – |
| Teir-Lehtinen Carola | 100,000 | 100,000 | 150,000 | 150,000 | 55,970 |

Fortum Management Team did not have any remaining stock options from the option schemes 2001A, 2001B and 2002A on 31 December 2006.

tion 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% 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 the Fortum Management Team, including the President and CEO, in 2006 amounted to EUR 969 197, which is 0.27% of the total salaries and remuneration paid in the Group. For more information about the Annual Bonus System, please refer to page 38.

## Long-term incentives

Fortum's Long-Term Performance Share Arrangement for key personnel was launched in 2003 and supports the achievement of the Group's long-term goals by attracting and retaining key personnel.

The Long-Term Performance Share Arrangement is a performance-based, long-term incentive (LTI) arrangement intended for the top management and key personnel of the Fortum Group. A new performance share plan under the arrangement starts annually if approved by the Board of Directors and runs for a six-year period. At present, approximately 150 managers, all of whom have been elected by the Board of Directors, are participants in at least one of six on-going annual LTI plans. At the end of 2006, approximately 120 persons were approved by the Board of Directors to participate for the year 2007 in LTI plans that have on-going earning periods in 2007. The 2006–2011 LTI plan is for non-stock 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 approximately 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 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 and was based on the 2002 financial 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. In 2006, the earning period of the consecutive plan (2003–2008) ended and share rights belonging to this plan were granted to the participants. The approximate net number of shares with adjustments for 2005 and 2006 dividends and after taxes (assumed tax deduction of 56%) that the President and CEO and other members of the Fortum Management Team will receive in 2008 and 2009 respectively are as follows:

**Approximate net number of shares to be delivered to Fortum Management Team under LTI**

| | 2008 | 2009 |
|---|---|---|
| Lilius Mikael | 32,235 | 18,750 |
| Frisk Mikael | 8,884 | 5,102 |
| Karttinen Timo | 7,406 | 4,239 |
| Kuula Tapio | 12,381 | 7,111 |
| Laaksonen Juha | 10,533 | 6,044 |
| Lundberg Christian | 10,674 | 6,372 |
| Teir-Lehtinen Carola | 6,888 | 3,952 |

Fortum does not have any stock option programmes, where the subscription periods have not yet started. The subscription periods for the last stock option schemes (2001B and 2002B) began during 2006.

For more information about the stock option programmes, please refer to pages 65–66 in the Financials.

## 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 and from the Performance Share Arrangement 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 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. The pension of the President and CEO is 60%.

## Pension foundation

Fortum has one pension foundation, the Fortum Pension Fund for employees in Finland only, 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 guaranteed pension of 66% and the reduced retirement age of 60 for women and some men. At the end of 2006, the number of employees covered by the fund was 1,260.

In addition to the persons covered by the pension fund, there are some three hundred other Fortum employees who have various additional pension benefits based on the systems of their previous employers. These benefits are insured by insurance companies. The clear majority of these persons are employees of the previous E.ON Finland (now Fortum Espoo).

## Pensions in Sweden

In Sweden, the majority of Fortum's employees are covered by statutory retirement pension benefits and an additional collective agreement-based supplementary pension scheme, ITP. In addition, approximately 240 key persons are members of Birkaplanen, an alternative ITP-based pension scheme, which guarantees a defined pension of the final pensionable salary at the time of retirement. Birkaplanen was closed to new entrants in 2003.

In 2006, Fortum therefore launched a new alternative ITP-based pension scheme, ÖVER 10, for key persons earning more than 10 income base amounts. The scheme is contribution-based and offered to both existing and new employees. A limited number of employees in Sweden are also covered by separate pension schemes, due to earlier agreements with former employers.

## Fortum Personnel Fund

The Fortum Personnel Fund (for employees in Finland only) has been in operation since 2000. The Board of Directors determines the criteria for the fund's annual profit-sharing bonus. Persons included in the Group's Long-Term Performance Share Arrangement are not eligible to be members of this fund. 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 equally between the members. 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 fund's latest financial year ended at 30 April 2006 and the fund then had a total of 3,659 members. At the end of April 2006 Fortum contributed EUR 2.9 million to the personnel fund as an annual profit-sharing bonus based on the financial results of 2005. The combined amount of member's shares in the fund was EUR 25.2 million.

The amount available for withdrawal is decided each year and it is paid to members who want to exercise their withdrawal rights.

## Insider guidelines

Fortum observes the Guidelines for Insiders issued by the Helsinki Stock Exchange. Fortum's own internal insider rules 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 insider's next-of-kin, who share a household with the insiders, have been 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.

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 public 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 audit

The Fortum Corporate Internal Audit is responsible for assessing and assuring the adequacy and effectiveness of internal controls in the company. Further, it evaluates the effectiveness and efficiency of various business processes, the adequacy of risk management and e.g. compliance with laws, regulations and internal instructions. The Standards for the Professional Practice of Internal Audit form the basis for its work.

The 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 the Corporate Internal Audit is formally defined in its charter. The charter and the annual audit plan are approved by the Audit Committee.

## External audit

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 16 March 2006 elected Authorised Public Accountant Deloitte & Touche Oy as auditor, with Authorised Public Accountant Mikael Paul 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 2005 annual financial statements and other services through 31 December 2006, were as follows:

**Total compensation for external auditing paid by Fortum,** EUR 1,000

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Audit fees | 950 | 1,065 | 1,346 |
| IFRS assignments | – | 237 | 713 |
| Tax assignments | – | 287 | 426 |
| Other | 180 | 389 | 546 |
| Total | 1,130 | 1,978 | 3,031 |

# Risk management

Active risk management plays a key role in ensuring that Fortum can deliver on its financial targets. Its purpose is also to help secure the execution of the group strategy.

Fortum hedges its electricity prices by entering into electricity forwards and futures contracts. If Fortum would not hedge any of its production volumes, a 1 EUR/MWh change in the spot price would result in approximately a EUR 50 million change in Fortum's annual operating profit.

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

Involvement in large-scale energy businesses exposes Fortum to various types of risks. Electricity prices affected by the weather in the Nordic region and the development of the global commodity markets as well as regulation and taxation within local, regional and European electricity markets are the main risk factors.

Several projects aimed at further enhancing risk management were carried out in 2006. Commodity market risk modelling was developed to cope with changing market conditions and a harmonised framework for operational risk management was introduced throughout the Group. Fortum will continue to develop its risk management capabilities as the business operations and markets evolve.

## *Risk management framework*

### Governance

Fortum's Board of Directors approves the Corporate Risk Policy that 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, and risk mandates to the President and CEO for approval. Business and service units are responsible for managing risks within the limits set by the policies and mandates.

### Organisation

The Audit Committee oversees risk management within the Group. The Chief Financial Officer (CFO) is responsible for consolidating and assessing the Group's exposure to risk and reporting risks and risk mandates to the President and CEO and the Board of Directors. An independent Corporate Risk Management function, headed by the Chief Risk Officer, is at the disposal of the CFO and assists in fulfilling these responsibilities.

Business and service units organise their own risk management and control. Risk control are organisationally segregated from decision-making functions and are responsible for reporting risks to Corporate Risk Management.

In order to capture synergies, some risks are managed at the Group level. Corporate Treasury is responsible for managing the Group's currency, interest rate, and liquidity and refinancing risks as well as for insurance management. Certain credit and IT-related risks are also managed at the Group level.

## Process

Risks are primarily identified and assessed by business and service units. Quantitative assessments are used where feasible, and are harmonised across different products and units. Risk assessments are also used when evaluating possible responses to identified risks. Risk responses can be one or a combination of mitigating, transferring or absorbing risk.

Risk control and reporting are carried out by the business and service units' risk control functions. The frequency of reporting is dependant upon the scope of the business, e.g. trading activities are reported daily. Corporate Risk Management assesses and reports the Group's consolidated exposure to financial risks to Group Management and the Board of Directors on a monthly basis. Strategic and operational risks are reported as part of the annual business planning process or as needed.

# *Description of risks*

## Strategic risks

Fortum seeks growth both by leveraging organic growth opportunities and actively participating in further Nordic consolidation. Fortum's aim is to grow profitably in the chosen market areas: the Nordic countries, Russia, Poland and the Baltic countries. The growth possibilities are in part subject to regulatory supervision and political decisions.

Nordic/EU policy harmonisation, infrastructure development and integration of the Nordic electricity market towards Continental Europe depend partly on the actions of authorities. Changes in the market environment and regulation could endanger the implementation of the market-driven development of the electricity market. Fortum promotes market-driven development by maintaining an active dialogue with all stakeholders.

## Financial risks

Fortum defines financial risk as the negative effects of market price movements, volume changes, liquidity events or counterpart events. A number of different methods, such as Value-at-Risk and Profit-at-Risk, are used throughout the Group to quantify financial risks. In particular, the potential impact of price and volume risks of electricity, weather, $CO_2$ and main fuels are assessed taking into account their interdependencies. Stress-testing is carried out in order to assess the effects of extreme electricity price movements on Fortum's earnings.

Financial risk taking in business units aims to capture potential upside by optimising hedging or by trading in the markets. Risk taking is limited by risk mandates. Risk mandates include minimum EBIT levels for the business units that are set by the President and CEO. Volumetric limits, Value-at-Risk limits, Stop Loss limits and counterpart exposure limits are also in place.

### Electricity price risks

Fortum is exposed to electricity market price movements mainly through its power generation and customer sales businesses. The short-term factors affecting electricity prices on the Nordic market include hydrological conditions, temperature, $CO_2$ allowance prices, fuel prices, and the import/export situation.

Fortum hedges its electricity price risks by entering into electricity forwards and futures contracts. The Fortum Management Team steers the hedging activities through hedging strategies that are executed by the business units within set mandates. The strategies and their execution are continuously evaluated. The hedge ratio on 31 December 2006 was approximately 65% for the year 2007 and 35% for 2008. These hedge ratios may vary significantly depending on Fortum's actions on the electricity derivatives markets. Assuming no changes in generation volumes, hedge ratios or cost structure, a EUR 1/MWh change in the market price of electricity would affect Fortum's 2007 pre-tax earnings by approximately EUR 18 million.

### Volume risks

Power and heat generation, customer sales, and electricity distribution volumes have significant variations that depend on the nature of the business. These volumes are subject to changes in, for example, hydrological conditions and temperature.

Changes in volumes are closely monitored so that hedges can be adjusted accordingly. In addition, volume risks in power and heat generation are partly mitigated through generation flexibility.

### $CO_2$ price risks

The European Union has established an emissions trading scheme to limit the level of $CO_2$ emissions. Part of Fortum's power and heat generation is subject to requirements under the trading scheme.

Fortum manages its exposure to $CO_2$ allowance prices through the use of $CO_2$ forwards and by ensuring that the costs of allowances are taken into account during production planning.

### Fuel price risks

Heat and power generation requires the use of fuels that are purchased from global or local markets. The main fuels used by the Group are uranium, coal, natural gas, peat, oil, and various biofuels such as wood pellets and palm oil.

Exposure to fuel prices is to some extent limited because of Fortum's flexible generation possibilities, which allow for switching between different fuels according to prevailing market conditions. Fuel price risks are mitigated through fixed-price purchases that cover the forecasted consumption levels, and, in some cases, customer contracting. Fixed-price purchases can be either for physical deliveries or in the form of financial hedges.

### Proprietary trading risks

Fortum is trading electricity forwards, futures, options, and CfD's (contract for differences) mainly on the Nord Pool market and $CO_2$ allowances on the European market.

Strict management controls are set to limit trading losses. Stop Loss mandates are set to limit the cumulative maximum loss during the year. In addition, "red-flag" thresholds are established at predefined levels before reaching the Stop Loss limit. Value-at-Risk mandates are set to limit the maximum risk taking during one day. Specific decision making and reporting procedures are set up to limit potential losses and ensure compliance with predefined risk mandates.

### Liquidity and refinancing risks

Fortum's business is capital intensive and the Group has a regular need to raise financing. 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 2006, the total interest bearing debt was EUR 4,502 million (3,946 million) and the interest-bearing net debt was EUR 4,345 million (3,158 million).

Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. The Group shall at all times have access to cash/marketable securities and unused committed credit facilities including overdrafts, to cover all loans maturing within the next twelve-month period. Cash/marketable securities and unused committed credit facilities shall always amount to at least EUR 500 million. Short-term financing (with a tenor less than one year) shall not account for more than EUR 1,200 million.

As per 31 December 2006, loan maturities for the coming 12-month period amounted to EUR 442 million (828 million), cash and marketable securities amounted to EUR 157 million (788 million), and the amount of undrawn committed credit facilities was EUR 1,314 million (1,314 million). On top of the committed credit facilities, Fortum had, at year end, access to approximately EUR 2.2 billion (3.5 billion) of uncommitted credit facilities. More details of the financing position are given in Note 3 of the Financial Statements.

### Interest rate risks

Fortum's debt portfolio consists of interest bearing assets and liabilities on fixed and floating rate bases 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).

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 affect the net interest payments of the Group by more than EUR 40 million for the next rolling 12-month period. Within these mandates, strategies are evaluated and developed in order to find an optimal balance between risk and financing cost.

On 31 December 2006, the average duration of the debt portfolio (including derivatives) was 1.5 years (1.3 years). Approximately 66% (84%) of the debt portfolio was on a floating rate basis or will be refinanced during the coming 12 months. The effect of one percentage point change in interest rates on the present value of the debt portfolio was EUR 56 million on 31 December 2006. The flow risk, calculated as the effect of an interest rate increase of one percentage point on the net interest expense for the coming 12 months, was EUR 18 million. For detailed information, see Note 3 of the Financial Statements.

### Currency risks

Fortum has cash flows, assets and liabilities in currencies other than in euro. Changes in exchange rates can therefore have an effect on Fortum's earnings and balance sheet. The main currency exposure for Fortum is EUR/SEK, arising from the Group's extensive operations in Sweden.

The Group's currency exposures are divided into transaction exposures (foreign exchange exposures relating to contracted cash flows, and balance sheet items where changes in exchange rates will have an impact on earnings and cash flows) and translation exposure (equity in foreign subsidiaries).

Fortum's policy is to hedge major transaction exposures while translation exposures are hedged selectively. These exposures are mainly hedged by forward contracts. The currency risk is calculated using Value-at-Risk (VaR) for one-day period at 95% confidence level. The limits for transaction and translation exposures are VaR EUR 5 million and EUR 10 million, respectively. The Group's transaction and translations exposures on 31 December 2006 are reported in Note 3 of the Financial Statements.

### Counterpart risks

Fortum's business operations in electricity markets and elsewhere lead to contractual arrangements with customers and other counterparts. When an external counterpart enters into a contractual obligation, the counterpart is credit controlled to assess the risk of such relationship. Corporate Credit Control reviews all counterparts and assigns a corporate limit stating the maximum allowed level of exposure for any single counterpart. Counterpart exposure is evaluated as the maximum expected loss given that a counterpart defaults on its obligations towards Fortum.

Exposures against limits and counterparts' creditworthiness are monitored to ensure that the risks are at an accepted level. When changes appear to be leading to unacceptable risks according to approved policies, Corporate Credit Control initiates actions to mitigate risks.

Counterpart risk exposures relating to financial derivative instruments are often volatile. The majority of the Group's commodity derivatives are cleared by the Nordic electricity exchange, Nord Pool. Derivative transactions are also done with other individual external counterparts 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

Operational risks are defined as the negative effects resulting from inadequate or failed internal processes, people and systems or equipment, or from external events. The main objective of operational risk management is to reduce the risk of unwanted operational events by clearly documenting and automating processes and by ensuring a strict segregation of duties between decision-making and controlling functions. Quality and environmental management systems are a tool for achieving this objective, and Fortum has several certifications including ISO 9001 and ISO 14001. Technical risks are managed within maintenance investment planning.

The Group Insurance Policy governs the management of insurable operational risks. 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 and liability exposures.

### Risks at production facilities

Operational events at power and heat generation or electricity distribution facilities can lead to physical damages, business interruptions, and third-party liabilities. In Sweden, third-party liabilities from dam failures are strictly the plant owner's responsibility. Together with other hydro power producers, Fortum has a shared dam liability insurance program in place that covers Swedish dam failure liabilities up to SEK 7,000 million. Operational risks in production facilities are mitigated by continuous maintenance, condition monitoring, and other operational improvements.

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

### Nuclear risks

Fortum owns the Loviisa nuclear power plant, and has minority interests in one Finnish and two Swedish companies with nuclear plants. In the Loviisa power plant, assessment and improvement of nuclear safety is a continuous process which is performed under the supervision of the Radiation and Nuclear Safety Authority of Finland (STUK). 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 roughly EUR 240 million per nuclear incident. Similar insurance policies are in place for the operators where Fortum has a minority interest.

### Environmental, health and safety risks

Operating power and heat generation and electricity distribution facilities involves the use, storage and transportation of fuels and materials that can have adverse effects on the environment. Operation and maintenance of the facilities exposes the personnel to potential safety risks. Environmental and safety risks are regularly evaluated through internal and external audits and risk assessments, and corrective and preventive actions are launched when necessary.

Environmental, health and safety risks arising in investments are systematically evaluated in accordance with Fortum's Investment Evaluation and Approval Procedure. The EHS Assessment Guidelines were updated for this purpose during 2006. 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 future remedial costs.

### Political and regulatory risks

Development of the political and regulatory environment has a major impact on the energy industry and on the conditions of its business operations. To manage these risks and proactively participate in the development of the political and regulatory framework, including energy taxation, Fortum maintains an active and on-going 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.

### Legal and compliance risks

Fortum's operations are subject to rules and regulations set forth by the competition authorities, exchanges, and other regulatory bodies.

Fortum maintains strict internal market conduct rules and has procedures in place to prevent, for example, the use of proprietary information before it is published. Segregation of duties and internal controls are enforced to minimize the possibilities of unauthorised activities.

### IT and information security risks

Information security risks are managed centrally by the corporate security and IT functions. Business-specific risks are managed within the business and service units. Corporate policies define guidelines and set procedures for reducing risks and managing IT and other information security incidents. The main objective is to ensure high availability and fast recovery of IT systems.

# Board of Directors (31 Dec. 2006)

Peter Fagernäs and Birgitta Johansson-Hedberg

Esko Aho, Marianne Lie and Matti Lehti

## Peter Fagernäs

Chairman, 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, Pohjola Group Plc
Chairman of the Board, Conventum Plc
CEO, Conventum Plc
Member of the Board, Merita Bank
CEO, Prospectus Oy
Various positions at Kansallis-Osake-Pankki

Simultaneous positions of trust:
Member of the Board of Finnlines Plc and Winpak Ltd., Canada

Independent member of Fortum's Board of Directors since 2004

## Esko Aho

Born 1954, Master of Political Sciences
Member of the Nomination and Compensation Committee

Main occupation:
President of the Finnish National Fund for Research and Development (Sitra)

Primary work experience:
Prime Minister of Finland 1991–1995
Member of Parliament 1983–2003
Leader of the Centre Party 1990–2002
Lecturer at Harvard 2000–2001

Simultaneous positions of trust:
Chairman of a group of experts on European innovation policy 2005–2006

Independent member of Fortum's Board of Directors since 2006

## Birgitta Johansson-Hedberg

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

Main occupation:
Director

Primary work experience:
President and CEO, Lantmännen
President and CEO, Föreningssparbanken
Resident Director for Scandinavia, Wolters Kluwer

Simultaneous positions of trust:
Member of the Board of Sveaskog, Chairman of the Board of the University of Umeå and Member of Aktiemarknadsnämnden

Independent member of Fortum's Board of Directors since 2004

Birgitta Kantola and Christian Ramm-Schmidt

## Birgitta Kantola

Deputy Chairman, born 1948, Master of Laws
Chairman of the Audit Committee
Main occupation:
Director
Primary work experience:
Executive Vice President (Finance), Nordic Investment Bank
Vice President and CFO, International
Finance Corporation, Washington D.C.
Simultaneous positions of trust:
Member of the Board of Akademiska Hus AB, Nordea Bank AB, StoraEnso Oyj, Varma Mutual Pension Insurance Company, Vasakronan AB and Åbo Akademi

Independent member of Fortum's Board of Directors since 2001

## Matti Lehti

Born 1947, PhD (Econ)
Member of the Nomination and Compensation Committee
Main occupation:
Chairman of the Board of TietoEnator Corporation
Primary work experience:
President and CEO and member of the Board, TietoEnator Corporation, Tietotehdas Oy and TietoGroup
Deputy Managing Director, Rautakirja Oy
Simultaneous positions of trust:
Member of the Board of Pöyry Plc and Confederation of Finnish Industries EK, Chairman of the Foundation for Economic Education, Vice Chairman of the Helsinki School of Economics Foundation and Chancellor of the 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
Simultaneous positions of trust:
Chairman of the Board of Punkt Ø, Member of the Board of Kverneland ASA and Arendals Fossekompani ASA

Independent member of Fortum's Board of Directors since 2005

## Christian Ramm-Schmidt

Born 1946, B.Sc. (Econ.)
Member of the Audit Committee
Main occupation:
Senior Partner of Merasco Capital Ltd.
Primary work experience:
President of Baltic Beverages Holding Ab (BBH)
President of Fazer Biscuits Ltd., Fazer Chocolates Ltd., Fazer Confectionery Group Ltd.
Director, ISS ServiSystems Oy
Simultaneous positions of trust:
Chairman of the Board of Derbes Brewery (BBH), Kazakhstan, Member of the Board of Oy Chips Ab, Bang & Bonsomer Oy, Orkla CIS Holding Ltd, Tradeka Group Ltd, MDC Education Group and Sarbast Plus Brewery (BBH), Uzbekistan

Independent member of Fortum's Board of Directors since 2006

# Group management (31 Dec. 2006)



Mikael Lilius and Juha Laaksonen

Tapio Kuula, Timo Karttinen and Mikael Frisk

## Mikael Lilius

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

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

Simultaneous positions of trust:
Huhtamäki Oyj, Chairman of the Board
Sanitec Oy, Chairman of the Board
Hafslund ASA, Member of the Board

## 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

## 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 positions of trust:
Fingrid Oyj, Member of the Board
Association of Finnish Energy Industries, Vice
Chairman of the Executive Board
Gasum Oy, Member of the Supervisory Board
AS Eesti Gaas, Member of the Supervisory Board
Fortum Wroclaw S.A., Chairman of the Supervisory Board
Confederation of Finnish Industries, Trade
Policy Committee, Member


Christian Lundberg and Carola Teir-Lehtinen

## 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 positions of trust:
Fingrid Oyj, Chairman of the Board
Kemijoki Oy, Chairman of the Board
Teollisuuden Voima Oy, Chairman of the Board
OKG Aktiebolag, Vice Chairman of the Board
OAO TGC-1, Vice Chairman of the Board
OAO Lenenergo, Vice Chairman of the Board
OAO TGC-9, Member of the Board
Varma Mutual Pension Insurance Company, 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 positions of trust:
Neste Oil Oyj, Member of the Board
Teollisuuden Voima Oy, Member of the Board
Kemijoki Oy, Member of the Supervisory Board
Tapiola General, Member of the Supervisory 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 positions of trust:
Svensk Energi, Member of the Board
EnergiFöretagens Arbetsgivareförening, Vice Chairman

## 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, Health and Safety, Fortum Corporation, 1998
Corporate Vice President, Environment and Product Safety, Neste Oy, 1992
Environmental Protection Manager, Neste Oy, 1986

Simultaneous positions of trust:
Stockmann Plc, Member of the Board
Aker Yards Plc (Norway), Member of the Board

# Investor information





## Annual General Meeting

The Annual General Meeting (AGM) of Fortum Corporation will be held on Wednesday, 28 March 2007, at 3.00 pm, at the Cable Factory in Merikaapelihalli. The address of the venue is Tammasaarenlaituri, Entrance J, 00180 Helsinki. Registration of shareholders who have notified the Company of their attendance will begin at 2.00 pm.

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 internet pages at *www.fortum.com/agm*, by telephone on +358 (0)10 452 9460, by fax on +358 (0)10 262 2727 or by mail to Fortum Corporation, Corporate Legal Affairs/AGM, POB 1, FI-00048 FORTUM, Finland. The notice and any powers of attorney must arrive by 4.00 pm (Finnish time), 21 March 2007.

## Payment of dividends

The Board of Directors will propose to the AGM that a dividend of EUR 1.26 per share be paid for the financial period 2006. Of this total dividend, EUR 0.73 per share is in accordance with the Group's dividend policy. An additional dividend of EUR 0.53 per share is proposed in order to steer Fortum's capital structure towards the agreed target. The record date for dividend payment is 2 April 2007, and the proposed dividend payment date is 11 April 2007.

## Publication of results

- Interim report on January – March will be published on 24 April 2007
- Interim report on January – June will be published on 18 July 2007
- Interim report on January – September will be published on 18 October 2007

The Annual Report and interim reports are available in Finnish, Swedish and English and can be read also on Fortum's website 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 internet pages. Management also gives 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. Fortum observes a silent period of 30 days prior to publishing its results. Additional information about shares and shareholders is presented in Note 45 in the Consolidated Financial Statements in the Financials.

## Fortum share basics

- Listed at the OMX Helsinki
- Trading ticker: FUM1V
- Number of shares, 30 Jan. 2007: 888,179,650
- Sector: Utilities

## Investor relations at Fortum:

Mika Paloranta, Vice President, Investor Relations,
tel. +358 (0) 10 452 4138, fax +358 (0) 10 452 4176,
e-mail: mika.paloranta@fortum.com
Rauno Tiihonen, Manager, Investor Relations,
tel. +358 (0) 10 453 6150, fax +358 (0) 10 452 4176,
e-mail: rauno.tiihonen@fortum.com

## Ordering financial information

Financial documents can be obtained from Fortum Corporation, Mail Room, POB 1, FI-00048 FORTUM, Finland, tel. +358 (0) 10 452 9151, e-mail: juha.ahonen@fortum.com

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

## *Equity analysts covering Fortum*

ABG Sundal Collier, Oslo
ABN Amro, Helsinki
Carnegie Investment Bank AB, Finland Branch, Helsinki
Citigroup Smith Barney, London
Crédit Agricole Cheuvreux Nordic, Stockholm
Credit Suisse, London
Danske Equities, Copenhagen
Deutsche Bank, Helsinki
Dresdner Kleinwort, London
Enskilda Securities, Helsinki
EQ Bank, Helsinki
Evli, Helsinki
FIM Securities, Helsinki
Goldman Sachs, London
Handelsbanken, Helsinki
ING Bank, London
JPMorgan, London
Kaupthing Bank, Helsinki
Kepler Equities, Frankfurt
Lehman Brothers, London
Mandatum, Helsinki
Merrill Lynch, London
Morgan Stanley, London
OKO Bank, Helsinki
Raymond James Euro Equities, Paris
Société Générale, Paris
UBS, London
Valuatum, Helsinki
Öhman, Helsinki

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*Let's make the*
*good energy go around!*

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Domicile Espoo, Business ID 1463611-4

# Annual Report 2006

## Financials


Fortum

# Investor Information

## Annual General Meeting

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## Ordering financial information

Financial documents can be obtained from Fortum Corporation, Mail Room, POB 1, FI-00048 FORTUM, Finland, tel. +358 (0) 10 452 9151, e-mail: juha.ahonen@fortum.com

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

# Fortum Group Financials for 2006

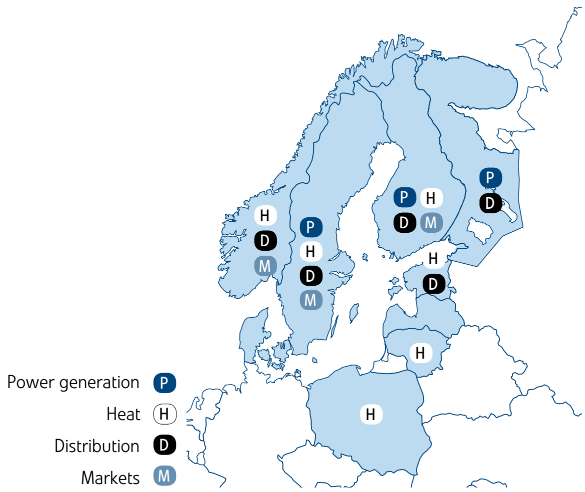


Fortum's Annual report 2006 consists of two separate volumes: the Review of Operations and the Financials. Sustainable development is reported in the Review of Operations.

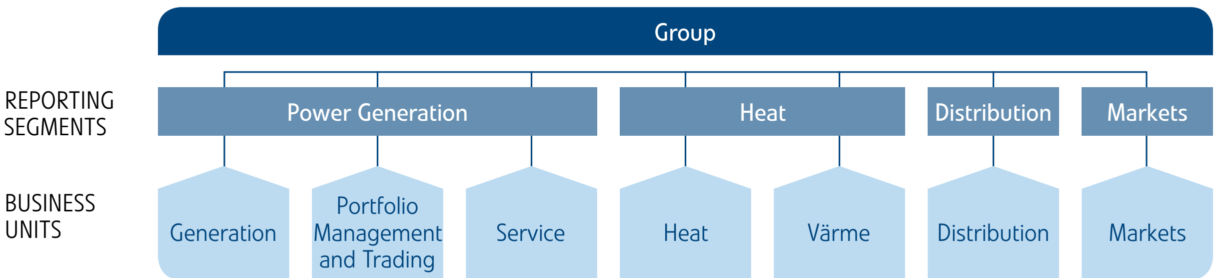
# Fortum in Brief

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 as well as the operation and maintenance of power plants. We make sure that sustainable energy services are available today and tomorrow.

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.



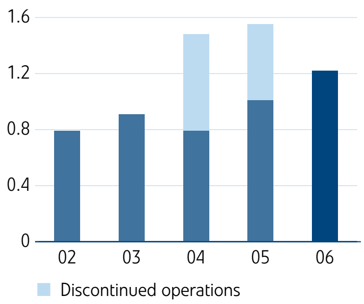

## Group structure



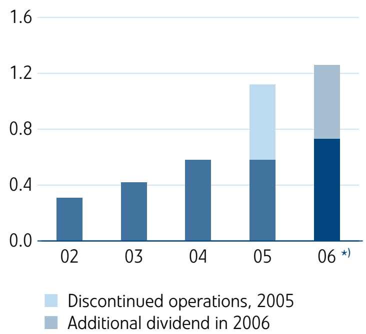

Fortum Corporation is listed on the Helsinki Stock Exchange. Fortum prepares annual financial statements and interim reports conforming to Finnish legislation. They are published in Finnish, Swedish and English. The International Financial Reporting Standards (IFRS) were adopted in 2005.

At 31 December 2006 market capitalisation was EUR 19,132 million.

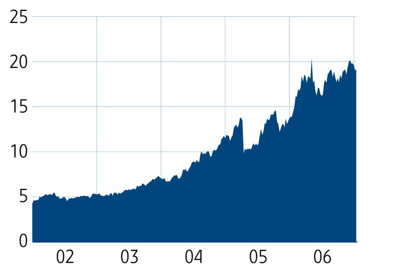
**Earnings per share,** EUR




**Dividend per share,** EUR




**Market capitalisation,** EUR 1,000 million




*) Board of Directors' proposal for the Annual General Meeting in March 2007.
2004, 2005 and 2006 under IFRS. Years 2002–2003 presented according to Finnish Accounting Standards (FAS).
Share information is presented in Note 45 in the Consolidated Financial Statements on pages 84–85.

## Good results in 2006 despite lower hydro and nuclear volumes

- Comparable operating profit EUR 1,437 (1,334) million, +8%
- Profit before taxes EUR 1,421 (1,267) million, +12%
- Earnings per share EUR 1.22 (1.01), +21%
- Progress in Russia and Poland
- Proposed total dividend EUR 1.26 per share

### Group financial targets, continuing operations

| | Target | 2006 | 2005 |
|---|---|---|---|
| ROCE, % | 12% | 13.4 | 13.5 |
| ROE, % | 14% | 14.4 | 13.5 |
| Capital structure: Net debt/EBITDA | 3.0–3.5x | 2.3 | 1.8 |

In 2005 oil operations were separated through share dividend distribution and sale of shares. Oil operations have been presented as discontinued operations in the Fortum Group Financials.



## Financial summary, continuing operations

| (excluding oil operations in 2004 and 2005) | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sales, MEUR | 4,491 | 3,877 | 3,835 |
| EBITDA, MEUR | 1,884 | 1,754 | 1,583 |
| Operating profit, MEUR | 1,455 | 1,347 | 1,195 |
| Comparable operating profit, MEUR | 1,437 | 1,334 | 1,148 |
| Profit for the period attributable to equity holders, MEUR | 1,071 | 884 | 670 |
| | | | |
| Capital employed, MEUR | 12,663 | 11,357 | 10,739 |
| Interest-bearing net debt, MEUR | 4,345 | 3,158 | 5,095 |
| Net debt/EBITDA | 2.3 | 1.8 | N/A |
| Capital expenditure and gross investments in shares, MEUR | 1,395 | 479 | 514 |
| Net cash from operating activities, MEUR | 1,151 | 1,271 | 1,232 |

Key ratios and their definitions are presented on pages 84, 86–87 and 96–97 respectively in the Consolidated Financial Statements.

## Quarterly sales by segments, continuing operations

| EUR million | Q1/2006 | Q2/2006 | Q3/2006 | Q4/2006 | 2006 | Q1/2005 | Q2/2005 | Q3/2005 | Q4/2005 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Power Generation | 643 | 560 | 569 | 667 | 2,439 | 534 | 476 | 450 | 598 | 2,058 |
| Heat | 480 | 229 | 178 | 381 | 1,268 | 385 | 206 | 147 | 325 | 1,063 |
| Distribution | 219 | 162 | 162 | 210 | 753 | 202 | 160 | 149 | 196 | 707 |
| Markets | 547 | 400 | 436 | 529 | 1,912 | 392 | 298 | 284 | 391 | 1,365 |
| Other | 20 | 20 | 19 | 19 | 78 | 23 | 22 | 26 | 20 | 91 |
| Eliminations | –566 | –423 | –418 | –552 | –1,959 | –403 | –304 | –282 | –418 | –1,407 |
| Total | 1,343 | 948 | 946 | 1,254 | 4,491 | 1,133 | 858 | 774 | 1,112 | 3,877 |

## Quarterly comparable operating profit by segments, continuing operations

| EUR million | Q1/2006 | Q2/2006 | Q3/2006 | Q4/2006 | 2006 | Q1/2005 | Q2/2005 | Q3/2005 | Q4/2005 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Power Generation | 293 | 208 | 195 | 289 | 985 | 224 | 172 | 161 | 297 | 854 |
| Heat | 126 | 35 | –3 | 95 | 253 | 107 | 37 | 12 | 97 | 253 |
| Distribution | 81 | 53 | 39 | 77 | 250 | 66 | 55 | 47 | 76 | 244 |
| Markets | 0 | 2 | 2 | –8 | –4 | 7 | 8 | 7 | 8 | 30 |
| Other | –14 | –12 | –8 | –13 | –47 | –11 | –11 | –7 | –18 | –47 |
| Total | 486 | 286 | 225 | 440 | 1,437 | 393 | 261 | 220 | 460 | 1,334 |

Quarterly information is available on Fortum's website www.fortum.com/investors/financial information

# Operating and Financial Review 2006

The year 2006 was characterised by improving results, progress in strategic positions in Russia and Poland and acceleration of new power and heat generation capacity initiatives. In short, 2006 was a good year for Fortum. The company's operating results improved and its financial position remained strong. The key financial targets, ROCE 12% and the new target for ROE, 14%, were exceeded. Fortum's net debt to EBITDA stood at 2.3 at the year end. Net cash from operating activities decreased slightly to EUR 1,151 (1,271) million.

| Key financial figures, continuing operations | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sales, EUR million | 4,491 | 3,877 | 3,835 |
| Operating profit, EUR million | 1,455 | 1,347 | 1,195 |
| Operating profit, % of sales, % | 32.4 | 34.7 | 31.2 |
| Comparable operating profit, EUR million | 1,437 | 1,334 | 1,148 |
| Profit before taxes, EUR million | 1,421 | 1,267 | 962 |
| Profit for the period attributable to equity holders, EUR million | 1,071 | 884 | 670 |
| Earnings per share, EUR | 1.22 | 1.01 | 0.79 |
| Net cash from operating activities, EUR million | 1,151 | 1,271 | 1,232 |
| Shareholders' equity per share, EUR | 8.91 | 8.17 | 8.65 |
| Capital employed, EUR million | 12,663 | 11,357 | 10,739 |
| Interest-bearing net debt, EUR million | 4,345 | 3,158 | 5,095 |
| Average number of shares, 1,000s | 881,194 | 872,613 | 852,625 |

| Key financial ratios, continuing operations | 2006 | 2005 | 2004 |
|---|---|---|---|
| Return on capital employed, % | 13.4 | 13.5 | 11.4 |
| Return on shareholders' equity, % *) | 14.4 | 13.5 | – |
| Net debt/EBITDA | 2.3 | 1.8 | – |

*) 2005 return on equity for continuing operations is calculated based on profit for the period from continuing operations divided by total equity at the end of the period. Profit for the period from discontinued operations has been subtracted from total equity as at 31 December 2005.

| Financial ratios, total Fortum | 2006 | 2005 *) | 2004 *) |
|---|---|---|---|
| Sales, EUR million | 4,491 | 5,918 | 11,659 |
| Operating profit, EUR million | 1,455 | 1,864 | 1,916 |
| Operating profit, % of sales, % | 32.4 | 31.5 | 16.4 |
| Earnings per share, EUR | 1.22 | 1.55 | 1.48 |
| Return on capital employed, % | 13.4 | 16.6 | 15.8 |
| Return on shareholders' equity, % | 14.4 | 18.7 | 18.2 |
| Equity to assets ratio, % | 48 | 49 | 44 |

*) 2004 and 2005 Fortum's oil operations have been disclosed as discontinued operations until March 31, 2005, when the Annual General Meeting of Fortum decided to distribute approximately 85% of the share in Neste Oil as dividend. The remaining shares were sold in April.

Fortum's Power Generation segment's achieved Nordic power price was EUR 37.1 (31.2), up by 19% from 2005. The average spot price of electricity in Nord Pool, the Nordic power exchange, was EUR 48.6 (29.3) per megawatt-hour (MWh), which was approximately 66% higher than in 2005.

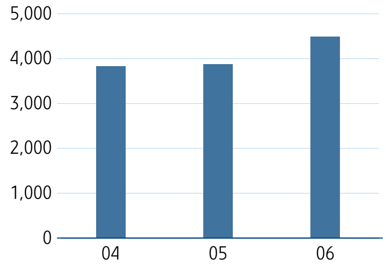
During 2006, Fortum initiated several new capacity expansion projects. Ongoing or planned investments in new generation capacity include the Olkiluoto 3 nuclear reactor in Finland, capacity upgrades in Swedish nuclear reactors, two combined heat and power plants (Suomenoja, Finland and Värtan, Sweden) as well as a new gas turbine plant (Inkoo, Finland). The programme will increase the power generation capacity by approximately 1,500 megawatts mainly by 2010. The total value of Fortum's capacity investment programme, including investments through associated companies, is approximately EUR 2.8 billion.

E.ON Finland (renamed Fortum Espoo) was acquired and subsequently de-listed. Fortum Espoo has been fully consolidated from the end of the second quarter 2006, and all Fortum Espoo's business functions have been integrated into Fortum's business unit structure.

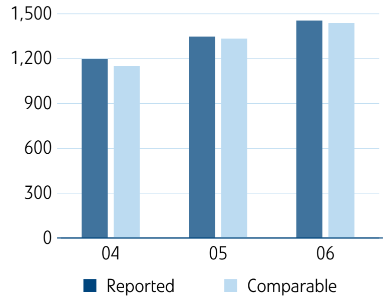
During 2006, Fortum strengthened its position in the Russian market and increased its ownership to slightly over 25% in the regional power generating company of north-west Russia, Territorial Generating Company No. 1 (TGC-1).

Fortum continued to expand its district heating business in Poland. In December Fortum announced that it is building a new combined heat and power plant in Częstochowa, Poland.

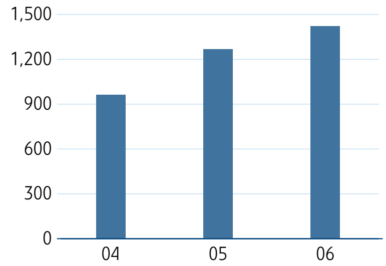
**Sales,** EUR million



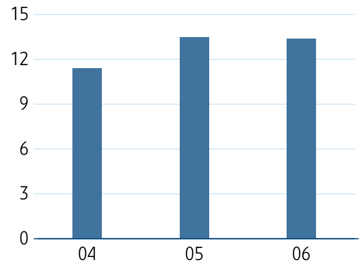

**Operating profit,** EUR million




**Profit before taxes,** EUR million




**Return on capital employed,** %




## Market conditions

According to preliminary statistics, the Nordic countries consumed 392 (392) terawatt-hours (TWh) of electricity in 2006. The last half of 2006 was clearly warmer than normal leading to lower than normal consumption. The last quarter's consumption was 102 (108) TWh, 6% less than the year before.

The year 2006 started with a 7-TWh surplus in the Nordic water reservoirs compared to the long-term average. The hydrological situation weakened during the year until the autumn. In August, the deficit was at its largest at 30 TWh. Warm weather and low consumption combined with high precipitation helped to fill the water reservoirs towards the end of the year. At the end of December, the Nordic water reservoirs were only 2 TWh below the long-term average and 9 TWh below the corresponding level in 2005.

During the fourth quarter, the average spot price for power in Nord Pool was EUR 44.6 (32.3) per MWh or 38% higher than in the corresponding period in 2005 and 25% lower than in the previous quarter. During the fourth quarter, the hydrological situation strengthened rapidly and the availability of the Swedish nuclear plants improved. At the same time, power consumption was lower, driven by clearly warmer than usual weather. Both the spot price and the financial market (forwards) turned to a steep decline driven by this dramatic shift in market fundamentals.

During 2006, the average spot price for power in Nord Pool was EUR 48.6 (29.3) per megawatt-hour, or 66% higher than in 2005. The spot price was higher during 2006 due to the dry hydrological situation and the unplanned nuclear shut-downs in Sweden.

In Germany, the average spot price for 2006 was slightly higher than in the Nordic area and resulted in a net export from the Nordic area to Germany.

During 2006, the average market price for 2007 $CO_2$ emissions was EUR 18.5 (17.9) per tonne, or 3% higher than during the previous year. During the fourth quarter, the average market price for 2007 $CO_2$ emissions was EUR 9.7 (22.1) per tonne $CO_2$, or 56% lower than during the corresponding period in 2005. During the fourth quarter, the price declined from EUR 12-13 to EUR 6-7 per tonne $CO_2$. However, at the end of 2006 the prices of the Kyoto period $CO_2$ emissions (years 2008-2012) were significantly above the 2007 prices. For example, the 2008 price was about EUR 17–18 EUR per tonne $CO_2$.

## Total power and heat generation figures

Fortum's total power generation during 2006 was 54.4 (52.3) TWh, of which 53.2 (51.2) TWh was in the Nordic countries. This corresponds to 14% (13%) of the total Nordic electricity consumption.

At year end, Fortum's total power generating capacity was 10,913 (11,281) MW, of which 10,768 (11,136) MW was in the Nordic countries. Changes are mainly due to the divestment of thermal power plants in Finland and Sweden. The Fortum Espoo integration increased Fortum's combined heat and power production capacity.

The share of $CO_2$-free power generation was 84% (93%) of Fortum's power generation in 2006. A preliminary estimate for $CO_2$ emissions from Fortum's own power plants in 2006 totals 11.0 million tonnes, 4.5 million tonnes higher than in the previous year. The emissions subject to EU's emissions trading scheme rose to about 10.4 million tonnes. The average volume of emission allowances allocated to Fortum's installations in various countries totals approximately 9 million tonnes per year during 2005-2007.

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 | 2006 | 2005 | 2004 |
|---|---|---|---|
| Power generation | 54.4 | 52.3 | 55.5 |
| Heat generation | 25.8 | 25.1 | 25.4 |

| Fortum's own power generation by source, TWh, total in the Nordic countries | 2006 | 2005 | 2004 |
|---|---|---|---|
| Hydropower | 19.8 | 21.2 | 19.1 |
| Nuclear power | 24.4 | 25.8 | 25.8 |
| Thermal power | 9.0 | 4.2 | 9.5 |
| Total | 53.2 | 51.2 | 54.4 |

| Fortum's own power generation by source, %, total in the Nordic countries | 2006 | 2005 | 2004 |
|---|---|---|---|
| Hydropower | 37 | 42 | 35 |
| Nuclear power | 46 | 50 | 47 |
| Thermal power | 17 | 8 | 18 |
| Total | 100 | 100 | 100 |

## Total power and heat sales figures

Fortum's total power sales were 61.6 (59.7) TWh, of which 60.2 (58.2) TWh were in the Nordic countries. This represented approximately 15% (15%) of the region's total consumption. Heat sales in the Nordic countries amounted to 20.1 (19.4) TWh and in other countries to 6.7 (4.4) TWh.

| Fortum's total electricity*) and heat sales, EUR million | 2006 | 2005 | 2004 |
|---|---|---|---|
| Electricity sales | 2.437 | 2,002 | 2,017 |
| Heat sales | 1,014 | 867 | 809 |

| Fortum's total electricity sales*) by area, TWh | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sweden | 28.5 | 30.4 | 27.6 |
| Finland | 29.6 | 26.0 | 31.1 |
| Other countries | 3.5 | 3.3 | 3.6 |
| Total | 61.6 | 59.7 | 62.3 |

| Fortum's total heat sales by area, TWh | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sweden | 9.3 | 9.5 | 9.6 |
| Finland | 10.7 | 9.8 | 10.5 |
| Other countries**) | 6.8 | 4.5 | 3.7 |
| Total | 26.8 | 23.8 | 23.8 |

*) Nord Pool transactions are calculated as a net amount of hourly sales and purchases at the Group level.

**) Including the UK, which is reported in the Power Generation segment, other sales.

## Financial results, continuing operations

### Sales from continuing operations by segment

| EUR million | 2006 | 2005 | 2004 |
|---|---|---|---|
| Power Generation | 2,439 | 2,058 | 2,084 |
| Heat | 1,268 | 1,063 | 1,025 |
| Distribution | 753 | 707 | 707 |
| Markets | 1,912 | 1,365 | 1,387 |
| Other | 78 | 91 | 90 |
| Eliminations | –1,959 | –1,407 | –1,458 |
| Total | 4,491 | 3,877 | 3,835 |

### Comparable operating profit from continuing operations by segment

| EUR million | 2006 | 2005 | 2004 |
|---|---|---|---|
| Power Generation | 985 | 854 | 730 |
| Heat | 253 | 253 | 207 |
| Distribution | 250 | 244 | 240 |
| Markets | –4 | 30 | 23 |
| Other | –47 | –47 | –52 |
| Total | 1,437 | 1,334 | 1,148 |

### Operating profit from continuing operations by segment

| EUR million | 2006 | 2005 | 2004 |
|---|---|---|---|
| Power Generation | 980 | 825 | 763 |
| Heat | 264 | 269 | 218 |
| Distribution | 252 | 251 | 234 |
| Markets | –6 | 32 | 34 |
| Other | –35 | –30 | –54 |
| Total | 1,455 | 1,347 | 1,195 |

Group sales stood at EUR 4,491 million (EUR 3,877 million in 2005).

Group reported operating profit totalled EUR 1,455 (1,347) million. The comparable operating profit stood at EUR 1,437 (1,334) million.

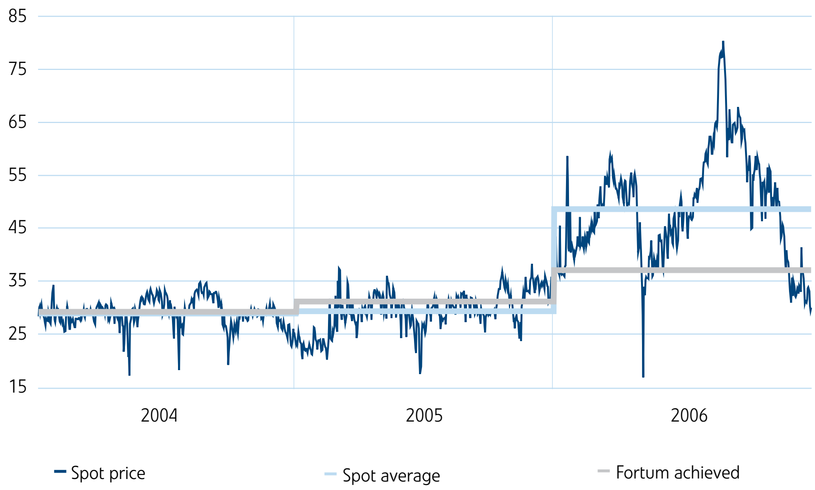
In January-December, the average Nord Pool spot price was EUR 48.6 (29.3) per megawatt-hour, or 66% higher than in 2005. The achieved Nordic Generation power price was EUR 37.1 (31.2), up by 19% from 2005.

The total power generation volume in the Power Generation segment was higher than last year. Nuclear power generation was lower due to unplanned shut-downs in Swedish nuclear power plants. The lost volume due to these was approximately 1.6 TWh. Hydro generation was 1.4 TWh lower than last year, driven by a weaker hydrological situation.

The comparable operating profit of the Power Generation segment was EUR 131 million higher than last year despite the negative effect from increased taxes on nuclear capacity and hydro property. Compared to the previous year, the effect of increased taxes was approximately EUR –65 million in 2006.

**Nord Pool power price 2004–2006,** EUR/MWh

Annual average spot price and Fortum's achieved Nordic Generation price



The Heat segment's sales were EUR 205 million higher than last year, mainly due to increased volumes from new businesses and higher power prices. The Heat segment's comparable operating profit was at the same level as last year. The negative impact of increased fuel prices was partly offset by the use of more waste fuel in Sweden.

The Distribution segment's sales were EUR 753 million. This was EUR 46 million higher than last year, mainly due to the Fortum Espoo integration. The segment's comparable operating profit of EUR 250 million was EUR 6 million higher than last year, mainly due to the Fortum Espoo integration.

The sales of the Markets segment in 2006 were higher than in 2005 mainly due to the Fortum Espoo integration. Due to the challenging market situation, Markets recorded an operating loss in 2006 while year 2005 was profitable. Procurement costs continued to be high and the intense retail price competition, especially in Finland, pressed sales margins.

The costs and provisions related to the implementation of a new customer and billing system affected the operating results of the Markets and Distribution segments in Sweden.

Profit before taxes was EUR 1,421 (1,267) million.

The Group's net financial expenses amounted to EUR 103 (135) million. The decrease is mainly attributable to lower interest rates. Net financial expenses include fair value gains on financial instruments of EUR 30 (40) million.

The share of profit of associates and joint ventures was EUR 69 (55) million. The biggest contributor was Hafslund ASA in Norway. Hafslund ASA is showing the fair value change in the Renewable Energy Corporation ASA (REC) shareholding through the income statement, while Fortum is showing the fair value change in equity. The fair value change during 2006 booked in Fortum's equity and based on the number of shares reported by Hafslund, was approximately EUR 440 million at the end of December 2006.

Minority interests accounted for EUR 49 (52) million. The minority interests are mainly attributable to Fortum Värme Holding, in which the City of Stockholm has a 50% economic interest.

Taxes for the financial year totalled EUR 301 (331) million. The tax rate according to the income statement was 21.2% (26.1%).

The profit for the financial year was EUR 1,120 (936) million. Fortum's earnings per share were EUR 1.22 (1.01). Return on capital employed was 13.4% (13.5%), and return on shareholders' equity was 14.4% (13.5%).

# Segment reviews

## Power Generation

The business area comprises power generation and sales in the Nordic countries and the provision of operation and maintenance services in the Nordic area and selected international markets. The Power Generation segment sells its production to Nord Pool. The segment includes the business units Generation, Portfolio Management and Trading (PMT), and Service.

| EUR million | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sales | 2,439 | 2,058 | 2,084 |
| – power sales | 2,059 | 1,682 | 1,695 |
| – other sales | 380 | 376 | 389 |
| Operating profit | 980 | 825 | 763 |
| Comparable operating profit | 985 | 854 | 730 |
| Net assets | 6,734 | 5,954 | 6,218 |
| Return on net assets, % | 16.1 | 14.0 | 12.1 |
| Comparable return on net assets, % | 16.1 | 14.5 | 11.5 |

In 2006, the segment's power generation in the Nordic countries was 48.3 (47.2) TWh, of which about 19.8 (21.2) TWh or 41% (45%) was hydropower-based, 24.4 (25.8) TWh or 51% (55%) nuclear power-based, and 4.1 (0.2) TWh or 8% (0%) thermal power-based. The decrease in hydro power generation was due to a weakened hydrological situation. The decrease in nuclear generation was caused by unplanned shut-downs in the Swedish nuclear power plants. Thermal power generation increased due to low hydro and nuclear volumes and high spot prices.

At year end, the segment's power generation capacity totalled 9,540 (10,003) MW, of which 9,400 (9,863) MW was in the Nordic countries and 140 (140) MW in other countries. Changes are mainly due to thermal power plant divestments in Finland and Sweden.

| Power generation by area, TWh | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sweden | 27.1 | 28.4 | 25.8 |
| Finland | 21.1 | 18.8 | 24.0 |
| Other countries | 1.2 | 1.1 | 1.1 |
| Total | 49.4 | 48.3 | 50.9 |
| | | | |
| Nordic sales volume, TWh | 53.9 | 52.6 | 55.7 |
| of which pass-through sales | 4.5 | 4.5 | 4.7 |

| Sales price, EUR/MWh | 2006 | 2005 | 2004 |
|---|---|---|---|
| Generation Nordic power price *) | 37.1 | 31.2 | 29.2 |

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

During 2006, Fortum Generation's achieved Nordic power price was 19% higher than a year ago at EUR 37.1 per MWh, while the average spot price in Nord Pool was 66% higher than a year ago at EUR 48.6 per MWh. The related sales volume was 49.4 (48.1) TWh.

During 2006 Fortum has strengthened its position in Russia in the regional power generation company of north-west Russia, Territorial Generating Company No. 1 (TGC-1).

In October, Fortum acquired a 12.5% share of St. Petersburg Generating Company. This ownership combined with Fortum's previous stake in St. Petersburg Generating Company entitled Fortum to a slightly over 25% share of TGC-1. In November 2006, the merger of the regional generation companies was finalised and TGC-1 was registered as a legal company. After converting the shares of the regional generation companies into shares of TGC-1, the largest owners are RAO UES with approximately 56%, Fortum with slightly over 25% and Interros with approximately 7%.

At the end of October, Fortum also participated in the IPO of the Russian WGC-5, Wholesale Generating Company No. 5 (WGC-5), which has four production sites around Russia. In the IPO, Fortum obtained less than 1% of WGC-5.

The unplanned shut-downs in the Swedish nuclear power plants Forsmark and Oskarshamn caused a production loss in nuclear power generation of approximately 1.6 TWh to Fortum by the end of December.

Fortum is participating in the fifth Finnish nuclear power unit (Olkiluoto 3) with a share of approximately 25 per cent. The supplier (Consortium AREVA-Siemens) has reported to TVO, the company that is building and owns the new unit, that the unit will be completed at the turn of 2010–2011.

In October, Fortum completed the sale of its industrial maintenance business. Some 900 employees transferred in connection with the deal.

In November, Fortum signed a four-year contract on the operation and maintenance of a waste-to-energy plant under construction in the UK, near London's Heathrow Airport. The plant will be ready in summer 2008.

In November, Fortum applied for an additional 20-year operating licence for the Loviisa power plant. In December, Fortum made a long-term agreement to purchase nuclear fuel from Russian TVEL Corporation to Loviisa.

In November, Fortum sold its 154-MW peat-fired power plant in Haapavesi, Finland. Fortum sold the equivalent of 1 TWh/a of constant generation capacity in the Finnish area from November 2006 to the end of March 2011. Fortum leased its 308-MW share of the Meri-Pori power plant from January 2007 to the end of June 2010. These transactions were required by the Finnish competition authority for the realisation of the Fortum Espoo acquisition.

In December, Fortum announced a plan to build a new gas turbine power plant in Inkoo, Finland. According to the plan, the power plant will be in commercial use in 2009. The fuel of the power plant will be light fuel oil, and the power generation output will be about 250 to 300 MW.

## Heat

The business area comprises heat generation and sales in the Nordic countries and other parts of the Baltic Rim. Fortum is a leading heat producer in the Nordic region. 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. The segment includes the business units Heat and Värme.

| EUR million | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sales | 1,268 | 1,063 | 1,025 |
| – heat sales | 976 | 834 | 779 |
| – power sales | 198 | 145 | 159 |
| – other sales | 94 | 84 | 87 |
| Operating profit | 264 | 269 | 218 |
| Comparable operating profit | 253 | 253 | 207 |
| Net assets | 3,407 | 2,551 | 2,440 |
| Return on net assets, % | 9.6 | 11.6 | 9.8 |
| Comparable return on net assets, % | 9.2 | 11.0 | 9.3 |

The segment's heat sales during 2006 amounted to 24.7 (21.7) TWh. The volume increase was mainly due to the acquisitions in Poland and Fortum Espoo.

Power generation at combined heat and power plants (CHP) was 5.0 (4.1) TWh during 2006. The increase was mainly due to new volumes from the Fortum Espoo integration.

| Heat sales by area, TWh | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sweden | 9.3 | 9.5 | 9.6 |
| Finland | 10.7 | 9.8 | 10.5 |
| Other countries | 4.7 | 2.4 | 1.7 |
| Total | 24.7 | 21.7 | 21.8 |

| Power sales, TWh | 2006 | 2005 | 2004 |
|---|---|---|---|
| Total | 5.0 | 4.1 | 4.8 |



In May, Fortum started a project to connect the southern and central parts of the district heating systems in Stockholm. This will lead to more efficient use of heat production capacity in Stockholm. The project will be ready by May 2007 and the size of the investment is around EUR 20 million.

In May, Fortum Värme applied for an environmental permit for a new bio-fuel based CHP plant in Värtan. The new plant is planned to be in operation at the earliest by late 2009.

Fortum is planning to build a new CHP plant in connection with the current power plant in Suomenoja, Espoo. The value of the investment is estimated to be approximately EUR 200 million. The power plant is planned to be ready for production by the end of 2009. The new power plant will be fuelled by natural gas. The electricity production capacity will be approximately 260–300 megawatts (MW) and the district heating capacity approximately 200–240 MW.

In September, Fortum signed an agreement to sell its CHP plant in Hämeenlinna, Finland, to Vattenfall. The ownership was transferred to Vattenfall on 24 October. The sale was required as one of the conditions set by the Finnish competition authority for the realisation of the Fortum Espoo acquisition.

In December, Fortum announced an investment in a new CHP plant in Częstochowa, Poland. The value of the investment is around EUR 95 million. The power plant is planned to be ready for production by the end of 2009.

Fortum signed an agreement to purchase the heat operations of Vattenfall in Estonia and Latvia.

During the year, Fortum divested the shares of Sölvensborgs Fjärrvärme AB, Bromölla Fjärrvärme AB and Karskär Energi AB in Sweden.

Net assets increased mainly due to the consolidation of Fortum Espoo.

## Distribution

Fortum owns and operates distribution and regional networks and distributes electricity to a total of 1.6 million customers in Sweden, Finland, Norway and Estonia.

| EUR million | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sales | 753 | 707 | 707 |
| – distribution network transmission | 636 | 592 | 593 |
| – regional network transmission | 80 | 82 | 83 |
| – other sales | 37 | 33 | 31 |
| Operating profit | 252 | 251 | 234 |
| Comparable operating profit | 250 | 244 | 240 |
| Net assets | 3,412 | 3,021 | 3,091 |
| Return on net assets, % | 8.4 | 8.8 | 8.1 |
| Comparable return on net assets,% | 8.3 | 8.6 | 8.3 |

For 2006, the volume of distribution and regional network transmissions totalled 24.6 (23.1) TWh and 18.1 (18.0) TWh, respectively. Electricity transmissions via the regional distribution network totalled 15.0 (14.8) TWh in Sweden and 3.1 (3.2) TWh in Finland.

| Volume of distributed electricity in distribution network, TWh | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sweden | 14.4 | 14.4 | 14.2 |
| Finland | 7.7 | 6.3 | 6.2 |
| Norway | 2.3 | 2.2 | 2.1 |
| Estonia | 0.2 | 0.2 | 0.2 |
| Total | 24.6 | 23.1 | 22.7 |

| Number of electricity distribution customers by area, thousands | 31 Dec 2006 | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|---|
| Sweden | 865 | 860 | 860 |
| Finland | 580 | 410 | 405 |
| Norway | 97 | 97 | 93 |
| Estonia | 23 | 23 | 22 |
| Total | 1,565 | 1,390 | 1,380 |



The Swedish supervision model (NNM), used by the Energy Markets Inspectorate (EMI) to calculate network prices, is contested by the industry. All decisions made by EMI have been appealed.

The supervision of 2003 distribution tariffs for Fortum (two areas and a minor subsidiary) is ongoing, and final decisions for Fortum are still pending. Concerning the supervision of 2004 tariffs (four areas and a minor subsidiary), there is no communication yet from the authority. In December, EMI informed that its 2005 tariff supervision will include two of Fortum's distribution areas and a minor subsidiary.

The development and implementation of a new customer and billing system in Sweden continued to cause additional costs and quality deviations in customer service for Distribution.

During 2006, the segment made investments to reduce average customer outage time. This programme was initiated in 2005 and is expected to be finished by 2011. By 2011, Fortum will invest EUR 700 million in the Nordic networks. As part of this, the EUR 200 million Reliability Investment Programme that was launched in 2005 continued according to plan during 2006

Another important ongoing project is automatic meter management (AMM) in Sweden. All customers in Sweden will get automatic meters. The roll out of meters will start in 2007 and the installation will be finalised by the end of 2008. The total value of the AMM project in Sweden is estimated at EUR 240 million.

## Markets

Markets is responsible for retail sales of electricity to a total of 1.3 million private and business customers as well as to other electricity retailers in Sweden, Finland and Norway. Markets buys its electricity through Nord Pool.

| EUR million | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sales | 1,912 | 1,365 | 1,387 |
| Operating profit/loss | –6 | 32 | 34 |
| Comparable operating profit/loss | –4 | 30 | 23 |
| Net assets | 176 | 228 | 194 |
| Return on net assets, % | –1.6 | 17.4 | 25.3 |
| Comparable return on net assets, % | –0.8 | 16.4 | 17.1 |

During 2006, Markets electricity sales totalled 42,1 (40,2) TWh. The sales in the fourth quarter were higher than the year before despite the expiring of large sales contracts in the third quarter of 2005. The increase in sales is mainly due to the integration of Fortum Espoo and the higher number of both private and business customers.

In the fourth quarter, Nordic retail electricity prices were higher than during the second and third quarters. The retail prices in Sweden and Norway rapidly follow the forward market prices in Nord Pool, whereas the retail prices in Finland did not fully follow the forward market price fluctuation.

During the fourth quarter, the sales activities of Fortum Espoo were successfully integrated to Fortum Markets.

Markets' customer flow continued to develop positively during 2006.

The development and implementation of the new customer and billing system in Sweden continued to cause additional costs and quality deviations in customer service for Markets.

## Capital expenditures, investments and divestments of shares

Capital expenditures and investments in shares in 2006 totalled EUR 1,395 (479) million. Investments excluding acquisitions were EUR 485 (346) million.

In January, Fortum's ownership of Polish Fortum Wroclaw's share capital reached 90.2 per cent and 94.4 per cent of the voting rights. Fortum de-listed Fortum Wroclaw S.A. from the Warsaw Stock Exchange as of 29 April 2006. Fortum Wroclaw is a district heat distribution company, whose sales amounted to approximately EUR 71 million and heat sales to approximately 2.1 TWh in 2005.

During 2006, Fortum concluded the acquisition of Fortum Espoo amounting to EUR 766 million. Fortum Espoo was de-listed on 13 September. Fortum Espoo has been fully consolidated from the end of the second quarter, and it is included in the appropriate segment figures. The main effects of the consolidation are on the Heat, Distribution and Markets segments. During the third quarter, all Fortum Espoo business functions were integrated into Fortum's business unit structure. Fortum expects the integration of Fortum Espoo to bring gradual annual synergies of around EUR 15-20 million starting in 2007.

Fortum has fulfilled the conditions set by the Competition Authority for the realisation of Fortum Espoo acquisition. In October, Fortum finalised the sale of its combined heat and power plant in Hämeenlinna, Finland, to Vattenfall. In November, Fortum sold its 154-MW peat-fired power plant in Haapavesi, Finland, to Kanteleen Voima Oy, which is owned by a group of regional energy companies. Fortum has also sold the equivalent of 1 TWh/a of constant generation capacity in the Finnish area from November 2006 to the end of March 2011. Fortum has leased its 308-MW share of the Meri-Pori power plant from January 2007 to the end of June 2010.

Fortum sold its approximately 40% holding in Enprima Oy to the Swedish ÅF Group. The deal was completed on 24 April 2006.

In September, Fortum announced its intention to sell its industrial maintenance services business. Some 900 employees were transferred in connection with the deal. The agreement was signed on 21 September 2006 and closed on 31 October 2006.

In October, Fortum finalised the purchase of approximately 12.5 per cent of St. Petersburg Generating Company. The purchase price was approximately EUR 120 million. With the acquisition, Fortum's share in the Russian Territorial Generating Company No. 1 increased to slightly over 25 per cent.

At the end of October, Fortum participated in the IPO of the Russian WGC-5, Wholesale Generating Company number 5, which has four production branches around Russia. In the IPO, Fortum obtained less than 1% of WGC-5.

## Financing

At year end, Fortum's interest-bearing net debt stood at EUR 4,345 million (EUR 3,158 million), resulting in a total increase in net debt of EUR 1,187 million for the year. The increase in net debt is primarily linked to the dividend payment in March and the Fortum Espoo acquisition in June. Net debt to EBITDA was 2.3 (1.8).

The Group's net financial expenses for 2006 were EUR 103 (135) million. The decrease is mainly attributable to lower interest rates. Net financial expenses include fair value gains on financial instruments of EUR 30 (40) million.

At year end, the average interest rate of Fortum's interest-bearing loans was approximately 4.6% per annum.

Group liquidity remained good. Year-end cash and marketable securities totalled EUR 157 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.

In June, Fortum issued a EUR 750-million 10-year Eurobond under its EMTN (Euro Medium Term Note) programme. The bonds are listed on the Luxembourg Stock Exchange. The proceeds of the offering were used for general corporate and refinancing purposes.

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

## Risks and Risk management

### Risk Management

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

Involvement in large scale energy businesses exposes Fortum to various types of risks. Electricity prices affected by the weather in the Nordic region and the development of the global commodity markets as well as regulation and taxation within local, regional and European electricity markets are the main risk factors.

Several projects aimed at further enhancing risk management were carried out in 2006. Commodity market risk modelling was developed to cope with changing market conditions and a harmonised framework for operational risk management was introduced throughout the Group. Fortum will continue to develop its risk management capabilities as the business operations and markets evolve.

### Strategic risks

Fortum seeks growth both by leveraging organic growth opportunities and actively participating in further Nordic consolidation. Fortum's aim is to grow profitably in chosen market areas: the Nordic countries, Russia, Poland and the Baltic countries. The growth possibilities are in part subject to regulatory supervision and political decisions.

Nordic/EU Policy harmonisation, infrastructure development and integration of the Nordic electricity market towards continental Europe depend partly on the actions of authorities. Changes in the market environment and regulation could endanger the implementation of the market driven development of the electricity market. Fortum promotes market driven development by maintaining an active dialogue with all stakeholders.

### Financial risks

Fortum defines financial risk as the negative effects of market price movements, volume changes, liquidity events or counterpart events. A number of different methods, such as Value-at-Risk and Profit-at-Risk, are used throughout the Group to quantify financial risks. In particular, the potential impact of price and volume risks of electricity, weather, $CO_2$ and main fuels are assessed taking into account their interdependencies. Stress-testing is carried out in order to assess the effects of extreme electricity price movements on Fortum's earnings.

Financial risk taking in business units aims to capture potential upside by optimising hedging or by trading in the markets. Risk taking is limited by risk mandates. Risk mandates include minimum EBIT levels for the business units that are set by the President and CEO. Volumetric limits, Value-at-Risk limits, Stop-Loss limits and counterpart exposure limits are also in place.

Fortum is exposed to electricity market price movements mainly through its power generation and customer sales businesses. The short-term factors affecting electricity prices on the Nordic market include hydrological conditions, temperature, $CO_2$ allowance prices, fuel prices, and the import/export situation.

Fortum hedges its electricity price risks by entering into electricity forwards and futures contracts. The Fortum Management Team steers the hedging activities through hedging strategies that are executed by the business units within set mandates. The strategies and their execution are continuously evaluated. The hedge ratio on 31 December 2006 was approximately 65% for the year 2007 and 35% for the year 2008. Assuming no changes in generation volumes, hedge ratios or cost structure, a EUR 1/MWh change in the market price of electricity would affect Fortum's 2007 pre-tax earnings by approximately EUR 18 million.

Fortum is trading electricity forwards, futures, options, and CfD's (contract for differences) mainly on the Nord Pool market and $CO_2$ allowances on the European market. Specific decision making and reporting procedures are set up to limit potential losses and ensure compliance with predefined risk mandates.

Fortum's business is capital intensive and the Group has a regular need to raise financing. 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. Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. Interest rate risk is managed by adjusting the duration of Group's debt portfolio within approved mandates with different types of financing contracts and interest rate derivative contracts.

Fortum has cash flows, assets and liabilities in currencies other than in euro. Changes in exchange rates can therefore have an effect on Fortum's earnings and balance sheet.

Fortum's policy is to hedge major transaction exposures while translation exposures are hedged selectively.

Fortum's business operations in electricity markets and elsewhere lead to contractual arrangements with customers and other counterparts. Exposures against limits and counterparts' creditworthiness are monitored to ensure that the risks are at an accepted level.

### Operational risks

Operational risks are defined as the negative effects resulting from inadequate or failed internal processes, people, systems and equipment, or from external events. The main objective of operational risk management is to reduce the risk of unwanted operational events by clearly documenting and automating processes and by ensuring a strict segregation of duties between decision-making and controlling functions. For managing insurable risks, Group-wide insurance programs have been established.

Operational events at power and heat generation and electricity distribution facilities or other external events can lead to physical damages, business interruptions, and third-party liabilities. In Sweden, third-party liabilities from dam failures are strictly the plant owners' responsibility. Together with other hydropower producers, Fortum has a shared dam liability insurance program in place that covers Swedish dam failure liabilities up to SEK 7,000 million. Fortum owns the Loviisa nuclear power plant, and has minority interests in one Finnish and two Swedish companies with nuclear plants. As the operator of Loviisa power plant, Fortum has a statutory insurance policy of approximately EUR 240 million. Similar insurance policies are in place for the operators where Fortum has a minority interest.

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, Fortum maintains an active and on-going dialogue with the bodies involved in the development of laws and regulations.

Fortum's operations are subject to rules and regulations set forth by the competition authorities, exchanges, and other regulatory bodies. Fortum maintains strict internal market conduct rules and has procedures in place to prevent, for example, the use of proprietary information before it is published.

For further details of Fortum's risk management organization, processes and governance, and financial risks see Note 3 Financial Risk Management of the Consolidated Financial Statements. See also pages 51–55 of the Review of Operations in the Annual report.

## Research and development

Fortum increased the activity level in R&D with the launch of several new programmes and with a focus shift towards long-term development initiatives in 2006. Compared with previous years, more programmes are now geared toward attaining competitive edge in the long-term as opposed to mainly securing the competitiveness of current operations.

A central characteristic to Fortum's R&D approach is the forming of well functioning networks and partnerships with research organisations, engineering companies as well as technology vendors. Internal efforts are concentrated on identified key areas in which Fortum strives to achieve a benchmark competence level, such as nuclear safety.

The group's total R&D expenditure in 2006 was EUR 17 million (EUR 14 million in 2005). The increase in expenses is mainly attributable to new programmes and activities initiated in 2006.

Fortum's R&D expenditure amount to 0.4% of sales (0.4% in 2005), and 0.6% (0.6%) of total expenses. Fortum's R&D expenditure are on an average level when compared with the typical reported R&D expenditure of sales in other European power and heat companies.

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| R&D expenditure, EUR million | 17 | 14 | 13 |
| R&D expenditure, % of sales | 0.4 | 0.4 | 0.3 |
| R&D expenditure, % of total expenses | 0.6 | 0.6 | 0.6 |

For further details of research and development see page 17 of the Review of Operations in the Annual Report.

## Environment and safety issues

Fortum is committed to sustainable development and believes that it gives the company a competitive edge in the market. A balance between economical, environmental and social aspects is a guiding factor for all decision making and activity in the company. 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.

Fortum aims at continuous improvement of its carbon competitiveness and strives to keep the specific greenhouse gas emissions of its power generation among the lowest in the European power industry. This goal was strengthened during 2006 by setting target values for the carbon exposure; annual target of 200 $gCO_2$/kWh, and an average five years' target of 120 $gCO_2$/kWh.

In 2006, 84% of the electricity generated by Fortum was free of carbon dioxide emissions. A preliminary estimate for $CO_2$ emissions from Fortum's own power plants in 2006 amounts to 11.0 million tonnes, some 69% higher than the previous year. The clear rise in the emissions was caused by low production of hydro power in the Nordic market area and a consequential increase in use of condensing power plants.

The annual average $CO_2$ emissions subject to emissions trading have been approximately 8.1 million tonnes during 2005–2006.The average volume of emission allowances allocated to Fortum's installations totals approximately 9 million tonnes per year during 2005–2007.

Fortum received two significant rewards for its environmental and social performance in 2006. In September Fortum secured its place on the Dow Jones Sustainability World Index and in December Storebrand ranked Fortum the most responsible energy company in its global Best in Class report.

In 2006, there were 55 occupational accidents leading to an absence of more than one working day. This means 3.7 injuries per one million working hours, which is below our target value of 4.0 for 2006. The target for 2007 is less than 2 injuries per million working hours.

Although the injury frequency decreased, 2006 saw two fatal accidents. A Fortum employee died in an accident at a customer's manufacturing facility and a contractor's employee died in an accident at a district heat network construction site. These accidents, as all accidents at Fortum, have been thoroughly investigated to help preventing similar accidents in the future.

For further details of environment and safety see pages 31–39 of the Review of Operations in the Annual report.

## Group personnel

In 2006, the Fortum Group employed an average of 8,910 (8,939) people. At year end, the number of employees totalled 8,134 (8,955), of which 7,681 (8,769) were permanent employees. The acquisition of Fortum Espoo increased the total number of employees approximately by 336 persons and the acquisition of two Polish companies late December 2005 increased the total number of employees approximately by 988 persons. The sale of the industrial maintenance business decreased the total number of employees by some 930 employees. The number of employees in the parent company, Fortum Corporation, at year end totalled 566 (550).

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Average number of personnel | 8,910 | 8,939 | 8,592 |
| Total amount of employee costs, EUR million | 508 | 481 | 462 |

For further details of group personnel see Note 14 Management Remuneration and Employee Costs of the Consolidated Financial Statements. See also pages 36–39 of the Review of Operations in the Annual report.

## Shares and share capital

During 2006, a total of 830.8 (900.1) million Fortum shares for a total of EUR 16,936 million were traded. Fortum's market capitalisation, calculated using the closing quotation on the last trading day of the year, was EUR 19,132 million. The highest quotation of Fortum Corporation's shares on the Helsinki Stock Exchange in 2006 was EUR 23.48, the lowest EUR 15.71, and the average quotation EUR 20.39 (13.87). The closing quotation on the last trading day of the year was EUR 21.56 (15.84).
Relating to the 2001A share option scheme, a total of 1.6 million options for a total of EUR 25.7 million were traded during 2006. Relating to the 2001B share option scheme, a total of 5.5 million options for a total of EUR 85.3 million were traded during 2006. Relating to the 2002A share option scheme, a total of 0.5 million options for a total of

EUR 7.2 million were traded during 2006. Relating to the 2002B share option scheme, a total of 5.3 million options for a total of EUR 96.0 million were traded during 2006.

A total of 13,759,621 (8,210,120) shares subscribed on the basis of the above share option schemes were entered into the trade register in 2006. The Board of Directors of Fortum Corporation has cancelled a total of 1,660,000 repurchased Fortum shares (EUR 30,390,150) according to the authorisation given to the Board of Directors in the Annual General Meeting of Shareholders on 16 March 2006. The average price for the repurchased own shares was EUR 18.31, the lowest price EUR 17.55 and the highest price EUR 19.15. At the end of 2006, Fortum Corporation did not own its own shares.

After registrations and the cancellation, Fortum Corporation's share capital is EUR 3,022,782,396 and the total number of registered shares is 887,393,646 (875,294,025) at the end of 2006. Share capital of Fortum Corporation increased by a total of EUR 46,782,711 (27,914,408).

At year end the amount of shares that can still be registered for under the share option schemes is a maximum of 0.8% (6.883.429 shares) of Fortum's 2006 year-end share capital and voting rights.

At year end, the Finnish State's holding in Fortum was 50.8% (51.5%). The proportion of foreign shareholders increased to 35.4% (33.2%).

Currently, the Board of Directors has no unused authorisations from the General Meeting of Shareholders to issue convertible loans or bonds with warrants or to issue new shares. Currently, the Board of Directors has the authorisation from the Annual General Meeting of Shareholders on 16 March 2006 to buy Fortum Corporation's own shares. The authorisation, amounting to EUR 500 million or 35 million shares, is valid one year from the last year AGM.

## Events after the period under review

Storms in January, especially in Sweden, have caused approximately EUR 10 million additional costs for the Distribution segment.

In January, Fortum's subsidiary in Estonia, Fortum Tartu AS announced an investment in a new CHP plant in the City of Tartu. The size of the investment is around EUR 60 million. Fortum owns 60% of the company.

## 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 affects 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 4 TWh above the long-term average and 1 TWh below the corresponding level of 2005. At the end of January, the market price for emissions allowances for 2007 was between EUR 2–3 per tonne of $CO_2$ and for 2008 between EUR 15–16 per tonne of $CO_2$. At the same time, the electricity forward price for 2007 was around EUR 28–29 per MWh and around EUR 40–41 per MWh for 2008.

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

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

At the beginning of January, Fortum had hedged approximately 65% of the Power Generation segment's estimated Nordic sales volume for 2007 at approximately EUR 42 per megawatt-hour. The hedge position for 2007 was lowered to a more neutral level during the fourth quarter of 2006. This was based on Fortum's view on future power prices at the time. At the beginning of January, Fortum had hedged approximately 35% of the Power Generation segment's estimated Nordic sales volume at approximately EUR 42 per megawatt-hour for the calendar year 2008. These hedge ratios may vary significantly depending on Fortum's actions on the electricity derivatives markets. Hedge prices are also influenced by changes in the SEK/EUR exchange rates, as part of the hedges are conducted in SEK.

Despite lower hydro and nuclear generation volumes, Fortum's results in 2006 were good and its financial position is strong. With its flexible and climate-benign production portfolio, Fortum is well positioned also for 2007.

## Dividend distribution proposal

Parent company's distributable equity as of 31 December 2006 amounted to EUR 2,065 million. After the end of the financial period there has been no material changes in the financial position of the Company.

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a cash dividend of EUR 1.26 per share for 2006, totalling EUR 1,119 million based on the number of registered shares as of 30 January 2007. Of this total dividend, EUR 0.73 per share is in accordance with the Group's dividend policy. An additional dividend of EUR 0.53 per share is proposed in order to steer Fortum's capital structure towards the agreed target.

The Annual General Meeting will be held on 28 March at 3:00 pm at the Kaapelitehdas in Helsinki.

Espoo, 30 January 2007

Fortum Corporation Board of Directors

# Consolidated Financial Statements, IFRS

## Consolidated Income Statement

| EUR million | Note | 2006 | 2005 |
|---|---|---|---|
| **Continuing operations:** | | | |
| **Sales** | 4, 5, 10 | 4,491 | 3,877 |
| Other income | 11 | 80 | 101 |
| Materials and services | 12 | –1,673 | –1,325 |
| Employee costs | 14 | –508 | –481 |
| Depreciation, amortisation and impairment charges | 4, 15 | –429 | –407 |
| Other expenses | 13 | –506 | –418 |
| **Operating profit** | 4 | 1,455 | 1,347 |
| Share of profit of associates and joint ventures | 4 | 69 | 55 |
| Interest expense | 16 | –176 | –203 |
| Interest income | 16 | 50 | 46 |
| Fair value gains and losses on financial instruments | 16 | 30 | 40 |
| Other financial expenses – net | 16 | –7 | –18 |
| Finance costs-net | 16 | –103 | –135 |
| **Profit before income tax** | | 1,421 | 1,267 |
| Income tax expense | 17 | –301 | –331 |
| **Profit for the period from continuing operations** | | 1,120 | 936 |
| **Discontinued operations:** | | | |
| **Profit for the period from discontinued operations** | 7 | – | 474 |
| **Profit for the period** | | 1,120 | 1,410 |
| **Attributable to:** | | | |
| Equity holders of the Company | | 1,071 | 1,358 |
| Minority interest | | 49 | 52 |
| | | 1,120 | 1,410 |
| **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 | 18 | 1.22 | 1.55 |
| Diluted | | 1.21 | 1.53 |
| **Earnings per share for profit from continuing operations attributable to the equity holders of the company during the year (in EUR per share)** | | | |
| Basic | 18 | 1.22 | 1.01 |
| Diluted | | 1.21 | 1.00 |
| **Earnings per share for profit from discontinued operations attributable to the equity holders of the company during the year (in EUR per share)** | | | |
| Basic | 18 | – | 0.54 |
| Diluted | | – | 0.53 |

# Consolidated Balance Sheet

| EUR million | Note | 31 Dec 2006 | 31 Dec 2005 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 21 | 96 | 80 |
| Property, plant and equipment | 22 | 11,471 | 10,176 |
| Investments in associates and joint ventures | 23 | 2,197 | 1,610 |
| Share in State Nuclear Waste Management Fund | 36 | 450 | 418 |
| Other long-term investments | 24 | 101 | 66 |
| Deferred tax assets | 30 | 5 | 18 |
| Derivative financial instruments | 3 | 103 | 87 |
| Long-term interest bearing receivables | 25 | 680 | 620 |
| Total non-current assets | | 15,103 | 13,075 |
| Current assets | | | |
| Inventories | 26 | 329 | 256 |
| Derivative financial instruments | 3 | 198 | 129 |
| Trade and other receivables | 27 | 1,052 | 882 |
| Cash and cash equivalents | 28 | 157 | 788 |
| Total current assets | | 1,736 | 2,055 |
| Total assets | | 16,839 | 15,130 |
| EQUITY | | | |
| Capital and reserves attributable the Company's equity holders | | | |
| Share capital | 29, 30 | 3,023 | 2,976 |
| Other equity | 29 | 4,885 | 4,175 |
| Total | | 7,908 | 7,151 |
| Minority interests | 31 | 253 | 260 |
| Total equity | | 8,161 | 7,411 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Interest-bearing liabilities | 32 | 4,060 | 3,118 |
| Derivative financial instruments | 3 | 134 | 123 |
| Deferred tax liabilities | 33 | 1,795 | 1,512 |
| Nuclear provisions | 36 | 450 | 418 |
| Pension and other provisions | 34, 35 | 186 | 188 |
| Other liabilities | 37 | 485 | 312 |
| Total non-current liabilities | | 7,110 | 5,671 |
| Current liabilities | | | |
| Interest-bearing liabilities | 32 | 442 | 828 |
| Derivative financial instruments | 3 | 198 | 235 |
| Current tax liability | | 84 | 119 |
| Trade and other liabilities | 38 | 844 | 866 |
| Total current liabilities | | 1,568 | 2,048 |
| Total liabilities | | 8,678 | 7,719 |
| Total equity and liabilities | | 16,839 | 15,130 |

# Consolidated Statement of Changes in Total Equity

| EUR million | Share capital | Share premium | Other restricted funds | Fair value and other reserves | Treasury shares | Retained earnings | Attributable to the equity holders | Minority | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Total equity at 31.12.2005** | **2,976** | **70** | **2** | **–117** | **–** | **4,220** | **7,151** | **260** | **7,411** |
| Other fair value adjustments [1] | – | – | – | 442 | – | – | **442** | – | 442 |
| Cash flow hedges | – | – | – | 198 | – | – | **198** | –1 | 197 |
| Translation and other differences | – | – | – | – | – | 38 | **38** | 6 | 44 |
| *Total gains and losses not recognised in income statement* | 0 | 0 | 0 | 640 | 0 | 38 | **678** | 5 | 683 |
| Profit for the period | – | – | – | – | – | 1,071 | **1,071** | 49 | 1,120 |
| Total recognised income for the period | 0 | 0 | 0 | 640 | 0 | 1,109 | **1,749** | 54 | 1,803 |
| Stock options excercised | 47 | 3 | –1 | – | – | – | **49** | – | 49 |
| Repurchase of own shares | – | – | – | – | –30 | – | **–30** | – | –30 |
| Cancellation of own shares | – | – | – | – | 30 | –30 | **0** | – | 0 |
| Change in the recognition of performance share arrangement [2] | – | – | – | –12 | – | –12 | –24 | – | –24 |
| Cash dividend | – | – | – | – | – | –987 | **–987** | – | –987 |
| Change in minority due to business combinations | – | – | – | – | – | – | **0** | –61 | –61 |
| **Total equity at 31.12.2006** | **3,023** | **73** | **1** | **511** | **–** | **4,300** | **7,908** | **253** | **8,161** |
| | | | | | | | | | |
| **Total equity at 31.12.2004** | **2,948** | **62** | **13** | **134** | **–** | **4,343** | **7,500** | **150** | **7,650** |
| Other fair value adjustments | – | – | – | 6 | – | – | **6** | – | **6** |
| Cash flow hedges | – | – | – | –257 | – | – | **–257** | 3 | **–254** |
| Translation and other differences | – | – | – | – | – | –55 | **–55** | –7 | **–62** |
| *Total gains and losses not recognised in income statement* | 0 | 0 | 0 | –251 | 0 | –55 | **–306** | –4 | **–310** |
| Profit for the period | – | – | – | – | – | 1,358 | **1,358** | 52 | **1,410** |
| Total recognised income for the period | 0 | 0 | 0 | –251 | 0 | 1,303 | **1,052** | 48 | **1,100** |
| Stock options excercised | 28 | 8 | –11 | – | – | – | **25** | – | **25** |
| Cash dividend | – | – | – | – | – | –506 | **–506** | – | **–506** |
| Share dividend [3] | – | – | – | – | – | –920 | **–920** | – | **–920** |
| Change in minority due to business combinations | – | – | – | – | – | – | **0** | 62 | **62** |
| **Total equity at 31.12.2005** | **2,976** | **70** | **2** | **–117** | **–** | **4,220** | **7,151** | **260** | **7,411** |

[1] Includes the fair value change of Renewable Energy Corporation (REC) shareholding in Hafslund. See Note 23 Investments in Associated Companies and Joint Ventures

[2] Share performance arrangement has been officially decided to be cash-settled, which has had an impact on the accounting treatment. See Note 30 Employee Bonus and Incentive Schemes.

[3] The effect of the dividend of approx. 85% of the shares in Neste Oil on Fortum Group equity was EUR 920 million. See Note 7 Discontinued operations.

# Consolidated Cash Flow Statement

| EUR million | Note | 2006 | 2005 |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Net profit for the period from continuing operations | | 1,120 | 936 |
| Adjustments: | | | |
| Income tax expenses | | 301 | 331 |
| Finance costs-net | | 103 | 135 |
| Share of profit of associates and joint ventures | | –69 | –55 |
| Depreciation, amortisation and impairment charges | | 429 | 407 |
| Operating profit before depreciations continuing operations | | 1,884 | 1,754 |
| Non-cash flow items and divesting activities | | –92 | 15 |
| Interest received | | 50 | 51 |
| Interest paid | | –193 | –261 |
| Dividends received | | 40 | 36 |
| Other financial items and realised foreign exchange gains and losses | | 14 | 67 |
| Taxes | | –374 | –298 |
| Funds from operations continuing operations | | 1,329 | 1,364 |
| Increase in interest free receivables | | –88 | –93 |
| Increase in inventories | | –51 | –20 |
| Decrease/increase in interest free liabilities | | –39 | 20 |
| Change in working capital | | –178 | –93 |
| Net cash from operating activities continuing operations | | 1,151 | 1,271 |
| Net cash from operating activities discontinued operations | | – | 133 |
| Total net cash from operating activities | | 1,151 | 1,404 |
| Cash flow from investing activities | | | |
| Capital expenditures | 4,21,22 | –485 | –346 |
| Acquisition of subsidiaries, net of cash acquired | 8 | –754 | –79 |
| Acquisition of associates | 23 | –124 | –47 |
| Acquisition of other long-term investments | | –21 | –1 |
| Proceeds from sales of fixed assets | | 83 | 30 |
| Proceeds from sales of subsidiaries, net of cash disposed | 8 | 11 | 3 |
| Proceeds from sales of associates | 23 | 30 | 12 |
| Proceeds from sales of other long-term investments | | 1 | 11 |
| Change in interest-bearing receivables | | –47 | 19 |
| Net cash used in investing activities continuing operations | | –1,306 | –398 |
| Net cash used in investing activities discontinued operations | | – | 1,155 |
| Total net cash used in investing activities | | –1,306 | 757 |
| Cash flow before financing activities | | –155 | 2,161 |
| Cash flow from financing activities | | | |
| Proceeds from long-term liabilities | | 1,263 | 28 |
| Payments of long-term liabilities | | –803 | –706 |
| Change in short-term liabilities | | 32 | –384 |
| Proceeds from stock options exercised | 29 | 49 | 22 |
| Dividends paid to the Company's equity holders | 19 | –987 | –506 |
| Repurchase of own shares | 29 | –30 | – |
| Other financing items | | 0 | –1 |
| Net cash used in financing activities continuing operations | | –476 | –1,547 |
| Net cash used in financing activities discontinued operations | | – | 29 |
| Total net cash used in financing activities | | –476 | –1,518 |
| Total net increase (+)/decrease (–) in cash and cash equivalents | | –631 | 643 |
| Cash and cash equivalents at the beginning of the year | | 788 | 145 |
| Cash and cash equivalents at the end of the year | | 157 | 788 |

The principal non-cash transaction in 2005 was the dividend distribution of approximately 85% of Neste Oil shares as part of the Neste Oil separation, which is further discussed in the Note 7 Discontinued operations.

# 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 is listed on the Helsinki Stock Exchange.

Fortum Corporation and its subsidiaries (together the Fortum Group) is a leading energy company in the Nordic countries and 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. Neste Oil was included in Fortum Group up until 31 March 2005, when the Annual General Meeting took the final decision to separate the oil operations by distributing approximately 85% of Neste Oil Corporation shares as dividend. The remaining approximately 15% of shares were sold to investors in April 2005. Oil operations have been presented 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) / International Accounting Standards (IAS) as they are adopted within the EU. (Hereinafter referred to as IFRS, unless refering to a specific standard.)

The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of available-for-sale financial assets, and financial assets and liabilities (including derivative instruments) at fair value through profit and loss statement.

#### Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting principles. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2 Critical Accounting Estimates and Judgements.

#### Amendments and Interpretations to existing standards effective in 2006

- IAS 19 *(Amendment), Actuarial Gains and Losses, Group Plans and Disclosures* (effective from 1 January 2006) As the Group have not changed the accounting policy adopted for recognition of actuarial gains and losses, this amendment impacts only the format and extent of disclosures presented in the accounts.
- Amendment to IAS 21 *The effect of changes in Foreign Exchange Rates, Net Investment in a Foreign Operation (effective from 1 January 2006).*
- IAS 39 *(Amendment) Financial Instruments: Recognition and Measurement – The Fair Value Option* (effective from 1 January 2006) At present the Group does not apply the fair value option.
- IAS 39 and IFRS 4 Insurance Contracts *(Amendment) Financial Guarantee Contracts* (effective from 1 January 2006)
- *IFRIC 10 Interim Financial Reporting and Impairment* (effective from 1 November 2006)

#### Amendments and interpretations to existing standards that have been applied before their effective date

The following amendments and interpretations to existing standards were early adopted from 2004 in Fortum's transition to IFRS in 2005.

- 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)

#### Standards and interpretations to existing standards effective in 2006 but not relevant

The following standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but 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)

#### Amendments and interpretations to existing standards that are not yet effective

The following new standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on 1 January 2007 or later periods but which the Group has not early adopted:

- IFRS 7 *Financial Instruments: Disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures* (effective for annual periods beginning on or after 1 January 2007) The Group will apply this amendment from 1 January 2007. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments as such.
- IFRS 8 *Operating segments* (effective for annual periods beginning on or after 1 January 2009). Management is in process to assess impacts. The Group will apply this standard at the latest

beginning 1 January 2009.
- IFRIC 9 *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006).
- IFRIC 11 IFRS 2 *Group and Treasury share transactions* (effective for annual periods beginning on or after 1 March 2007).

### The following interpretations are not relevant to the Group's operations
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies* (effective for annual periods beginning on or after 1 March 2006)
- IFRIC 8 *Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006)
- IFRIC 12 Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)

### Classification of current and non-current assets and liabilities
An asset or a liability is classified as a current asset or liability when it is held primarily for commercial purposes or is expected to be realised within twelve months after the balance sheet date. Cash and cash equivalents are classified as current assets.

All other assets and liabilities are classifed as non-current assets and liabilities.

## 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. The Fortum Group subsidiaries are disclosed in Note 39 Subsidiaries by segment on 31 December 2006.

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. In 2005 Fortum Oil Oy was separated from Fortum by distributing 85% of its shares to Fortum's shareholders and by selling the remaining 15%.) This means that the acquisition cost of Fortum Power and Heat Oy and Fortum Heat 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.

Regarding accounting for Fortum's shareholding in Hafslund ASA and the five Russian shareholdings including TGC-1 and Lenenergo, see Note 23 Investments in Associated Companies and Joint Ventures.

## Segment reporting
Fortum discloses primary segment information based on the organisational and business structure. 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. The Group's businesses are divided into the following primary 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 gener-

ates 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.

For further information about the reporting segments, see Note 4 Primary Segment Information Continuing Operations.

In 2005 Fortum reported discontinued operations as a result of the dividend of approximately 85% of the shares in Neste Oil Oyj decided on the Annual General Meeting 31 March 2005. The remaining shares were sold in April 2005. Information on discontinued operations is shown in Note 7 Discontinued Operations and is not included in the segment information.

In Note 5 Geographical Segments, Fortum also discloses some secondary segment information based on the geographical areas in which Fortum operates. The information disclosed is sales based on the country in which the customer is located, assets, capital expenditure and personnel based on where the assets and personnel are located.

## Discontinued operations and assets held for sale

Discontinued operations represent a separate major line of business that either have been disposed of or are classified as held for sale. Assets and liabilities attributable to the discontinued operations 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. The post-tax profit for the period attributable to discountinued operations including the gain or loss on the disposal is shown as a separate item in the Income Statement. The discontinued operations effect on cashflow is either separated in the Cash Flow Statement or disclosed in the notes.

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 shareholders' 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, ie 1 January 2004.

Exchange rates used to translate reporting currencies into euros in the Consolidated Financial Statement are disclosed in Note 9 Exchange Rates.

## 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 electricity 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.

Electricity tax is levied on electricity delivered to retail customers by domestic utilities in Sweden. The tax is calculated on the basis of a fixed tax rate per kiloWatthour. The rate varies between different classes of customers. Sale of electricity in the income statement is shown net of electricity tax.

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.

The prices charged to customers for the sale of distribution of electricity are regulated. The regulatory mechanism differs from country to country. Any over or under income decided by the regulatory body is regarded as regulatory assets or liabilities that do not qualify for balance sheet recognition due to the fact that no contract defining the regulatory aspect has been entered into with a specific customer and thus the receivable is contingent on future delivery. The over or under income is normally credited or charged over a number of years in the future to the customer using the electricity connection at that time. No retroactive credit or charge can be made.

### 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

Revenue from activities outside normal operations is reported in Other income. This includes recurring items such as rental income and non-recurring items such as gains from sales of shares, property, plant and equipment and emission rights etc. Other income includes also the changes in the fair value of any derivative instruments that do not qualify for hedge accounting which are recognised immediately 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 materials and services. Gains from sales of emission rights are reported in other income.

## 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 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 and Development costs

Research and development costs are recognised as expense as incurred and included in other expenses in the Income statement, unless it is assured that they will generate future income, in which case they are capitalised as intangible assets and depreciated over the period of the income streams.

## 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

Intangible assets, except goodwill, 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.

### Computer software

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

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).

### Customer base

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.

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill in acquisition of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

## 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 charge 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 electricity, heat, cooling and distribution of electricity 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.

## Treasury shares

Where any group company purchases the Company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders. When such shares are subsequently sold or reissued, any consideration received is included in equity.

## 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 income 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 fund 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 of the present value of defined benefit obligations or the fair 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 long-term management performance share arrangement. The potential reward of the performance share arrangement is based on the performance of the Group, its business units and the individual participant as well as appreciation of the Fortum share. The potential reward of the performance share arrangement is treated as cash settled arrangement which is recognised as an expense during the vesting period with a corresponding increase in the liabilities. The fair value of the potential reward is measured based on the market value of Fortum share at each closing date and at the grant date. Estimated departures are taken into account when determining the fair value of the potential reward. The changes of the fair value of the potential reward are accrued over the remaining vesting period. A provision is recorded on the social charges related to the arrangement payable by the employer.

In order to hedge the Group against the changes in the fair values of the potential rewards the Group has entered into share forward transactions which are settled in cash. The forward transactions do not qualify for hedge accounting and therefore the periodic changes to their fair values are recorded in the income statement.

### Stock options

The Group has applied IFRS 2, Share-based Payments, for stock options 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 were 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 if applicable and the effects of changes in estimates are recorded in the income statement. Social charges related to the options payable by the employer are entered as an 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.

## Provisions

Provisions for environmental restorations, asset retirement obligations, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events to a third party it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

### Environmental restorations

Environmental provisions are recognised, 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. Environmental expenditures resulting from the remediation of an existing condition caused by past operations, and which do contribute to current or future revenues, are expensed as incurred.

### Asset retirement obligations

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.

### Restructuring provisions

Restructuring provisions comprise mainly of employee termination payments.

## 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 State Nuclear Waste Management Fund and the related nuclear liability are presented gross as non-current interest-bearing assets and provisions. Fortum's share in the State Nuclear Waste Management 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 State Nuclear Waste Management 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 State Nuclear Waste Management Fund assets is presented as financial income.

Fortum's share of the State Nuclear Waste Management Fund, related to Loviisa nuclear power plant, is higher than the adjusted Fund Asset. The nuclear liability should, according to the Finnish Nuclear Energy Act, be fully covered by payments to the State Nuclear Waste Management Fund. The nuclear liability is not discounted. Due to the change in the nuclear liability, the share of profit of the State Nuclear Waste Management Fund and incurred costs of taken actions, the annual fee to State Nuclear Waste Management 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.

More information regarding nuclear related assets and liabilities, see Note 36 Nuclear Related Assets and Liabilities.

## Contingent liabilities

A contingent liability is disclosed when there is a possible obligation that arises from events and whose existence is only confirmed by one or more doubtful future events or when there is an obligation that is not recognised as a liability or provision because it is not likely that on outflow of resources will be required.

## Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weigthted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the warrants and stock 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 Fotum share) based on the monetary value of the subscription rights attached to outstanding stock options.

The number of shares calculated as above is deducted from the number of shares that would have been issued assuming the exercise of the stock options. The incremental shares obtained through the assumed exercise of the options and warrants are added to the weighted average number of shares outstanding.

Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options or warrants. Previously reported earnings per share are not retroactively adjusted to reflect changes in price of ordinary shares.

## 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 have 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 Critical Accounting Estimates and Judgments

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 1 Accounting Policies. 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 2006 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 2006 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 State Nuclear Waste Management 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 State Nuclear Waste Management 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 State Nuclear Waste Management 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 does not have control or joint control over the fund. (See Note 36 Nuclear Related Assets and Liabilities).

# 3 Financial Risk Management

## Risk management objective and principles

Active risk management plays a key role in ensuring that the Fortum can deliver on its financial targets. Its purpose is also to enable the execution of the company's strategy. The objective of risk management in Fortum is to support the achievement of agreed targets while avoiding unwanted operational and financial events.

Involvement in large scale energy businesses exposes Fortum to various types of risks. Electricity prices affected by the weather in the Nordic region and the development of the global commodity markets as well as regulation and taxation within local, regional and European electricity markets are the main risk factors.

Several projects aimed at further enhancing risk management were carried out in 2006. Commodity market risk modelling was developed to cope with changing market conditions, a harmonized framework for operational risk management was introduced throughout the Group. Fortum will continue to develop its risk management capabilities as the business operations and markets evolve.

## Risk management framework

### Governance

Fortum's Board of Directors approves the Corporate Risk Policy that 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, and risk mandates to the CEO for approval. Business and service units are responsible for managing risks within the limits set by the policies and mandates.

### Organisation

The Audit Committee oversees risk management within the Group. The Chief Financial Officer (CFO) is responsible for consolidating and assessing the Group's exposure to risk and reporting risks and risk mandates to the CEO and the Board of Directors. An independent Corporate Risk Management function, headed by the Chief Risk Officer, is at the disposal of the CFO and assists in fulfilling these responsibilities.

Business and service units organise their own risk management and control. Risk control is organisationally segregated from decision-making functions and is responsible for reporting risks to Corporate Risk Management.

In order to capture synergies, some risks are managed at the Group level. Corporate Treasury is responsible for managing the Group's currency, interest rate, and liquidity and refinancing risks as well as for insurance management. Certain credit risk and IT-related risks are also managed at the Group level.

### Process

Risks are primarily identified and assessed by business and service units. Quantitative assessments are used where feasible, and quantification models are harmonised across different products and units. Risk assessments are also used when evaluating possible responses to identified risks. Risk responses can be one or a combination of mitigating, transferring or absorbing risk.

Risk control and reporting are carried out by the business and services units' risk control functions. The frequency of reporting is dependant upon the scope of the business, e.g. trading activities are reported daily. Corporate risk management assesses and reports the Group's consolidated exposure to financial risks to Group Management and the Board of Directors on a monthly basis. Strategic and operational risks are reported as part of the annual business planning process or as needed.

## Financial risks

Fortum defines financial risk as the negative effects of market price movements, volume changes, liquidity events or counterpart events. A number of different methods, such as Value-at-Risk and Profit-at-Risk, are used throughout the Group to quantify financial risks. In particular, the potential impact of price and volume risks of electricity, weather, $CO_2$ and main fuels are assessed taking into account their interdependencies. Stress-testing is carried out in order to assess the effects of extreme electricity price movements on Fortum's earnings.

Financial risk taking in business units aims to capture potential upside by optimising hedging or by trading in the markets. Risk taking is limited by risk mandates. Risk mandates include minimum EBIT levels for the business units that are set by the CEO. Volumetric limits and Value-at-Risk limits, Stop-Loss limits and counterpart exposure limits are also in place.

## Electricity price risks

Fortum is exposed to electricity market price movements mainly through its power generation and customer sales businesses. The short-term factors affecting electricity prices on the Nordic market include hydrological conditions, temperature, $CO_2$ allowance prices, fuel prices, and the import / export situation.

Fortum hedges its electricity price risks by entering into electricity forwards and futures contracts. The Fortum Management Team steers the hedging activities through hedging strategies that are executed by the business units within set mandates. The strategies and their execution are continuously evaluated. Other things being equal, Fortum's sensitivity to electricity market price is dependent on the hedge level for a given time period. The hedge ratio on 31 December 2006 was approximately 65% for the year 2007 and 35% for 2008. Assuming no changes in generation volumes, hedge ratios or cost structure, a EUR 1/MWh change in the market price of electricity would affect Fortum's 2007 pre-tax earnings by approximately EUR 18 million.

The tables below disclose the Group's electricity derivatives used mainly for hedging electricity price risk. The fair values represent the values disclosed in the balance sheet. See also Note 1 Accounting Policies for accounting principles and bases for fair value estimations and Note 6 Fair Value Changes of Derivates and Underlying Items in Income Statement, for the effects in the income statement regarding electricity derivatives not getting hedge accounting status.

### Electricity derivatives by instrument

| | 31 December 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| Gross | Volume, TWh | | | | Fair value, MEUR | | |
| | Under 1 year | 1-5 years | Over 5 years | Total | Positive | Negative | Net |
| Sales swaps | 98 | 35 | 1 | 134 | 773 | 258 | 515 |
| Purchase swaps | 80 | 20 | 1 | 101 | 208 | 634 | –426 |
| Purchased options | 0 | – | – | 0 | – | 0 | 0 |
| Written options | 3 | – | – | 3 | 3 | 0 | 3 |
| Total | 181 | 55 | 2 | 238 | 984 | 892 | 92 |
| | | | | | | | |
| Netting against Nord Pool [1] | | | | | | | |
| Total | | | | | –745 | –745 | 0 |
| | | | | | | | |
| Balance | | | | | 239 | 147 | 92 |

[1] Receivables and liabilities against Nord Pool arising from standard derivative contracts with same delivery period are netted.

### Electricity derivatives by accounting status

| Gross | 31 December 2006 Volume, TWh | | | | Fair value, MEUR | | |
|---|---|---|---|---|---|---|---|
| | Under 1 year | 1–5 years | Over 5 years | Total | Positive | Negative | Net |
| Derivatives with hedge accounting status | 70 | 35 | 1 | 106 | 398 | 334 | 64 |
| Derivatives with non-hedge accounting status [1] | 111 | 20 | 1 | 132 | 586 | 558 | 28 |
| Total | 181 | 55 | 2 | 238 | 984 | 892 | 92 |
| | | | | | | | |
| **Netting against Nord Pool [2]** | | | | | | | |
| Derivatives with hedge accounting status | | | | | –284 | –284 | 0 |
| Derivatives with non-hedge accounting status [1] | | | | | –461 | –461 | 0 |
| Total | | | | | –745 | –745 | 0 |
| | | | | | | | |
| **Balance** | | | | | 239 | 147 | 92 |
| Of which long-term | | | | | 63 | 70 | –7 |
| Short-term | | | | | 176 | 77 | 99 |

### Electricity derivatives by instrument

| Gross | 31 December 2005 Volume, TWh | | | | Fair value, MEUR | | |
|---|---|---|---|---|---|---|---|
| | Under 1 year | 1–5 years | Over 5 years | Total | Positive | Negative | Net |
| Sales swaps | 54 | 30 | – | 84 | 10 | 473 | –463 |
| Purchase swaps | 30 | 19 | – | 49 | 281 | 5 | 276 |
| Purchased options | 1 | – | – | 1 | – | 1 | –1 |
| Written options | 3 | – | – | 3 | 2 | 0 | 2 |
| Total | 88 | 49 | – | 137 | 293 | 479 | –186 |
| | | | | | | | |
| **Netting against Nord Pool [2]** | | | | | | | |
| Total | | | | | –216 | –216 | 0 |
| | | | | | | | |
| Balance | | | | | 77 | 263 | –186 |

### Electricity derivatives by accounting status

| Gross | 31 December 2005 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 [1] | 41 | 19 | 2 | 62 | 197 | 174 | 23 |
| Total | 88 | 47 | 2 | 137 | 293 | 479 | –186 |
| | | | | | | | |
| **Netting against Nord Pool [2]** | | | | | | | |
| Derivatives with hedge accounting status | | | | | –84 | –84 | 0 |
| Derivatives with non-hedge accounting status [1] | | | | | –132 | –132 | 0 |
| Total | | | | | –216 | –216 | 0 |
| | | | | | | | |
| **Balance** | | | | | 77 | 263 | –186 |
| Of which long-term | | | | | 48 | 74 | –26 |
| Short-term | | | | | 29 | 189 | –160 |

[1] Derivatives with non-hedge accounting status consists of trading derivatives and cash flow hedges without hedge accounting status

[2] Receivables and liabilities against Nord Pool arising from standard derivative contracts with same delivery period are netted

## Volume risks

Power and heat generation, customer sales, and electricity distribution volumes have significant variations that depend on the nature of the business. These volumes are subject to changes in, for example, hydrological conditions and temperature.

Changes in volumes are closely monitored so that hedges can be adjusted accordingly. In addition, volume risks in power and heat generation are partly mitigated through generation flexibility.

## Fuel price risks

Power and heat generation requires the use of fuels that are purchased from global or local markets. The main fuels used by the Group are uranium, coal, natural gas, peat, oil, and various bio-fuels such as wood pellets and palm oil.

Exposure to fuel price is to some extent limited because of Fortum's flexible generation possibilities which allows for switching between different fuels according to prevailing market conditions. Fuel price risks are mitigated through fixed price purchases that cover the forecasted consumption levels, and in some case customer contracting. Fixed price purchases can be either for physical deliveries or in the form of financial hedges.

The tables below disclose the Group's oil derivatives used mainly for hedging fuel price risk. The fair values represent the values disclosed in the balance sheet. See also Note 1 Accounting Policies and bases for fair value estimations and Note 6 Fair Value Changes of Derivates and Underlying Items in Income Statement for the effects in the income statement regarding oil derivatives not getting hedge accounting status.

### Oil futures and forward contracts

| | 31 December 2006 Volume, 1 000 bbl | | | | Fair value, MEUR | | |
|---|---|---|---|---|---|---|---|
| | Under 1 year | 1–5 years | Over 5 years | Total | Positive | Negative | Net |
| Sales swaps | 508 | 389 | – | 897 | 1 | 1 | 0 |
| Purchase swaps | 180 | 0 | – | 180 | 0 | 0 | 0 |
| Total | 688 | 389 | – | 1,077 | 1 | 1 | 0 |
| Of which long-term | | | | | 0 | 0 | 0 |
| Short-term | | | | | 1 | 1 | 0 |
| | | | | | | | |
| Non-hedging oil derivatives | 688 | 389 | – | 1,077 | 1 | 1 | 0 |

### Oil futures and forward contracts

| | 31 December 2005 Volume, 1 000 bbl | | | | Fair value, MEUR | | |
|---|---|---|---|---|---|---|---|
| | Under 1 year | 1–5 years | Over 5 years | Total | Positive | Negative | Net |
| Sales swaps | 30 | 60 | – | 90 | 0 | 0 | 0 |
| Purchase swaps | 391 | 180 | – | 571 | 7 | 1 | 6 |
| Total | 421 | 240 | – | 661 | 7 | 1 | 6 |
| Of which long-term | | | | | 1 | 0 | 1 |
| Short-term | | | | | 6 | 1 | 5 |
| | | | | | | | |
| Non-hedging oil derivatives | 421 | 240 | – | 661 | 7 | 1 | 6 |

## $CO_2$ emission allowance price risk

The European Union has established an emission trading scheme to limit the level of $CO_2$ emissions. Part of Fortum's power and heat generation is subject to requirements under the trading scheme for having $CO_2$ allowances. Fortum manages its exposure to $CO_2$ allowance prices through the use of $CO_2$ forwards and by ensuring that the costs of allowances are taken into account during production planning.

### $CO_2$ emission allowance derivatives

| | 31 December 2006 Volume, kt$CO_2$ | | | | Fair value, MEUR [1)] | | |
|---|---|---|---|---|---|---|---|
| | Under 1 year | 1-5 years | Over 5 years | Total | Positive | Negative | Net |
| Sold | 230 | 175 | – | 405 | 0 | 0 | 0 |
| Bought | 250 | 165 | – | 415 | 0 | 0 | 0 |
| Total | 480 | 340 | – | 820 | 0 | 0 | 0 |
| Of which long-term | | | | | 0 | 0 | 0 |
| Short-term | | | | | 0 | 0 | 0 |
| | | | | | | | |
| Non-hedging $CO_2$ emission allowance derivatives | 480 | 340 | – | 820 | 0 | 0 | 0 |

[1)] Positive and negative fair values under EUR 1 million in the balance sheet.

## Maturity analysis of electricity and oil derivatives

Amounts disclosed below are non-discounted cash flows for electricity and oil derivatives.

| | 31 December 2006 | | | |
|---|---|---|---|---|
| EUR million | Under 1 year | 1–5 years | Over 5 years | Total |
| Electricity derivatives | 768 | 140 | 3 | 911 |
| Oil derivatives | | 1 | | 1 |
| Total | 768 | 141 | 3 | 912 |



## Proprietary trading risks

Fortum is trading electricity forwards futures, options, and CfD's (contract for differences) mainly on the Nord Pool market and $CO_2$ allowances on the European market.

Strict management controls are set to limit trading losses. Stop loss mandates are set to limit the cumulative maximum loss in millions of euros during the year. In addition, "red-flag" thresholds are established at predefined levels before reaching the stop loss limit. Value-at-Risk mandates are set to limit the maximum risk taking during one day. Specific decision making and reporting procedures are set up to limit potential losses and ensure compliance with predefined risk mandates.

## Liquidity and refinancing risk

Fortum business is capital intensive and the Group has a regular need to raise financing. 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 2006 the total interest bearing debt was EUR 4,502 million (2005: 3,946 million) and the interest-bearing net debt was EUR 4,345 million (2005: 3,158 million)

Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. The Group shall at all times have access to cash/marketable securities and unused committed credit facilities including overdrafts, to cover all loans maturing within the next twelve month period. Cash/marketable securities and unused committed credit facilities shall always amount to at least EUR 500 million. Short term financing (with a tenor less than one year) shall not account for more than EUR 1,200 million.

As per 31 December 2006, loan maturities for the coming twelve-month period amounted to EUR 442 million (2005: 828 million), cash and marketable securities amounted to EUR 157 million (2005: 788 million), and the amount of undrawn committed credit facilities was EUR 1,314 million (2005: 1,314 million). On top of the committed credit facilities, Fortum had at year end access to approximately EUR 2.2 billion (2005: 3.5 billion) of uncommitted credit facilities.

## Maturity of interest-bearing liabilities

| EUR million | 2006 |
|---|---|
| 2007 | 442 |
| 2008 | 583 |
| 2009 | 319 |
| 2010 | 552 |
| 2011 | 304 |
| 2012 and later | 2,302 |
| Total | 4,502 |

## Cash and Marketable securities and Major Credit Lines and debt programs 31 December 2006

| EUR million | Total facility | Drawn amount | Available amount |
|---|---|---|---|
| | | | |
| **Cash and Marketable securities** | | | 157 |
| | | | |
| **Committed credit lines** | | | |
| EUR 1,200 million syndicated credit facility | 1,200 | – | 1,200 |
| Bilateral overdraft facilities | 116 | 2 | 114 |
| Total committed credit lines | 1,316 | 2 | 1,314 |
| | | | |
| **Debt programs (uncommitted)** | | | |
| Fortum Corporation, CP programme EUR 500 million | 500 | – | 500 |
| Fortum Corporation, CP programme SEK 5,000 million | 553 | 55 | 498 |
| Fortum Corporation, EMTN programme EUR 4,000 million | 4,000 | 2,785 | 1,215 |
| Total debt programs | 5,053 | 2,840 | 2,213 |

### Maturity analysis of interest-bearing liabilities and derivatives

Amounts disclosed below are non-discounted cash flows of interest-bearing liabilities and interest rate and currency derivatives, and the expected cash-flows arising (future interest payments and amortisations) from these items.

| | 31 December 2006 | | | |
|---|---|---|---|---|
| EUR million | Under 1 year | 1–5 years | Over 5 years | Total |
| Interest-bearing liabilities | 620 | 2,355 | 2,880 | 5,855 |
| Interest rate and currency derivatives liabilities | 6,348 | 2,144 | 147 | 8,639 |
| Interest rate and currency derivatives receivables | –6,271 | –2,088 | –156 | –8,515 |
| Total | 697 | 2,411 | 2,871 | 5,979 |

## Interest rate risk and currency risk

### Interest rate risk

Fortum's debt portfolio consists of interest-bearing assets and liabilities on fixed and floating rate bases 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).

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 next rolling 12 month period. Within these mandates, strategies are evaluated and developed in order to find an optimal balance between risk and financing cost.

On 31 December 2006 the average duration of the debt portfolio (including derivatives) was 1.5 years. (2005: 1.3 years). Approximately 66% (2005: 84%) of the debt portfolio was on a floating rate basis, or will be refinanced during the coming 12 months.

The effect of one percentage point change in interest rates on the present value of debt portfolio was EUR 56 million on 31 December 2006. The flow risk, calculated as the effect of an interest rate increase of one percentage point on net financing costs for the debt portfolio for the coming 12 months, was EUR 18 million.

### Currency risk

Fortum has cash flows, assets and liabilities in currencies other than in euro. Changes in exchange rates can therefore have an effect on Fortum's earnings and balance sheet. The main currency exposure for Fortum is EUR/SEK arising from the Group's extensive operations in Sweden.

The Group's currency exposures are divided into transaction exposures (foreign exchange exposures relating to contracted cash flows and balance sheet items where changes in exchange rates will have an impact on earnings and cash flows) and translation exposure (equity in foreign subsidiaries).

Fortum's policy is to hedge major transaction exposures while translation exposures are hedged selectively. These exposures are mainly hedged by forward contracts. The currency risk is calculated using Value-at Risk (VaR) for one day period at 95% confidence level. The limits for transaction and translation exposures are VaR EUR 5 million and EUR 10 million respectively. On 31 December 2006 the open transaction and translation exposures were EUR 9 million and EUR 1,378 million. The VaR for the transaction exposure was zero and VaR for the translation exposure calculated without the fair value change of Renewable Energy Corporation (REC) in Hafslund was EUR 6 million. For further information about the accounting of Fortum's shareholding in Hafslund, see Note 23 Investments in Associated Companies and Joint Ventures.

### Group Treasury's transaction exposure 31 December 2006

| EUR million | Net position | Hedge | Open |
|---|---|---|---|
| SEK | 6,763 | –6,761 | 2 |
| USD | –37 | 37 | 0 |
| NOK | 525 | –528 | –3 |
| Other | 140 | –130 | 10 |
| Total | 7,391 | –7,382 | 9 |

### Group Treasury's translation exposure 31 December 2006

| EUR million | Investment | Hedge | Open |
|---|---|---|---|
| SEK | 630 | – | 630 |
| NOK *) | 505 | – | 505 |
| PLN | 113 | – | 113 |
| Other | 130 | – | 130 |
| Total | 1,378 | – | 1,378 |

*) NOK amount includes the fair value change of Renewable Energy Corporation (REC) shareholding in Hafslund approximately EUR 440 million.

## Interest rate and currency derivatives by instrument

| | 31 December 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amount Remaining lifetimes | | | | Fair value | | |
| EUR million | Under 1 year | 1–5 years | Over 5 years | Total | Positive | Negative | Net |
| Interest rate swaps | 1,357 | 648 | 1,016 | 3,021 | 23 | 20 | 3 |
| Forward foreign exchange contracts | 5,191 | 65 | – | 5,256 | 5 | 66 | –61 |
| Interest rate and currency swaps | 796 | 1,779 | – | 2,575 | 20 | 96 | –76 |
| Total | 7,344 | 2,492 | 1,016 | 10,852 | 48 | 182 | –134 |
| Of which long-term [1] | | | | | 22 | 63 | –41 |
| Short-term | | | | | 26 | 119 | –93 |

## Interest rate and currency derivatives by use

| | 31 December 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 [1] | – | 300 | 950 | 1,250 | 5 | – | 5 |
| Cash flow hedging interest rate derivatives | – | 317 | 66 | 383 | 5 | – | 5 |
| Non-hedging interest rate derivatives [2] | 1,357 | 31 | – | 1,388 | 13 | 20 | –7 |
| **Total interest rate swaps** | 1,357 | 648 | 1,016 | 3,021 | 23 | 20 | 3 |
| Net investment hedging foreign exchange derivatives | – | – | – | – | – | – | – |
| Cash flow hedging foreign exchange derivatives | 353 | 51 | – | 404 | 3 | 5 | –2 |
| Non-hedging foreign exchange derivatives [2] | 4,838 | 14 | – | 4,852 | 2 | 61 | –59 |
| **Total forward foreign exchange contracts** | 5,191 | 65 | – | 5,256 | 5 | 66 | –61 |
| Non-hedging interest rate and currency derivatives [2] | 796 | 1,779 | – | 2,575 | 20 | 96 | –76 |
| Total interest rate and currency swaps | 796 | 1,779 | – | 2,575 | 20 | 96 | –76 |
| Total | 7,344 | 2,492 | 1,016 | 10,852 | 48 | 182 | –134 |

## 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 [1] | | | | | 85 | 51 | 34 |
| Short-term | | | | | 94 | 45 | 49 |

[1] Fair values of hedging interest rate swaps have been netted against fair value change of the bond in the balance sheet.

[2] Consists of deals without hedge-accounting status.

### 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 [1] | – | 300 | 500 | 800 | 47 | – | 47 |
| Cash flow hedging interest rate derivatives | – | 114 | – | 114 | – | – | – |
| Non-hedging interest rate derivatives [2] | 969 | 718 | 35 | 1,722 | 22 | 58 | –36 |
| **Total interest rate swaps** | 969 | 1,132 | 535 | 2,636 | 69 | 58 | 11 |
| 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 [2] | 4,636 | – | – | 4,636 | 70 | 13 | 57 |
| **Total forward foreign exchange contracts** | 5,253 | 44 | – | 5,297 | 88 | 19 | 69 |
| Non-hedging interest rate and currency derivatives [2] | – | 1,958 | 211 | 2,169 | 22 | 19 | 3 |
| **Total interest rate and currency swaps** | – | 1,958 | 211 | 2,169 | 22 | 19 | 3 |
| Total | 6,222 | 3,134 | 746 | 10,102 | 179 | 96 | 83 |

[1] Fair values of hedging interest rate swaps have been netted against fair value change of the bond in the balance sheet.
[2] Consists of deals without hedge-accounting status.

### Share derivatives

| | 31 December 2006 | | 31 December 2005 | |
|---|---|---|---|---|
| EUR million | Notional value | Net fair value | Notional value | Net fair value |
| Share forwards | 24 | 37 | 11 | 14 |

Cash-settled share forwards are used as a hedging instrument for the Fortum share price risk regarding the Fortum Group's performance share arrangement. See Note 30 Employee bonus and incentive schemes for more information about the Group's performance share arrangement. The maturity of the share forwards is 1–5 years. The amounts disclosed are non-discounted cash flows for the share derivatives.

## Counterparty Risk

Fortum's business operations in electricity markets and elsewhere lead to contractual arrangements with customers and other counterparts. When an external counterpart enters into a contractual obligation, the counterpart is credit controlled to assess the risk of such relationship. Corporate Credit Control reviews all counterparts and assigns a corporate limit stating the maximum allowed level of exposure for any single counterpart. Counterpart exposure is evaluated as the maximum expected loss given that a counterpart defaults on its obligations towards Fortum.

Exposures against limits and counterparts' creditworthiness are monitored to ensure that the risks are at an accepted level. When changes appear to be leading to unacceptable risks according to approved policies, Corporate Credit Control initiates actions to mitigate risks.

Counterpart risk exposures relating to financial derivative instruments are often volatile. The majority of the Group's commodity derivatives are cleared by the Nordic electricity exchange, Nord Pool. Derivative transactions are also done with other individual external counterparts 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.

Amounts disclosed below are presented by counterparties for interest-bearing receivables, excluding leasing receivables, and derivative financial instruments recognised as assets.

| | 2006 | |
|---|---|---|
| EUR million | Carrying amount | of which past due |
| Investment grade receivables | 79 | – |
| Electricity exchanges | 101 | – |
| Associated companies | 603 | – |
| Other | 112 | – |
| Total | 895 | – |

# 4 Primary Segment Information, Continuing Operations

Fortum's business operations are organised in seven business units. Financial target setting, follow up and allocation of resources in the groups' performance management process is based on the business units comparable operating profit including share of associated companies and return on comparable net assets. Fortum's business units are grouped into business segments in the external reporting.

Fortum's shared service centers consist of Corporate Financial Services, Corporate IT Services and Corporate Support Services. The service units have service level agreements with the business units for services provided.

**Power Generation** segment generates and sells power mainly to the Nordic electricity market and is also responsible for the risk management operations within power generation. Power Generation segment consist of the business units Generation, Portfolio Management and Trading and Service. 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. Generation is responsible for ownership, operation and maintenance of Fortum's power plants and Service business unit provides operation and maintenance services for the Nordic market and selected international markets.

**Heat** provides district heating and cooling, industrial steam and energy produced in waste-to-energy production to industrial companies, municipalities and end-users in the Nordic countries, the Baltic countries and Poland. The Heat segment also sells electricity from its combined heat and power production (CHP) to the Nordic power exchange Nord Pool. Heat consists of two business units, Heat and Värme. Heat and Värme have similar businesses, but are separated into two business units since the City of Stockholm has a 50% economic interest in Värme. Värme's business operations are mainly concentrated to the larger Stockholm area in Sweden, while Heat has operations in Finland, Norway, Poland and other countries in the Baltic rim area.

**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 and distributes electricity to a total of 1.6 million customers in Sweden, Finland, Norway and Estonia. Electricity distribution is considered and accepted as a regulated business, and is therefore supervised by national energy authorities. Models and principles for supervision and considerations of reasonable tariffs differ from country to country.

**Markets** is responsible for offering energy solutions to its 1.3 million customers in Finland, Sweden and Norway. The segment buys its electricity from Nord Pool and sells its further to household and business customers as well as other 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. Electricity supply in the Nordic countries is a deregulated business since 1995 which means that customers can freely change electricity supplier.

**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,** reported in 2005 comprise Fortum Oil, renamed to Neste Oil Oy, which was separated during 2005 through dividend distribution and sale of shares. The oil related business was treated as discontinued operations 2005. During 2006 there are no discontinued operations. Discontinued operations are disclosed separately in Note 7.

### Inter-segment transactions and eliminations

Power Generation segment sells its production to Nord Pool and Markets buys its electricity from Nord Pool. Eliminations of sales include eliminations of sales and purchases with Nord Pool 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, expenses and results for the different business segments are affected by intra-Group deliveries, which are eliminated on consolidation. Internal prices are market-based.

### Segment information

Fortum discloses in the segment information operating profit and comparable operating profit as well as return on net assets and comparable return on net assets.

Comparable operating profit is disclosed to give a better view of each segments performance. The following items in operating profit have been adjusted for in comparable operating profit:

- non-recurring items, which mainly consist of capital gains and losses
- effects from fair valuations of derivatives hedging future cash-flows which do not obtain hedge accounting status according to IAS 39. The major part of Fortum's cash-flow hedges obtain hedge accounting where the fair value changes are recorded in equity. See note 6 Fair Value changes of derivatives and underlying items in Income Statement.
- effects from the accounting of Fortum's part of the State Nuclear Waste Management Fund where the assets in the balance sheet cannot exceed the related liabilities according to IFRIC 5, see note 36 Nuclear Related Assets and Liabilities.

Segment net assets consist primarily of non-interest-bearing assets and liabilities such as property, plant and equipment, intangible assets, investments in associated companies, inventories, operative related accruals and trade and other receivables and liabilities. Net assets also include Fortum's share of the State Nuclear Waste Management Fund, nuclear related provisions, pension and other provisions as well as assets and liabilities from fair valuations of derivatives hedging future cash-flows which do not obtain hedge accounting status according to IAS 39.

Interest-bearing receivables and liabilities and related accruals, current and deferred tax items, and assets and liabilities from fair valuations of derivatives hedging future cash-flows which obtain hedge accounting status according to IAS 39 are not allocated to the segments net assets.

In comparable net assets, segment net assets are adjusted for assets and liabilities from fair valuations of derivatives hedging future cash-flows which do not obtain hedge accounting status according to IAS 39 to be in line with comparable operating profit.

Gross investments in shares include investments in subsidiary shares, shares in associated companies and other shares in available for sale financial assets. Investments in subsidiary shares are net of cash and grossed with interest-bearing liabilities in the acquired company.

See also Definitions of key figures and financial ratios, page 96–97.

### 2006 Primary segment information

| EUR million | Power Generation | Heat | Distribution | Markets | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Sales | 2,439 | 1,268 | 753 | 1,912 | 78 | –1,959 | 4,491 |
| Internal sales | –133 | –32 | 8 | 149 | 62 | –54 | 0 |
| External sales | 2,572 | 1,300 | 745 | 1,763 | 16 | –1,905 | 4,491 |
| Depreciation, amortisation and impairment | 108 | 144 | 147 | 19 | 11 | | 429 |
| Operating profit | 980 | 264 | 252 | –6 | –35 | | 1,455 |
| Share of profit of associated companies and joint ventures | 30 | 23 | 15 | 1 | 0 | | 69 |
| Finance costs-net | | | | | | | –103 |
| Income taxes | | | | | | | –301 |
| Profit from discontinued operations | | | | | | | – |
| Profit for the period | | | | | | | 1,120 |

### Comparable operating profit

| EUR million | Power Generation | Heat | Distribution | Markets | Other | Total |
|---|---|---|---|---|---|---|
| Operating profit | 980 | 264 | 252 | –6 | –35 | 1,455 |
| Non-recurring items | –29 | –20 | –2 | 0 | –10 | –61 |
| Other operating items effecting comparability | 34 | 9 | 0 | 2 | –2 | 43 |
| Comparable operating profit | 985 | 253 | 250 | –4 | –47 | 1,437 |

### Other information

| EUR million | Power Generation | Heat | Distribution | Markets | Other | Total |
|---|---|---|---|---|---|---|
| Recognised impairment losses for trade receivables | – | – | –2 | –2 | – | –4 |
| Recognised impairment losses for property, plant and equipment | –1 | –1 | – | – | – | –2 |
| Restructuring costs | –1 | –2 | –2 | –3 | –2 | –10 |
| Average number of employees | 4,147 | 2,345 | 983 | 825 | 610 | 8,910 |

### Assets and liabilities by segments

| EUR million | Power Generation | Heat | Distribution | Markets | Other and eliminations | Total |
|---|---|---|---|---|---|---|
| Non-interest-bearing assets | 5,379 | 3,720 | 3,624 | 610 | 255 | 13,588 |
| Investments in associated companies and joint ventures | 1,752 | 150 | 287 | 8 | 0 | 2,197 |
| **Assets included in Net assets** | 7,131 | 3,870 | 3,911 | 618 | 255 | 15,785 |
| Interest-bearing receivables | | | | | | 693 |
| Deferred tax assets | | | | | | 5 |
| Other assets | | | | | | 199 |
| Cash and cash equivalents | | | | | | 157 |
| **Total assets** | | | | | | 16,839 |

| EUR million | Power Generation | Heat | Distribution | Markets | Other and eliminations | Total |
|---|---|---|---|---|---|---|
| **Liabilities included in Net assets** | 397 | 463 | 499 | 442 | 170 | 1,971 |
| Deferred tax liabilities | | | | | | 1,795 |
| Other liabilities | | | | | | 410 |
| **Total liabilities included in capital employed** | | | | | | 4,176 |
| **Interest-bearing liabilities** | | | | | | 4,502 |
| **Total equity** | | | | | | 8,161 |
| **Total equity and liabilities** | | | | | | 16,839 |
| | | | | | | |
| **Gross investments in shares** | 145 | 589 | 130 | 6 | 40 | 910 |
| **Capital expenditure** | 95 | 184 | 183 | 8 | 15 | 485 |

| EUR million | Net assets by segments | Return on Net assets (%) | Comparable return on Net assets (%) |
|---|---|---|---|
| Power Generation | 6,734 | 16.1 | 16.1 |
| Heat | 3,407 | 9.6 | 9.2 |
| Distribution | 3,412 | 8.4 | 8.3 |
| Markets | 176 | –1.6 | –0.8 |

## 2005 Primary segment information

| EUR million | Power Generation | Heat | Distribution | Markets | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| 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 associated companies and joint ventures | 23 | 12 | 20 | 1 | | | 55 |
| Finance costs-net | | | | | | | –135 |
| Income taxes | | | | | | | –331 |
| Profit from discontinued operations | | | | | | | 474 |
| Profit for the period | | | | | | | 1,410 |

### Comparable operating profit

| EUR million | Power Generation | Heat | Distribution | Markets | Other | Total |
|---|---|---|---|---|---|---|
| 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 |

### Other information

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

| EUR million | Power Generation | Heat | Distribution | Markets | Other and eliminations | Total |
|---|---|---|---|---|---|---|
| **Liabilities included in Net assets** | 568 | 344 | 427 | 287 | 77 | 1,703 |
| Deferred tax liabilities | | | | | | 1,512 |
| Other liabilities | | | | | | 558 |
| **Total liabilities included in capital employed** | | | | | | 3,773 |
| Interest-bearing liabilities | | | | | | 3,946 |
| Total equity | | | | | | 7,411 |
| **Total equity and liabilities** | | | | | | 15,130 |
| | | | | | | |
| **Gross investments in shares** | 47 | 87 | – | – | – | 134 |
| **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 |

# 5 Geographical Segments, Continuing Operations

The Group's business segments operate mainly in the Nordic countries and other parts of the Baltic Rim area. Power Generation, Distribution and Markets operates mainly in Finland and Sweden, where as Heat operates in all geographical segments. Other European countries are mainly the Baltic countries and U.K. The home country is Finland.

Sales figures are based on the country in which the customer is located. Assets, capital expenditure and personnel are reported where the assets and personnel are located. Investments in associated companies and joint ventures are not divided by geographical segments since the companies concerned can have business in several geographical areas.

## Sales by market area

| EUR million | 2006 | 2005 |
|---|---|---|
| Finland [1] | 1,171 | 1,415 |
| Sweden | 2,471 | 2,140 |
| Norway [1] | 539 | 134 |
| Poland | 128 | 39 |
| Other European countries | 182 | 149 |
| **Total sales** | 4,491 | 3,877 |

[1] From 2006 the Finnish power production is sold to Nord Pool in Norway, whereas Swedish power production is sold through Nord Pool in Stockholm. Sales and purchases with Nord Pool are netted on country 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.

## Capital expenditure by geographical segments

| EUR million | 2006 | 2005 |
|---|---|---|
| Finland | 146 | 102 |
| Sweden | 299 | 223 |
| Norway | 17 | 8 |
| Poland | 6 | 3 |
| Other European countries | 17 | 10 |
| **Capital expenditure** | 485 | 346 |

## Segment assets by geographical segments

| EUR million | 2006 | 2005 |
|---|---|---|
| Finland | 3,739 | 2,578 |
| Sweden | 9,712 | 9,046 |
| Norway | 207 | 203 |
| Poland | 219 | 253 |
| Other European countries | 214 | 191 |
| Eliminations | –503 | –285 |
| **Non-interest bearing assets** | 13,588 | 11,986 |
| Investments in associated companies and joint ventures | 2,197 | 1,610 |
| **Total segment assets** | 15,785 | 13,596 |

## Number of employees at 31 December

| | 2006 | 2005 |
|---|---|---|
| Finland | 2,976 | 3,476 |
| Sweden | 3,321 | 3,463 |
| Norway | 261 | 268 |
| Poland | 990 | 1,187 |
| Other European countries | 586 | 561 |
| **Total number of employees** | 8,134 | 8,955 |

# 6 Fair Value changes of derivatives and underlying items in Income Statement

Fair value changes in operating profit presented below are arising from financial derivatives hedging future cash flows where hedge accounting is not applied according to IAS 39 and the ineffectiveness from cash flow hedges.

Fair value changes of currency derivatives in financial net are arising mainly from balance sheet hedges without hedge accounting status according to IAS 39, because they are natural hedges of loans and receivables. The net effect in financial costs of the fair value changes of these currency derivatives and the exchange gains and losses of the underlying balance sheet items are EUR 9 million (2005:12 million). Fair value change of interest rate hedges without hedge accounting is EUR 17 million (2005: 31 million). The net effect of fair value changes of hedging derivative and hedged bonds are EUR 4 million (2005:1 million).

| EUR million | 2006 | 2005 |
|---|---|---|
| In Operating profit | | |
| Fair value changes from derivatives not getting hedge accounting status | | |
| Electricity derivatives | –31 | –2 |
| Currency derivatives | –1 | –12 |
| Oil derivatives | –6 | –1 |
| Share derivatives [1] | 2 | – |
| Ineffectiveness from cash flow hedges | –6 | 1 |
| Total effect in operating profit | –42 | –14 |
| Fair value changes of derivatives not getting hedge accounting included in share of profit of associated companies | 3 | –1 |
| In Finance costs | | |
| Exchange gains and losses on loans and receivables | 185 | –155 |
| Fair value changes of derivatives not getting hedge accounting status | | |
| Currency derivatives | –176 | 167 |
| Interest rate derivatives | 17 | 31 |
| Fair value change of hedging derivatives in fair value hedge relationship | –27 | 8 |
| Fair value change of hedged item in fair value hedge relationship | 31 | –7 |
| Total effect in finance costs | 30 | 44 |
| Total effect of derivatives on Profit before income tax | –9 | 29 |

[1] Related to cash-settled share forwards used as a hedging instrument for Fortum Group's performance share agreement.

Fortum discloses in segment reporting comparable operating profit to give a better view of each segments performance. The following items in operating profit have been adjusted for in comparable operating profit:

- non-recurring items, which mainly consist of capital gains and losses
- effects from fair valuations of derivatives in operating profit as presented in the table above. The major part of Fortum's cash-flow hedges obtain hedge accounting where the fair value changes are recorded in equity.
- effects from the accounting of Fortum's part of the State Nuclear Waste Management Fund where the assets in the balance sheet cannot exceed the related liabilities according to IFRIC 5.

# 7 Discontinued Operations

## Discontinued operations 2006

No discontinued operations are reported for 2006. None of the divestments have been deemed to represent a major business line in Fortum. The divestment of Industrial maintenance services has an impact on the number of employees in Fortum since it involved 930 employees. The impact on the external sales of the Fortum group from the divestment is approximately EUR 70 million. The effect on operating profit, net profit and net assets is minor.

## Discontinued operations 2005

### 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 2005, 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 2005. 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 2005.

### 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.

### 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. 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 |
|---|---|
| Sales | 2,061 |
| Other income | 395 |
| Materials and services | –1,726 |
| Employee costs | –57 |
| Depreciation, amortisation and impairment charges | –36 |
| Other expenses | –120 |
| Operating profit | 517 |
| Share of profit of associated companies and joint ventures | –2 |
| Finance costs – net | –6 |
| Profit before income tax | 509 |
| Income tax expenses | –35 |
| Profit for the year from discontinued operations | 474 |

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 |
|---|---|
| Net cash from operating activities | 133 |
| Net cash from/used in investing activities | 1,155 |
| Net cash from financing activities | 29 |
| Total cash flows | 1,317 |

### 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

| EUR million | 31 March 2005 |
|---|---|
| **Assets** | |
| Non-current assets | 1,927 |
| Cash pool receivables | 129 |
| Current assets | 1,348 |
| Cash and cash equivalents | 64 |
| Total assets | 3,468 |
| | |
| **Equity and liabilities** | |
| Shareholders' equity | 1,083 |
| Minority interest | 6 |
| Interest-bearing liabilities | 1,147 |
| Interest-free liabilities | 1,232 |
| Total equity and liabilities | 3,468 |

# 8 Acquisitions and Disposals

Material acquisitions in recent years consisted of E.ON Finland Oyj (renamed Fortum Espoo Oyj) in June 2006 and MPEC Wroclaw (renamed Fortum Wroclaw S.A.) in Poland in December 2005.

In 2006 Fortum invested EUR 765 million in subsidiary shares, of which the investment in Fortum Espoo represented EUR 713 million.

The effect of the acquisitions on the 2006 sales is EUR 205 million, being:

- Fortum Espoo Oy external sales July to December, EUR 131 million
- Fortum Wroclaw S.A. external sales for whole year 2006 were EUR 74 million

### Gross Investments in subsidiary shares by segment

| EUR million | 2006 | 2005 |
|---|---|---|
| Power Generation | 2 | – |
| Heat | 587 | 87 |
| Distribution | 130 | – |
| Markets | 6 | – |
| Other and eliminations | 40 | – |
| Total | 765 | 87 |

### Gross Investments in subsidiary shares by country

| EUR million | 2006 | 2005 |
|---|---|---|
| Finland | 714 | – |
| Sweden | – | – |
| Other European countries | 51 | 87 |
| Total | 765 | 87 |

Gross Investments in subsidiary shares consist of interest-bearing debt as well as paid cash according to purchase agreement added with direct costs relating to the acquisition less cash and cash equivalents in acquired subsidiary.

## Acquisitions 2006

Fortum acquired 99,8% of the shares of Fortum Espoo Oy (former E.On Finland Oyj) on 26 June 2006 after approval by Finnish Competition Authority. On 13 September 2006 Fortum obtained the title to all minority shares of Fortum Espoo in the redemption procedure according to the Finnish Companies Act. The quotation of Fortum Espoo's share on Helsinki Stock Exchange ceased on 13 September 2006. On 31 December 2006 Fortum Espoo Oy demerged into Fortum Espoo Markets Oy, Fortum Espoo Distribution Oy and Fortum Espoo Power and Heat Oy. Fortum Espoo has been consolidated from 30 June 2006.

The acquisition was accounted for using the purchase method under which Fortum allocated the total purchase consideration to assets and liabilities based on their fair values. Fortum Espoo business areas comprise sale of electricity to retail and business customers, ownership and operation of electricity networks as well as generation and sales of power and heat located mainly to Espoo and Joensuu, Finland. At the year-end it employed 336 persons and had sales of EUR 271 million for the year, of which EUR 131 million arose after the acquisition.

The effect on Fortum's operating profit from the Fortum Espoo Oy acquisition for the six months post-acquisition showed an operating profit of EUR 16 million, including EUR 5 million in restructuring costs, and profit for the period as of EUR 13 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation that has been charged due to the fair value adjustments of intangible assets and property, plant and equipment together with the consequential tax effects.

Fortum has fulfilled the conditions set by the Competition Authority for the realisation of the Fortum Espoo acquisition. In October, Fortum finalised the sale of its combined heat and power plant in Hämeenlinna, Finland, to Vattenfall. In November 2006, Fortum sold its 154-MW peat-fired power plant in Haapavesi, Finland, to Kanteleen Voima Oy, which is owned by a group of regional energy companies. Fortum has also sold the equivalent of 1 TWh/a of constant generation capacity in the Finnish area from November 2006 to the end of March 2011. Fortum has leased its 308-MW share of the Meri-Pori power plant from January 2007 to the end of June 2010.

Details of the Fortum Espoo Oy acquisition are shown in the table below, along with figures for the entire Group; no other single acquisition was deemed material. The Fortum Espoo figures will remain provisional as further information may become available within the 12 month period post-acquisition which may result in changes in the net assets acquired or fair value allocations.

### Other acquisitions in 2006 included:

In October 2006 Fortum completed its acquisition in Fortum Wroclaw S.A. The business had full year sales of EUR 74 million in 2006 and employed 203 people at the year end. The operating profit including the fair value adjustments of property, plant and equipment together with the consequential tax effects amounted to EUR 5 million, with a profit for the period of EUR 5 million.

| Consideration<br>EUR million | Total Group Acquisitions | Fortum Espoo Group |
|---|---|---|
| Purchase consideration: | | |
| Cash paid | 812 | 761 |
| Direct costs relating to the acquisition | 6 | 5 |
| Total purchase consideration | 818 | 766 |
| Fair value of the acquired net assets | 817 | 766 |
| Translation difference | 1 | – |
| Goodwill | 0 | 0 |

| Specification of the acquired net identifiable assets | Total Group Acquisitions | | | Fortum Espoo Group | | |
|---|---|---|---|---|---|---|
| EUR million | Total Value | Allocated Fair Values | Acquired Book Value | Total Value | Allocated Fair Values | Acquired Book Value |
| Cash and cash equivalents | 64 | – | 64 | 64 | – | 64 |
| Intangible assets | 13 | –28 | 41 | 13 | –28 | 41 |
| Property, plant and equipment | 995 | 683 | 312 | 1,008 | 696 | 312 |
| Shares | 3 | 1 | 2 | 3 | 1 | 2 |
| Inventories | 18 | – | 18 | 18 | – | 18 |
| Receivables | 185 | 23 | 162 | 185 | 23 | 162 |
| Deferred tax assets | 19 | 18 | 1 | 19 | 18 | 1 |
| Minorities | – | – | – | – | – | – |
| Non-interest bearing liabilities | –307 | –17 | –290 | –307 | –17 | –290 |
| Interest-bearing liabilities | –11 | – | –11 | –11 | – | –11 |
| Deferred tax liabilities | –224 | –188 | –36 | –226 | –190 | –36 |
| **Net identifiable assets** | 755 | 492 | 263 | 766 | 503 | 263 |
| Minority interests | 62 | 62 | – | – | – | – |
| **Fair value of the acquired net identifiable assets** | 817 | 554 | 263 | 766 | 503 | 263 |

| | Total Group Acquisitions | Fortum Espoo Group |
|---|---|---|
| Purchase consideration settled in cash | 818 | 766 |
| Cash and cash equivalents in subsidiaries acquired | 64 | 64 |
| Cash outflow on acquisition | 754 | 702 |
| | | |
| Interest-bearing debt in subsidiaries acquired | 11 | 11 |
| Gross investment in subsidiaries acquired | 765 | 713 |

## Acquisitions 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.

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 in 2005.

| Consideration<br>EUR million | Total Group Acquisitions | MPEC Wroclaw S.A. |
|---|---|---|
| Purchase consideration: | | |
| Cash paid | 91 | 78 |
| Direct costs relating to the acquisition | 1 | 1 |
| Total purchase consideration | 92 | 79 |
| Fair value of the acquired net assets | 96 | 82 |
| Translation difference | –4 | –3 |
| Goodwill | 0 | 0 |

| Specification of the acquired net identifiable assets | Total Group Acquisitions | | | MPEC Wroclaw | | |
|---|---|---|---|---|---|---|
| EUR million | Total Value | Allocated Fair Values | Acquired Book Value | Total Value | Allocated Fair Values | Acquired Book Value |
| Cash and cash equivalents | 13 | – | 13 | 12 | – | 12 |
| Intangible assets | 1 | – | 1 | 1 | – | 1 |
| Property, plant and equipment | 170 | 50 | 120 | 146 | 43 | 103 |
| Inventories | 1 | – | 1 | – | – | – |
| Receivables | 21 | – | 21 | 18 | – | 18 |
| Deferred tax assets | 2 | – | 2 | 1 | – | 1 |
| Minorities | –1 | –1 | 0 | – | – | – |
| Non-interest bearing liabilities | –24 | – | –24 | –17 | – | –17 |
| Interest-bearing liabilities | –9 | – | –9 | –4 | – | –4 |
| Deferred tax liabilities | –14 | –10 | –4 | –13 | –9 | –4 |
| **Net identifiable assets** | 160 | 39 | 121 | 144 | 34 | 110 |
| Minority interests | –64 | –64 | – | –62 | –62 | – |
| **Fair value of the acquired net identifiable assets** | 96 | –25 | 121 | 82 | –28 | 110 |

| | Total Group Acquisitions | MPEC Wroclaw |
|---|---|---|
| Purchase consideration settled in cash | 92 | 79 |
| Cash and cash equivalents in subsidiaries acquired | 13 | 12 |
| Cash outflow on acquisition | 79 | 67 |
| Interest-bearing debt in subsidiaries acquired | 8 | 4 |
| Gross investment in subsidiaries acquired | 87 | 71 |

## Disposals 2006 and 2005

Fortum sold its industrial maintenance services business with operations in Finland and Sweden on 31 October 2006. Industrial maintenance service was a business area within the Service business unit in Power Generation segment and had total external sales of EUR 70 million from January to October 2006. Some 900 employees were transferred in connection with the deal. The divestment included both subsidiary shares and assets. Fortum also sold Bromölla Fjärrvärme AB, its Swedish subsidiary. The total disposal consideration was EUR 11 million.

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.

## 9 Exchange Rates

The income statement of subsidiaries, whose measurement and reporting currency are not euros, are translated into the Group reporting currency using the average exchange rates, whereas the balance sheet of such subsidiaries are translated using the exchange rates on the balance sheet date. The balance sheet date rate is based on exchange rate published by the European Central Bank for the closing date. The average exchange rate is calculated as an average of each months ending rate from the European Central Bank during the year and ending rate previous year. Key exchange rates for Fortum Group applied in the accounts:

| | | Average rate | | Balance sheet date rate | |
|---|---|---|---|---|---|
| | Currency | 2006 | 2005 | 31 Dec 2006 | 31 Dec 2005 |
| Sweden | SEK | 9.2637 | 9.2783 | 9.0404 | 9.3885 |
| Norway | NOK | 8.0376 | 8.0240 | 8.2380 | 7.9850 |
| Poland | PLN | 3.8965 | 4.0268 | 3.8310 | 3.8600 |

## 10 Sales

| EUR million | 2006 | 2005 |
|---|---|---|
| Power sales excluding indirect taxes | 2,437 | 2,002 |
| Heating sales | 1,014 | 867 |
| Network transmissions | 716 | 674 |
| Other sales | 324 | 334 |
| Total | 4,491 | 3,877 |

Sales from contracts in progress entered as income according to the percentage of completion EUR 44 million in 2006 (2005: 14 million). Heating sales include sale of delivered heat and transmission of heat.

## 11 Other income

| EUR million | 2006 | 2005 |
|---|---|---|
| Capital gains on disposal of non-current assets | 71 | 56 |
| Rental income | 9 | 10 |
| Fair value changes on derivatives that do not qualify for hedge accounting status (Note 6) | –43 | –14 |
| Other items | 43 | 49 |
| Total | 80 | 101 |

Revenue from activities outside normal operations is reported in Other income. This includes recurring items such as rental income and non-recurring items such as gains from sale of shares etc. Gains on sale of shares, property, plan and equipment and emission rights are included in capital gains on disposal of non-current assets. During 2006 capital gains included gain on sale of emission rights EUR 10 million (2005: 24 million). Costs for made emissions which are not covered by emission rights received for free were EUR 10 million 2006 (2005: 0 million). The costs are included in Materials and services. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in other income.

## 12 Materials and Services

| EUR million | 2006 | 2005 |
|---|---|---|
| Purchases | 971 | 668 |
| Purchases from associated companies | 487 | 446 |
| Purchases from joint ventures | 1 | 2 |
| Transmission costs | 122 | 122 |
| Change in inventories | –3 | –5 |
| External services | 95 | 92 |
| Total | 1,673 | 1,325 |

Purchases contain mainly nuclear and coal fuel purchased for producing power and heat . Purchases from associated companies consist of purchases of nuclear power and hydro power at production costs including interest costs and income taxes. See Note 23 Investments in Associated Companies and Joint Ventures. Total purchases include production taxes and duties EUR 149 million (2005: 113 million) of which Nuclear related property taxes EUR 66 million (2005: 38 million) and hydro power related property taxes EUR 10 million (2005: 5 million).

## 13 Other Expenses

| EUR million | 2006 | 2005 |
|---|---|---|
| Operation and maintenance costs | 115 | 83 |
| Property taxes | 56 | 26 |
| IT and telecommunication costs | 92 | 56 |
| Research and development costs | 17 | 14 |
| Other items | 226 | 239 |
| Total | 506 | 418 |

The major components recorded in the other expenses are the external operation and maintenance costs of power and heat plants and of transmission lines.

Property taxes include property taxes relating to hydro power production MEUR 52 million (2005: 20 million).

### Auditors' fee

| EUR million | 2006 | 2005 |
|---|---|---|
| Audit fees | 1.0 | 1.1 |
| Other assignments | 0.2 | 0.5 |
| Total | 1.2 | 1.6 |

## 14 Management Remuneration and Employee Costs

| EUR million | 2006 | 2005 |
|---|---|---|
| Wages and salaries | 339 | 320 |
| Pensions | | |
| Defined contribution plans | 36 | 35 |
| Defined benefit plans (Note 35) | 15 | 17 |
| Social security costs | 91 | 74 |
| Share-based remunerations (Note 30) | 9 | 13 |
| Other post-employment benefits | 1 | 1 |
| Other employee costs | 17 | 21 |
| Total | 508 | 481 |
| | | |
| Non-monetary benefits | 0 | 4 |

The Nomination and Compensation Committee discusses, assesses and makes proposals on the pay structure, bonus and incentive systems for the Group and its management, and contributes to the Group's nomination issues. The remuneration policy is determined by the Board of Directors.

The compensation package for Fortum employees consists of a combination of salaries, benefits and short-term and long-term incentives. The majority of Fortum employees are covered by an annual performance bonus system. The long-term incentive schemes are intended for the top management and key personnel of the Fortum Group.

For further information on Fortum's employee bonus and equity incentive schemes, see Note 30 and for pension obligations see Note 35.

### Supervisory Board remuneration

The Supervisory Board comprises a minimum of six and a maximum of 12 members. The Supervisory Board meetings are also attended by employee representatives who are not members of the Supervisory Board. The Annual General Meeting confirms the remuneration for the Supervisory Board members.

Each Supervisory Board member receives a fixed monthly fee and a meeting fee. The employee presentatives 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 in Fortum.

Total remuneration for the Supervisory Board service in 2006 has been EUR 85 thousand (2005: 89 thousand).

### Board remuneration

| EUR thousand | 2006 | 2005 |
|---|---|---|
| Chairman, Peter Fagernäs | 63 | 61 |
| Deputy chairman, Birgitta Kantola | 50 | 49 |
| Other members of the Board | 190 | 180 |
| Total | 303 | 290 |

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. During 2006 the Board consisted of seven members.

The Annual General Meeting confirms an yearly compensation for Board service. 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 members. The table above shows total compensation for the Board of Directors paid by Fortum.

### The President and CEO and the Management Team remuneration

| | 2006 | | 2005 | |
|---|---|---|---|---|
| EUR thousand | The President and CEO | Other management team members | The President and CEO | Other management team members |
| Salaries and fringe benefits | 796 | 1,415 | 769 | 1,460 |
| Performance bonuses | 385 | 585 | 366 | 709 |
| Share-based remunerations | 571 | 1,802 | 504 | 1,379 |
| Post-employment benefits | 377 | 776 | 452 | 858 |
| Total | 2,129 | 4,578 | 2,091 | 4,406 |

The Fortum Management Team consists of seven members, including the President and CEO to whom the members of the Management Team report.

The compensation package for Management Team and other senior management consists of base salary, including fringe benefits, an annual individual short-term performance bonus and long-term incentives, such as stock options or performance-based long-term incentive arrangements.

The criteria used in determining the size of the annual 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 individual 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.

For the President and CEO and the members of the Fortum Management Team, the retirement age is 60 and the pension paid 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. The pension of the President and CEO is 60%.

In the event that Fortum decides to give notice of termination to the President and CEO, he is entitled to 24 months' salary, other Management Team members for 12 to 18 months.

## 15 Depreciation, Amortisation and Impairment Charges

| EUR million | 2006 | 2005 |
|---|---|---|
| Depreciation of property, plant and equipment | | |
| Buildings and structures | 60 | 52 |
| Machinery and equipment | 331 | 323 |
| Other tangible assets | 5 | 5 |
| Amortisation of intangible assets | 31 | 26 |
| Total | 427 | 406 |
| Impairment charges | | |
| Other intangible assets | 1 | 0 |
| Buildings and structures | 1 | 1 |
| Total | 2 | 1 |
| | | |
| Depreciation, amortisation and impairment charges total | 429 | 407 |

# 16 Finance Costs – Net

| EUR million | 2006 | | 2005 | |
|---|---|---|---|---|
| | Fortum total | Fortum continuing | Fortum discontinued | Fortum total |
| Interest expense | | | | |
| Borrowings | –174 | –201 | –9 | –210 |
| Other interest expense | –2 | –2 | 0 | –2 |
| Total | –176 | –203 | –9 | –212 |
| | | | | |
| Interest income | | | | |
| Receivables | 40 | 40 | 5 | 45 |
| Other interest income | 10 | 6 | 0 | 6 |
| Total | 50 | 46 | 5 | 51 |
| | | | | |
| Fair value gains and losses on financial instruments | 30 | 40 | 2 | 42 |
| | | | | |
| Exchange gains and losses | | | | |
| Loans and receivables | 185 | –155 | 7 | –148 |
| Derivatives | –185 | 159 | –11 | 148 |
| Dividend income | 1 | 1 | 0 | 1 |
| Interest income on share of State Nuclear Waste Management Fund | 18 | 13 | 0 | 13 |
| Unwinding of discount on nuclear provisions | –24 | –22 | 0 | –22 |
| Unwinding of discount on other provisions | 0 | 2 | 0 | 2 |
| Other financial income | 2 | 1 | 0 | 1 |
| Other financial expenses | –4 | –17 | 0 | –17 |
| Total | –7 | –18 | –4 | –22 |
| Finance costs-net | –103 | –135 | –6 | –141 |

Interest expenses include interest expenses on interest-bearing loans, interest on interest rate and currency swaps, forward points on forward foreign exchange contracts hedging loans and receivables. Other interest expenses include mainly interest on financial leases.

Interest income includes EUR 20 million (2005: 24 million) from shareholders loans in Finnish and Swedish nuclear companies. Other interest income includes mainly income from financial leases as a lessor.

Fair value gains and losses on financial instruments include change in clean price of interest rate and cross currency swaps not getting hedge accounting and fair value changes of interest rate derivatives in hedge relationship and hedged items. Accrued interest on these derivatives are entered in interest expenses of borrowings.

Fair value gains and losses include also rate difference from forward contracts hedging loans and receivables without hedge accounting. 2006 includes also realised foreign exchange gains EUR 4 million.

Exchange gains and losses includes exchange rate differences arising from valuation of foreign currency loans and receivables and exchange rate differences from forward foreign exchange contracts and interest rate and currency swaps.

Financial costs allocated to discontinued operations in 2005 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. Discontinued operations are disclosed in Note 7.

### Unrealised fair value changes on interest rate and currency derivatives

| EUR million | 2006 | 2005 [2] |
|---|---|---|
| **Interest rate and cross currency swaps** | | |
| Interest expenses on borrowings | 1 | –5 |
| Exchange rate difference from derivatives | –80 | –8 |
| Rate difference in Fair value gains and losses on financial instruments [1] | –10 | 39 |
| **Total fair value change of interest rate derivatives in finance costs – net** | –89 | 26 |
| | | |
| **Forward foreign exchange contracts** | | |
| Interest expenses on borrowings | 14 | –7 |
| Exchange rate difference from derivatives | –101 | 167 |
| Rate difference in fair value gains and losses on financial instruments | 5 | 8 |
| **Total fair value change of currency derivatives in finance costs – net** | –82 | 168 |
| **Total fair value change of interest and currency derivatives in finance costs – net** | –171 | 194 |

[1] 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 17 million (2005: 31 million).

[2] Fortum continuing operations

### The aggregate exchange differences charged/credited to the income statement are included as follows

| EUR million | 2006 | 2005 |
|---|---|---|
| Items included in operating profit | –4 | 1 |
| Finance costs-net | 0 | 4 |
| Total | –4 | 5 |

## 17 Income Tax Expense

### Profit before Tax

| EUR million | 2006 | 2005 |
|---|---|---|
| Finnish companies | 600 | 570 |
| Swedish companies | 546 | 631 |
| Other companies | 275 | 66 |
| Total | 1,421 | 1,267 |

### Major components of income tax expense by major countries

| EUR million | 2006 | 2005 |
|---|---|---|
| **Current taxes** | | |
| Finnish companies | –135 | –160 |
| Swedish companies | –186 | –128 |
| Other companies | –19 | –4 |
| *Total current taxes* | –340 | –292 |
| **Deferred taxes** | | |
| Finnish companies | 2 | 16 |
| Swedish companies | 32 | –54 |
| Other companies | 6 | 2 |
| *Total deferred taxes* | 40 | –36 |
| **Adjustments recognised for current tax of prior periods** | | |
| Finnish companies | 5 | –3 |
| Swedish companies | –1 | 0 |
| Other companies | –5 | 0 |
| *Total adjustments recognised for current tax of prior periods* | –1 | –3 |
| **Income taxes** | –301 | –331 |

### The tax on the Group's profit before tax differs from the theoretical amount that would arise using the the enacted tax rates in Finland:

| EUR million | 2006 | % | 2005 | % |
|---|---|---|---|---|
| Profit before tax | 1,421 | | 1,267 | |
| Tax calculated at nominal Finnish tax rate | –369 | 26.0 | –329 | 26.0 |
| Differences in tax rates in other countries | –31 | 2.2 | –7 | 0.6 |
| Income not subject to tax | 80 | –5.7 | 8 | –0.7 |
| Expenses not deductible for tax purposes | –8 | 0.5 | –16 | 1.3 |
| Share of profit of associated companies and joint ventures | 18 | –1.3 | 15 | –1.2 |
| Utilisation of previously unrecognised tax losses | 2 | –0.1 | 0 | 0.0 |
| Adjustments recognised for change in deferred tax of prior period | 8 | –0.5 | 1 | –0.1 |
| Adjustments recognised for current tax of prior period | –1 | 0.1 | –3 | 0.2 |
| Tax charge in the income statement | –301 | 21.2 | –331 | 26.1 |

The weighted average applicable tax rate was 27,9 % (2005: 26,5%). The increase is caused by movements of income to countries with higher nominal tax rate.

Fortum's effective tax rate has decreased under 2006. This is due to few main reasons. Fortum's profit included significant amount of tax exempt capital gains and other one time adjustments decreasing the tax rate. The share of profit of associated companies and joint ventures also decreased the effective tax rate. Fortum finalised some structural improvements during 2006 that result in more effective tax treatment. Also a substantial amount of income was generated in EU-countries, where the actual level of taxation is lower than Fortum's average tax rate. On the other hand more income than in 2005 was allocated to higher tax rate countries, which has an offsetting effect.

# 18 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.

| | 2006 Fortum total | Fortum continuing | 2005 Fortum discontinued | Fortum total |
|---|---|---|---|---|
| Profit attributable to equity holders of the Company (EUR million) | 1,071 | 884 | 474 | 1,358 |
| Weighted average number of shares (thousands) | 881,194 | | | 872,613 |
| | | | | |
| Basic earnings per share (EUR per share) | 1.22 | 1.01 | 0.54 | 1.55 |

## 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. At the end of 2006 the Group has two diluting stock option schemes (stock option schemes 2001 and 2002 for key employees). For the warrants and stock 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 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 stock options.

The number of shares calculated as above is deducted from the number of shares that would have been issued assuming the exercise of the stock options. The incremental shares obtained through the assumed exercise of the options and warrants are added to the weighted average number of shares outstanding.

Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options or warrants. Previously reported earnings per share are not retroactively adjusted to reflect changes in price of ordinary shares.

| | 2006 Fortum total | Fortum continuing | 2005 Fortum discontinued | Fortum total |
|---|---|---|---|---|
| Profit attributable to equity holders of the Company (EUR million) | 1,071 | 884 | 474 | 1,358 |
| | | | | |
| Weighted average number of shares (thousands) | 881,194 | | | 872,613 |
| Effect of the 2001 key employees stock options | 1,345 | | | 7,033 |
| Effect of the 2002 key employees stock options | 4,390 | | | 8,007 |
| Diluted average number of shares (thousands) | 886,929 | | | 887,653 |
| | | | | |
| Diluted earnings per share (EUR per share) | 1.21 | 1.00 | 0.53 | 1.53 |

## 19 Dividend Per Share

The dividends paid in 2006 and 2005 were EUR 987 million (EUR 1.12 per share) and EUR 505.7 million (EUR 0.58 per share) respectively. Of the dividend paid in 2006, 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.

The annual general meeting on 31 March 2005 decided also to 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 2006 of EUR 1.26 per share, amounting to a total dividend of EUR 1,119 million based on the number of shares registered as of 30 January 2007, is to be proposed at the Annual General Meeting on 28 March 2007. Of this total dividend, EUR 0.73 per share is in accordance with the Group's dividend policy. An additional dividend of EUR 0.53 per share is proposed in order to steer Fortum's capital structure towards the agreed target. These financial statements do not reflect this dividend payable.

## 20 Financial Assets and Liabilities by Categories

Financial assets and liabilities in the tables below are split into categories in accordance with IAS 39. The categories are further split into classes which are basis for valuing respective asset or liability. Further information can be found in the Notes mentioned in the table.

### Financial assets by categories

| | | 2006 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Loans and receivables | Financial assets at fair-value through profit and loss | | | Available-for-sale financial assets | Total financial assets |
| EUR million | See note | Amortised cost | Hedge accounting, fair value hedges | Non-hedge accounting | Fair-value recognised in equity, cash flow hedges | | |
| **Financial instruments in non-current assets** | | | | | | | |
| Other long-term investments | 24 | 39 | | | | 62 | 101 |
| Derivative financial instruments | 3 | | | | | | |
| Electricity derivatives | | | | 53 | 10 | | 63 |
| Interest rate and currency derivatives | | | 18 | 17 | 5 | | 40 |
| Oil futures and forward contracts | | | | | | | – |
| Long-term interest-bearing receivables | 25 | 582 | | | | | 582 |
| | | | | | | | |
| **Financial instruments in current assets** | | | | | | | |
| Derivative financial instruments | 3 | | | | | | |
| Electricity derivatives | | | | 73 | 103 | | 176 |
| Interest rate and currency derivatives | | | | 18 | 3 | | 21 |
| Oil futures and forward contracts | | | | 1 | | | 1 |
| Trade receivables | 27 | 847 | | | | | 847 |
| Other interest-bearing receivables | | 12 | | | | | 12 |
| Cash and cash equivalents | 28 | 157 | | | | | 157 |
| Total | | 1,637 | 18 | 162 | 121 | 62 | 2,000 |

## Financial assets by categories

| 2005 | | Loans and receivables | Financial assets at fair-value through profit and loss | | | Available-for-sale financial assets | Total financial assets |
|---|---|---|---|---|---|---|---|
| EUR million | See note | Amortised cost | Hedge accounting, fair value hedges | Non-hedge accounting | Fair-value recognised in equity, cash flow hedges | | |
| **Financial instruments in non-current assets** | | | | | | | |
| Other long-term investments | 24 | 26 | | | | 40 | 66 |
| Derivative financial instruments | 3 | | | | | | |
| Electricity derivatives | | | | 39 | 9 | | 48 |
| Interest rate and currency derivatives | | | 2 | 34 | 2 | | 38 |
| Oil futures and forward contracts | | | | 1 | | | 1 |
| Long-term interest-bearing receivables | 25 | 524 | | | | | 524 |
| | | | | | | | |
| **Financial instruments in current assets** | | | | | | | |
| Derivative financial instruments | 3 | | | | | | |
| Electricity derivatives | | | | 27 | 2 | | 29 |
| Interest rate and currency derivatives | | | | 86 | 8 | | 94 |
| Oil futures and forward contracts | | | | 6 | | | 6 |
| Trade receivables | 27 | 716 | | | | | 716 |
| Other interest-bearing receivables | | 1 | | | | | 1 |
| Cash and cash equivalents | 28 | 788 | | | | | 788 |
| Total | | 2,055 | 2 | 193 | 21 | 40 | 2,311 |

## Financial liabilities by categories

| 2006 | | Financial liabilities at fair-value through profit and loss | | | Other financial liabilities | | Total financial liabilities |
|---|---|---|---|---|---|---|---|
| **EUR million** | See note | Hedge accounting, fair value hedges | Non-hedge accounting | Fair-value recognised in equity, cash flow hedges | Amortised cost | Fair value | |
| **Financial instruments in non-current liabilities** | | | | | | | |
| Interest-bearing liabilities [1] | 32 | | | | 2,810 | 1,250 | 4,060 |
| Derivative financial instruments | 3 | | | | | | |
| Electricity derivatives | | | 49 | 21 | | | 70 |
| Interest rate and currency derivatives | | | 62 | 2 | | | 64 |
| Oil futures and forward contracts | | | | | | | – |
| | | | | | | | |
| **Financial instruments in current liabilities** | | | | | | | |
| Interest-bearing liabilities | 32 | | | | 442 | | 442 |
| Derivative financial instruments | 3 | | | | | | |
| Electricity derivatives | | | 49 | 28 | | | 77 |
| Interest rate and currency derivatives | | | 117 | 3 | | | 120 |
| Oil futures and forward contracts | | | 1 | | | | 1 |
| Trade payables | 38 | | | | 242 | | 242 |
| Total | | | 278 | 54 | 3,494 | 1,250 | 5,076 |

[1] Fair values of hedging interest rate swaps have been netted against fair value of the bond in the balance sheet.

### Financial liabilities by categories

| | | 2005 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Financial liabilities fair-value through profit and loss | | | Other financial liabilities | | Total financial liabilities |
| EUR million | See note | Hedge accounting, fair value hedges | Non-hedge accounting | Fair-value recognised in equity, cash flow hedges | Amortised cost | Fair value | |
| **Financial instruments in non-current liabilities** | | | | | | | |
| Interest-bearing liabilities [1)] | 32 | | | | 2,284 | 834 | 3,118 |
| Derivative financial instruments | 3 | | | | | | |
| Electricity derivatives | | | 32 | 41 | | | 73 |
| Interest rate and currency derivatives | | | 50 | | | | 50 |
| Oil futures and forward contracts | | | | | | | – |
| | | | | | | | |
| **Financial instruments in current liabilities** | | | | | | | |
| Interest-bearing liabilities | 32 | | | | 828 | | 828 |
| Derivative financial instruments | 3 | | | | | | – |
| Electricity derivatives | | | 14 | 175 | | | 189 |
| Interest rate and currency derivatives | | | 39 | 6 | | | 45 |
| Oil futures and forward contracts | | | 1 | | | | 1 |
| Trade payables | 38 | | | | 262 | | 262 |
| Total | | | 136 | 222 | 3,374 | 834 | 4,566 |

[1)] Fair values of hedging interest rate swaps have been netted against fair value of the bond in the balance sheet.

## 21 Intangible Assets

| EUR million | 2006 | 2005 |
|---|---|---|
| **Cost 1 January** | 238 | 370 |
| Discontinued operations | – | –128 |
| Exchange rate differences and other adjustments | 2 | –1 |
| Acquisitions through business combinations | 39 | 4 |
| Additions | 21 | 11 |
| Purchase of emission rights | 9 | – |
| Disposals | –4 | –18 |
| Reclassifications | 12 | 0 |
| **Cost 31 December** | 317 | 238 |
| | | |
| Accumulated depreciation 1 January | 158 | 254 |
| Discontinued operations | – | –105 |
| Acquisitions through business combinations | 26 | 2 |
| Exchange rate differences and other adjustments | – | –1 |
| Disposals | –3 | –18 |
| Reclassifications | 9 | 0 |
| Depreciation for the period | 31 | 26 |
| **Accumulated depreciation 31 December** | 221 | 158 |
| | | |
| **Carrying amount 31 December** | 96 | 80 |

Main items in intangible assets are costs for customer base, software products and software licenses, which are all amortised over their useful lives. Costs for customer base means a portfolio of customers or market share that is stated at fair value at the date of acquisition. Costs for customer base are tested for impairment annually.

Bought emission rights are recognised in intangible assets to the lower of fair value and historical cost. Emission rights received free of charge are accounted to nominal value. The amount of emission rights in intangible assets is EUR 9 million (2005: 0 million).

# 22 Property, Plant and Equipment

| EUR million | Land, waterfall rights and tunnels | Buildings, plants and structures | Machinery and equipment | Other tangible assets | Advances paid and construction in progress | Total |
|---|---|---|---|---|---|---|
| **Cost 1 January 2006** | 3,077 | 2,056 | 9,832 | 197 | 242 | 15,404 |
| Exchange rate differences and other adjustments | 116 | 44 | 261 | –3 | 2 | 420 |
| Acquisitions through business combinations | 6 | 179 | 1,132 | 27 | 13 | 1,357 |
| Capital expenditure | – | 32 | 109 | 1 | 322 | 464 |
| Disposals | –8 | –48 | –168 | –5 | –2 | –231 |
| Reclassifications | –2 | –26 | 197 | 4 | –176 | –3 |
| **Cost 31 December 2006** | 3,189 | 2,237 | 11,363 | 221 | 401 | 17,411 |
| | | | | | | |
| **Accumulated depreciation 1 January 2006** | – | 916 | 4,182 | 130 | – | 5,228 |
| Exchange rate differences and other adjustments | – | 15 | 89 | 2 | – | 106 |
| Acquisitions through business combinations | – | 49 | 312 | 1 | – | 362 |
| Disposals | – | –35 | –116 | –3 | – | –154 |
| Depreciation for the period | – | 60 | 330 | 6 | – | 396 |
| Impairment charges | – | 1 | 1 | – | – | 2 |
| **Accumulated depreciation 31 December 2006** | – | 1,006 | 4,798 | 136 | – | 5,940 |
| | | | | | | |
| **Carrying amount 31 December 2006** | 3,189 | 1,231 | 6,565 | 85 | 401 | 11,471 |
| **Carrying amount 31 December 2005** | 3,077 | 1,140 | 5,650 | 67 | 242 | 10,176 |

| EUR million | Land, waterfall rights and tunnels | Buildings, plants 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 | 186 | 67 | 1 | 2 | 261 |
| Capital expenditure | 0 | 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 | 2,056 | 9,832 | 197 | 242 | 15,404 |
| | | | | | | |
| **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 |
| Acquisitions through business combinations | – | 54 | 38 | 1 | – | 93 |
| Disposals | – | –11 | –176 | –1 | – | –188 |
| Depreciation for the period | – | 52 | 322 | 6 | – | 380 |
| Impairment charges | – | 0 | 1 | 0 | – | 1 |
| **Accumulated depreciation 31 December 2005** | – | 916 | 4,182 | 130 | – | 5,228 |
| | | | | | | |
| **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 |

Property, plant and equipment are subject to restrictions in the form of real estate mortgages, EUR 102 million (2005: 115 million), see Note 40 Pledged assets.

## Principal Capital Expenditure Projects in 2006

| EUR million | Project | Pre-2006 | 2006 |
|---|---|---|---|
| **Power Generation** | | | |
| Finland | Loviisa automation renewal | 12 | 19 |
| Sweden | Avestaforsen, hydro power plant | 11 | 17 |
| **Heat** | | | |
| Sweden | CHP-plant in Värtan, Stockholm | 0 | 5 |
| Sweden | Railway to Brista CHP-plant | 2 | 5 |
| Sweden | Connecting district heating networks Stockholm South-Central | 0 | 9 |
| **Distribution** | | | |
| Sweden | Automatic meter reading for customers | 3 | 5 |
| Sweden | Network Information System Project | 2 | 2 |
| Sweden | Automatic meter management | 0 | 15 |
| Finland and Sweden | Reliability investment program | 3 | 39 |
| **Markets** | | | |
| Sweden | Customer Services, Customer automated billing | 12 | 6 |

At Loviisa nuclear power plant work is ongoing to modernise the plant's automation system. All new automation systems will be in operation in 2014.

The currently most extensive hydro refurbishment project at Månsbo hydropower plant in Sweden has proceeded according to schedule. The old power plant has been completely modernised and will start operation in 2007 under a new name, Avestaforsen.

In May 2006, Fortum started a project to connect the southern and central parts of the district heating systems in Stockholm. This will lead to more efficient use of heat production capacity in Stockholm. The project will be ready by May 2007 and the size of the investment is around EUR 20 million.

In May 2006, Fortum signed a service agreement over the delivery of automated meter management (AMM) system in Sweden. The AMM enables customers to be invoiced based on their actual electricity consumption. Fortum's Swedish network areas will be within the system by the end of 2008 and the total investment is approximately EUR 240 million.

Distribution is committed to continuous improvement of its network reliability with an aim to halve the average yearly outage time. In 2005 Distribution launched the EUR 200 million Reliability Investment Programme. It continued according to plan in 2006.

Important project in year 2006 has been the implementation of new customer service and billing system, CAB, in Sweden. The system is used in all customer service functions and is supporting electricity sales and distribution by strengthening the relationships with customers as well as increasing service quality and reducing the operating costs.

## Assets leased by finance lease agreements

| EUR million | 2006 | 2005 |
|---|---|---|
| Acquisition cost | 63 | 61 |
| Accumulated depreciation | –17 | –13 |
| Carrying amount | 46 | 48 |

The assets leased by financial lease agreements are classified as machinery and equipment.

Fortum acts also as a lessor and has leased out property, plant and equipment for EUR 97 million (2005: 97 million), which are not included in property, plant and equipment in the consolidated financial statements.

## Capitalised interest expenses

Cumulative capitalised interest expenses included in the carrying amount in Machinery and equipment were EUR 19 million in 2006 (2005: 20 million). There were no new capitalised interest expenses in 2006 or 2005.

# 23 Investments in Associated Companies and Joint Ventures

| EUR million | 2006 | 2005 |
|---|---|---|
| **At 1 January** | 1,610 | 1,680 |
| Discontinued operations | – | –140 |
| Share of profits of associated companies | 69 | 55 |
| Acquisitions | 124 | 47 |
| Increase through acquisition of subsidiaries | 2 | – |
| Divestments | –5 | –1 |
| Translation differences | 3 | –8 |
| Fair value and other adjustments in equity | 394 | –23 |
| **At 31 December** | 2,197 | 1,610 |

The carrying amounts of investments in associated companies include publicly listed shares for EUR 1,026 million. The fair value of those investments was EUR 1,696 million. Fortum owns shares in three (five) companies classified as joint ventures. The total carrying value of these joint ventures is EUR 63 million (2005: 59 million).

Acquisitions in 2006 mainly comprise acquisition of additional 12.5% of the shares in St. Petersburg Generating Company, see below information regarding Territorial Generating Company 1 "TGC-1" and Lenenergo. The divestments included the shares in Sölvesborgs Fjärrvärme AB and Karskär Energi AB in Sweden and Enprima Oy and Enermet Oy, Finland.

Fair value and other adjustments in equity include EUR 440 million fair value adjustment in Hafslund ASA related to its shareholding in Renewable Energy Corporation (REC). According to Fortum group accounting policies, the share of profits from Hafslund has been included in Fortum Group figures based on the previous quarter information. When calculating the share of profits in Hafslund, Fortum has in accordance with Fortum's accounting policies, reclassified Hafslund's accounting treatment for the shareholding in REC. Hafslund has classified the shareholding in REC as financial assets at fair value through profit and loss, while Fortum has classified the REC shareholding as available for sale financial assets with fair value changes directly through equity. Only if Hafslund would divest shares in REC would the cumulative fair value change effect Fortum's income statement. Since REC is listed on the Oslo stock exchange as of 9 May 2006, Fortum is accounting for the fair value change in price in Oslo stock exchange at each closing date. The amount of shares is based on the amount published by Hafslund in the previous quarter if other information is not available.

## Bookvalues of principal associates

EUR million

| Company | Segment | Domicile | Participation in % | | Book value in Group | |
|---|---|---|---|---|---|---|
| | | | 2006 | 2005 | 2006 | 2005 |
| Kemijoki Oy | Power Generation | Finland | 18 | 18 | 266 | 268 |
| Hafslund ASA | Power Generation | Norway | 34 | 34 | 750 | 308 |
| Teollisuuden Voima Oy | Power Generation | Finland | 26 | 26 | 199 | 202 |
| OKG AB | Power Generation | Sweden | 46 | 46 | 94 | 96 |
| Forsmarks Kraftgrupp AB | Power Generation | Sweden | 26 | 26 | 94 | 89 |
| Territorial Generating Company 1 "TGC-1" | Power Generation | Russia | 26 | – | 207 | – |
| St. Petersburg Generating Company | Power Generation | Russia | – | 31 | – | 84 |
| Gasum Oy | Heat | Finland | 31 | 31 | 105 | 91 |
| Fingrid Oyj | Distribution | Finland | 25 | 25 | 91 | 83 |
| Lenenergo | Distribution | Russia | 35 | 31 | 66 | 66 |
| Total | | | | | 1,872 | 1,287 |
| Others | | | | | 325 | 321 |
| Carrying amount of associated companies at 31 December | | | | | 2,197 | 1,608 |

The Group's interest in associated companies is accounted by equity method. Assets acquired and liabilities assumed in the investment in associates are measured initially at their fair value at the acquisition date. The Group's share of its associated companies profit or loss and expenses related to the adjustments to fair values of the assets and liabilities assumed is recognised in the income statement. Accounting policies of the associated companies have been changed where necessary to ensure consistency with Fortum's accounting policies.

Fair values, based on market quotations, of listed principal associates (Hafslund ASA, TGC-1 and Lenenergo) is EUR 1.665 million.

Fortum owns 63.8% of the hydro shares and 15.4 % of the monetary shares in Kemijoki Oy. Each owner of hydro shares is entitled to the hydro power production in proportion to its hydro shareholding. 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.

JSC Lenenergo carried out a spin off in October 2005. The company was divided into five separate companies according to business line. The distribution business (less than 110 kV) remained in JSC Lenenergo, the distribution business (over 100 kV) was transferred to St Petersburg Main Power Circuits, the electricity generation aswell as heat production and sales to St. Petersburg Generating Company, electricity sales to St. Petersburg Sale Company and other operations to NW Energy Management Company. The owners of Lenenergo received direct ownership in the four new companies as a result of the spin of. Fortum received 31.02% of the capital and 29.98% of the votes in each of the companies. Fortum's shareholding in Lenenergo remained 35.45% of the capital and 33.2% of the votes.

In October 2006, Fortum acquired additional 12.5% of the shares in St. Petersburg Generating Company. Fortum's ownership in St. Petersburg Generating Company after the acquisition off additional shares amounted to 43.5 % of the shares and 39.7% of the votes. In November 2006, St. Petersburg Generation Company, JSC Kola Generation Company, JSC Karelenerogeneratsiya and JSC Apatity CHPP merged to form Territorial Generating Company 1, TGC-1. As a result of the merger, Fortum owns 25.7% of the shares and votes in TGC-1.

JSC Lenenergo is a listed company, St. Petersburg Main Power Circuits was listed in October 2006 and TGC-1 was listed in January 2007.

The restructuring of the Russian power sector is still on-going and changes are to be expected in the future. The companies do not prepare IFRS Consolidated Financial Statements, although TGC-1 is planning to prepare IFRS accounts in the spring of 2007. Based on these facts, Fortum has chosen to account for the five Russian associated companies based mainly on historical cost and not equity accounting. Management believes that the impact on Fortum's income statement would not be material if equity accounting would be used. Market value, based on market quotation, for the three listed shareholdings, EUR 725 million, exceeds the carrying amounts, EUR 277 million, with EUR 448 million at 31 December 2006. Fortum will apply equity accounting when IFRS accounts can be established.

The carrying amount in Fortum for Lenenergo in 2005 have been restated in 2006 and allocated to the five companies established through the spin off in October 2005. The split of the carrying amount for the shares in Lenenergo has been based on the relative fair values of the companies. The shareholding in Lenenergo was presented in Power Generation segment in Fortum in 2005 since the split of the values into the five new companies could not be done. In 2006 the five shareholdings are included in the appropriate segments in Fortum according to the business line. Lenenergo and St Petersburg Main Power Circuits Company are included in Distribution segment, TGC-1 in Power Generation segment, St. Petersburg Sale Company in Markets segment and NW Energy Management Company in Other segment.

### Assets, liabilities, sales and profit and loss as presented by the Group's principal associates are as follows:

EUR million

| 2006 | Domicile | Assets | Liabilities | Sales | Profit/loss | ownership, % | votes, % |
|---|---|---|---|---|---|---|---|
| Kemijoki Oy [2) 5)] | Finland | 420 | 269 | 38 | –4 | 18 | |
| Hafslund ASA [3)] | Norway | 3,654 | 1,724 | 2,089 | 1,240 | 34 | 33 |
| Teollisuuden Voima Oy [2)] | Finland | 2,651 | 1,980 | 242 | 0 | 26 | 26 |
| OKG AB [2) 4)] | Sweden | 1,354 | 995 | 185 | 0 | 46 | 46 |
| Forsmarks Kraftgrupp AB [2) 4)] | Sweden | 1,152 | 878 | 226 | 0 | 26 | 26 |
| Territorial Generation Company 1 "TGC-1" [1)] | Russia | – | – | – | – | 26 | 26 |
| Gasum Oy [3)] | Finland | 578 | 227 | 637 | 41 | 31 | 31 |
| Fingrid Oyj [3)] | Finland | 1,515 | 1,121 | 256 | 47 | 25 | 33 |
| Lenenergo | Russia | – | – | – | – | 35 | 33 |

| 2005 | Domicile | Assets | Liabilities | Sales | Profit/loss | ownership, % | votes, % |
|---|---|---|---|---|---|---|---|
| Kemijoki Oy [2)] | Finland | 420 | 269 | 38 | -4 | 18 | |
| Hafslund ASA [3)] | Norway | 2,504 | 1,709 | 771 | 109 | 34 | 33 |
| Teollisuuden Voima Oy [2)] | Finland | 2,519 | 1,890 | 199 | 0 | 26 | 26 |
| OKG AB [2) 4)] | Sweden | 1,283 | 928 | 168 | 0 | 46 | 46 |
| Forsmarks Kraftgrupp AB [2) 4)] | Sweden | 1,144 | 832 | 215 | 0 | 26 | 26 |
| Gasum Oy [3)] | Finland | 503 | 178 | 433 | 22 | 31 | 31 |
| Fingrid Oyj [3)] | Finland | 1,467 | 1,128 | 223 | 41 | 25 | 33 |
| Lenenergo | Russia | – | – | – | – | 31 | 30 |

[1)] There is no annual report available for TGC-1 after the mergers which took place in November 2006. Currently accounting in TGC-1 is accounted for according to Russian accounting principles. Company is planning to prepare IFRS accounts during 2007.

[2)] Power plants are often built jointly with other power producers. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership or other agreements and each owner is liable for an equivalent portion of costs. The associated companies are not profit making, since the owners purchase electricity at production cost including interest cost and income taxes. (Note 44 Related party transactions)

[3)] Based on September 2006 and 2005 figures.

[4)] Based on June 2006 and 2005 figures.

[5)] Based on December 2005 figures.

### Associated company transactions

| EUR million | 2006 | 2005 |
|---|---|---|
| Sales to associated companies | 101 | 67 |
| Interest on associated company loan receivables | 20 | 24 |
| Purchases from associated companies | 487 | 446 |

Purchases from associated companies are purchases of nuclear- and hydro power at production costs (Note 44 Related party transactions)

### Associated company balances

| EUR million | 2006 | 2005 |
|---|---|---|
| **Receivables from Associated Companies** | | |
| Long-term interest-bearing loan receivables | 575 | 517 |
| Trade receivables | 28 | 19 |
| Other receivables | 7 | 17 |
| | | |
| **Liabilities to Associated Companies** | | |
| Long-term loan payables | 164 | 157 |
| Trade payables | 12 | 63 |
| Other payables | 23 | 18 |

Long-term interest-bearing receivables are mainly from Swedish nuclear companies, OKG AB and Forsmarks Kraftgrupp AB EUR 504 million (2005: 462 million). Investments in Swedish nuclear companies are financed through loans from owners of the nuclear companies, pro rata ownership.

### Transactions and balances with joint ventures

| EUR million | 2006 | 2005 |
|---|---|---|
| Sales | 0 | 0 |
| Purchases | 1 | 2 |
| | | |
| Receivables from joint ventures | 3 | 7 |
| Payables to joint ventures | 0 | 8 |

There were no outstanding loans receivable from joint ventures on 31 December 2006 or 2005.

## 24 Other Long-term Investments

| EUR million | 2006 | 2005 |
|---|---|---|
| Available for sale financial assets | 62 | 40 |
| Other | 39 | 26 |
| Total | 101 | 66 |

Available for sale financial assets, ie shares which are not classified as associated companies or joint ventures, consists mainly of shares in unlisted companies of EUR 39 million (2005: 40 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 include listed shares at fair value of EUR 23 million (2005: 0 million). During 2006 Fortum has invested EUR 17 million in Wholesale Generating Company 5 (WGC5) (listed company in Russia). Total fair value changes, EUR 6 million (2005: 0 million), have been recognised in equity.

# 25 Long-term and Short-term Interest-bearing Receivables

| EUR million | 2006 | 2005 |
|---|---|---|
| Long-term loan receivables | 582 | 524 |
| Finance lease receivables | 98 | 96 |
| Total long-term interest-bearing receivables | 680 | 620 |
| Other short-term interest-bearing receivables | 12 | 1 |
| Short-term finance lease receivables | 1 | 3 |
| Total short-term interest-bearing receivables [1] | 13 | 4 |
| Total interest-bearing receivables | 693 | 624 |

[1] Included in trade and other receivables in balance sheet.

Long-term loan receivables include receivables from associated companies EUR 575 million (2005: 517 million).

## Interest-bearing receivables

| EUR million | Effective interest rate | Carrying amount 2006 | Repricing under 1 year | Repricing 1–5 years | Repricing over 5 years | Fair value 2006 | Carrying amount 2005 | Fair value 2005 |
|---|---|---|---|---|---|---|---|---|
| Long-term loan receivables | 3.9 | 591 | 586 | 1 | 4 | 606 | 524 | 543 |
| Leasing receivables | 6.3 | 99 | 62 | 6 | 31 | 114 | 99 | 114 |
| Total long-term interest-bearing receivables [2] | 4.2 | 690 | 648 | 7 | 35 | 720 | 623 | 657 |
| Other current receivables | 1.5 | 3 | 3 | – | – | 3 | 1 | 1 |
| Total interest-bearing receivables | 4.2 | 693 | 651 | 7 | 35 | 723 | 624 | 658 |

[2] Including current portion of long-term receivables

## 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 7 years. The average term of new contracts signed in 2005 is 10 years. Of all contracts, 4.9 percent carry a floating interest rate and 95.1 percent a fixed rate.

| EUR million | 2006 | 2005 |
|---|---|---|
| Gross investment in finance lease contracts | 130 | 132 |
| Less unearned finance income | 31 | 33 |
| Present value of future minimum lease payment receivables | 99 | 99 |

## Maturity of finance lease receivables

| EUR million | 2006 | 2005 |
|---|---|---|
| **Gross investment** | | |
| Less than 1 year | 15 | 15 |
| 1–5 years | 64 | 60 |
| Over 5 years | 51 | 57 |
| Total | 130 | 132 |

## Present value of future minimum lease payments receivables

| EUR million | 2006 | 2005 |
|---|---|---|
| Less than 1 year | 10 | 3 |
| 1–5 years | 47 | 48 |
| Over 5 years | 42 | 48 |
| Total | 99 | 99 |
| Contingent rents recognised in income statement | 1 | 0 |

# 26 Inventories

| EUR million | 2006 | 2005 |
|---|---|---|
| Nuclear fuel | 56 | 54 |
| Coal | 104 | 97 |
| Oil | 58 | 20 |
| Other inventories | 111 | 85 |
| Total | 329 | 256 |

No impairment costs have been booked related to inventories neither in 2006 or 2005.

# 27 Trade and Other Receivables

| EUR million | 2006 | 2005 |
|---|---|---|
| Trade receivables | 847 | 716 |
| Income tax receivables | 26 | 31 |
| Accrued interest income | 1 | 7 |
| Accrued income and prepaid expenses | 67 | 66 |
| Other receivables | 98 | 58 |
| Finance lease receivables | 1 | 3 |
| Other interest-bearing receivables | 12 | 1 |
| Total | 1,052 | 882 |
| | | |
| Doubtful receivables that are deducted from trade receivables | 32 | 32 |
| Recognised impairment losses in the income statement | –4 | –6 |

As of 31 December 2006 trade receivables of EUR 42 million (2005: 28 milion) were past due, but not impaired. The ageing analysis of the past due trade receivables is as follows:

| EUR million | 2006 | 2005 |
|---|---|---|
| Up to 3 months | 30 | 21 |
| 3-6 months | 6 | 4 |
| Over 6 months | 6 | 3 |
| Total | 42 | 28 |

The management consider that the carrying amount of trade and other receivables approximates their fair value.

# 28 Cash and Cash Equivalents

| EUR million | 2006 | 2005 |
|---|---|---|
| Cash at bank and in hand | 157 | 191 |
| Short-term bank deposits | – | 450 |
| Commercial papers | – | 147 |
| Total | 157 | 788 |

Maturity of cash and cash equivalents is under 3 months.

# 29 Shareholder's Equity

## Share capital

Under the Articles of Association 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 has one class of shares. By the end of 2006, a total of 887,393,646 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. At the end of 2006 Fortum Corporation's share capital, paid in its entirety and entered in the trade register, was EUR 3,022,782,396.

The Board of Directors of Fortum Corporation proposes to Annual General Meeting of Shareholders to be held on 28 March 2007 that the minimum and maximum capital requirements in Paragraph 3, sub-section 1 of the Articles of Association shall be deleted.

At the beginning of 2006, the Finnish State owned 51,52 % of the company's shares. After the increase in the share capital on the share subscriptions under share option schemes for key employees 2001 and 2002 the Finnish State owned 50,82% 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.

At the end of 2006, the President and CEO and other members of the Fortum management team owned 369,591 (322,431) shares, representing less than 0.0% of the shares in the Company.

A full description of Fortum's equity incentive schemes is shown in Note 30 together with details on the President and CEO and other members of the Fortum management team's shareholdings and interest in the equity incentive schemes. A description of shares, share capital and shareholders in Fortum is shown in Note 45.

## Treasury shares

Fortum Corporation's Annual General Meeting held on 16 March 2006 authorised the Board of Directors to decide on repurchasing the company's own shares by using funds available for distribution of profit. The authorisation is valid for one year from the date of the decision of the Annual General Meeting. The maximum amount of shares to be repurchased is 35 million. In addition, the amount of funds used for the repurchases may not exceed EUR 500 million. The 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 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 cancelled either by decreasing the share capital through decision made by a General Meeting of Shareholders or without decreasing the share capital through a decision of the Board of Directors. The repurchase will reduce the company's distributable retained earnings but will not have a material impact on the division of the ownership of the shares and the voting rights.

Total amount of shares repurchased during the year was 1,660,000 and the cost was EUR 30 million. In December 2006 the Board of Directors decided to cancel the total amount of repurchased shares without decreasing the share capital. The cancellation was entered in the Trade Register on 19 December 2006.

## 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 or increase the company's share capital.

| EUR million | Number of shares | Share capital | Share issue | Share premium |
|---|---|---|---|---|
| **At 1 January 2005** | 867,083,905 | 2,948 | 13 | 62 |
| Shares subscribed with options | 8,210,120 | 28 | –13 | 8 |
| Unregistered shares | 483,000 | 0 | 2 | 0 |
| **At 31 December 2005** | 875,777,025 | 2,976 | 2 | 70 |
| Shares subscribed with options | 13,276,621 | 47 | –1 | 3 |
| Cancellation of own shares | –1,660,000 | – | – | – |
| **At 31 December 2006** | 887,393,646 | 3,023 | 1 | 73 |

Detailed changes in shares and share capital are presented in Note 45 Shares and Shareholders.

## Fair value and other reserves

| EUR million | Net investment | Hedging reserve | Fair value of options | Other fair value changes | Total |
|---|---|---|---|---|---|
| **Balance at 31 December 2005** | 20 | –151 | 16 | –2 | –117 |
| Cash flow hedges | | | | | |
| Fair value gains/losses in period | – | 103 | – | – | 103 |
| Tax on fair value gains/losses | – | –27 | – | – | –27 |
| Transfers to income statement | – | 170 | – | – | 170 |
| Tax on transfers to income statement | – | –45 | – | – | –45 |
| Net investment hedge | –4 | – | – | – | –4 |
| Tax on net investment hedge | 1 | – | – | – | 1 |
| Options | – | – | 6 | – | 6 |
| Other equity changes in associates and available for sale financial assets [1] | – | – | – | 436 | 436 |
| Change in the recognition of performance share agreement [2] | – | – | –12 | – | –12 |
| **Balance at 31 December 2006** | 17 | 50 | 10 | 434 | 511 |

[1] Includes the fair value change of Renewable Energy Corporation (REC) shareholding in Hafslund. See Note 23 Investments in Associated Companies and Joint Ventures.

[2] Share performance arrangement has been officially decided to be cash-settled, which has had an impact on the accounting treatment, see Note 30 Employee Bonus and Incentive Schemes.

| EUR million | Net investment | Hedging reserve | Fair value of options | Other fair value changes | Total |
|---|---|---|---|---|---|
| **Balance at 31 December 2004** | –2 | 128 | 8 | – | 134 |
| Cash flow hedges | | | | | |
| Fair value gains/losses in 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 | – | – | 8 | – | 8 |
| Other equity changes in associates and available for sale financial assets | – | – | – | –2 | –2 |
| **Balance at 31 December 2005** | 20 | –151 | 16 | –2 | –117 |

### Cash flow hedges – amount removed from equity to income statement by line item

| EUR million | 2006 | 2005 |
|---|---|---|
| Included in operating profit | 174 | –157 |
| Included in financial costs | 4 | –4 |
| **Total cash flow hedges – amounts moved from equity to income statement** | 178 | –161 |

# 30 Employee Bonus and Incentive Schemes

## Employee bonus system

Fortum's short-term incentive system (called annual bonus below) 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 big 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% of the person's annual salary including fringe benefits. For executives with business responsibilities, the scheme is structured to reflect also the performance of their business unit as well as 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. For further information on bonus costs for management, see Note 14 Management Remuneration and Employee Costs.

## Fortum personnel fund

The Fortum Personnel Fund (for employees in Finland only) has been in operation since 2000. 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. Persons included in the Performance Share Arrangement are not eligible to be members of this fund. 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 exercise their withdrawal rights. Since 2005, employees have had the choice of having the amount paid in Fortum shares acquired by the personnel fund.

The fund's latest financial year ended at 30 April 2006. The fund had a total of 3,659 members. At the end of April 2006 Fortum contributed EUR 2.9 million to the personnel fund as an annual profit-sharing bonus based on the result of 2005. The combined amount of member's shares in the fund was EUR 25.2 million.

The contribution to the personnel fund is expensed as it is earned.

## Incentive Schemes

### Performance share arrangement for key personnel

Fortum's Long-Term Management Performance Share Arrangement (LTI) for key personnel was launched in 2003 to support the achievement of the Group's long-term goals by attracting and retaining key personnel. The LTI arrangement is a performance-based long-term incentive arrangement intended for the top management and key personnel of the Fortum Group. At present, approximately 150 managers, all of whom have been elected by the Board of Directors, are participants in at least one on-going plan.

A new performance share plan (LTI plan) under the arrangement starts annually if approved by the Board of Directors and runs for a six-year period. The performance share plan for 2006–2011 is for non-share option holders only. At the end of 2006, approximately 120 persons were approved by the Board of Directors to participate for the year 2007 in LTI plans that have on-going earning periods in 2007. The potential reward of the performance share arrangement is based on the performance of the Group, its business units and the individual participant as well as appreciation of the Fortum share.

Each LTI plan comprises of two three-year periods following each other. The plan starts with a three-year earning period, during which the person earns annual bonus based on the performance of the Group, the relevant Business unit and the achievements of the individual participant. The grant date when the amount of the potential reward as a calculative amount of share rights is decided is determined by the Board following the announcement of the Group's annual results for the last calendar year after the earning period has ended. The maximum potential reward a participant can be granted after the three years earning period cannot exceed one year's salary including fringe benefits.

The earning period is followed by an approximately three year restriction period which ends at the cash-settlement of the earned reward provided that the participant remains employed by the Group. The potential reward under each annual LTI plan is adjusted during the restriction period by dividends paid up until the settlement date, which takes place at the end of the restriction period. The participant has approved that the earned reward will be used to acquire Fortum shares in the name of the participant deducted by the income tax and the statutory employment related expenses and insurance contributions payable by the participant on the reward.

The first annual share plan began in 2003 (based on 2002 results). At the end of 2006 five LTI plans were running. The earning period of LTI plans 2002–2007 and 2003–2008 had ended at the 31.12.2004 and 31.12.2005 respectively and the amount of potential reward in the form of calculative share rights had been determined in the spring 2005 and 2006 for these plans. The restriction period for LTI plan 2004–2009 ended at the end of 2006. The other plans were still on their earning period.

From 2006 onwards the LTI arrangement is treated as cash settled arrangement instead of equity settled arrangement. As a result of the change in the accounting principle EUR 12, 6 million has been added to liabilities. Change in the equity was –24 million euros. The total LTI liability including provisions for social charges at the end of the year 2006 was EUR 29 (18) million. The expense recorded in the personnel costs for the period was EUR 2 (8) million, netled with the change in the fair values of the hedge arrangements.

In order to hedge the Group against the changes in the fair values of the potential rewards the Group has entered into share forward transactions which are settled in cash. The change in the fair values of the hedge arrangements for the 2002–2007 and 2003–2008 plans amounted to EUR 13 (3) million. The change for 2006 EUR 10 million is netting personnel expenses with a corresponding entry in the long-term receivables.

## Performance share arrangement

| Incentive period | Number of participants | Payments in EUR thousand | Periodised expenses in EUR thousand | Total expenses in EUR thousand |
|---|---|---|---|---|
| Plan 2002–2007 | 126 | 303 | 14,102 | 14,405 |
| Plan 2003–2008 | 149 | 44 | 7,451 | 7,495 |
| Plan 2004 –2009 | 144 | – | 3,742 | 3,742 |
| Plan 2005–2010 | 138 | – | 1,887 | 1,887 |
| Plan 2006 –2011 | 22 | – | 67 | 67 |
| Total | | 347 | 27,249 | 27,596 |

The fair value of the potential reward is measured based on the market value of Fortum share at each closing date and at the grant date taking into account the estimated departures. The changes of the fair values of the potential rewards are accrued over the remaining vesting period.

## Calculative share rights granted

| Incentive period | Grant date | Maximum number of share rights at the grant date | Fair value of share rights on the grant date in EUR | Total initial fair value in EUR thousand |
|---|---|---|---|---|
| Plan 2002–2007 | 11.2.2005 | 573,885 | 14.51 | 8,327 |
| Plan 2003–2008 | 13.2.2006 | 514,903 | 19.07 | 9,819 |

## Net calculative share rights granted to the management

The calculative share rights with adjustment for dividends and after taxes (assumed tax deduction of 56%) that the President and CEO and other members of the Fortum Management Team will receive in 2008 and 2009 are as follows:

| Name | Year 2009 | Year 2008 |
|---|---|---|
| Mikael Frisk | 5,102 | 8,884 |
| Timo Karttinen | 4,239 | 7,406 |
| Tapio Kuula | 7,111 | 12,381 |
| Juha Laaksonen | 6,044 | 10,533 |
| Mikael Lilius | 18,750 | 32,235 |
| Christian Lundberg | 6,372 | 10,674 |
| Carola Teir-Lehtinen | 3,952 | 6,888 |

# Stock option schemes with expiry date later than 2006

## Stock option scheme for key employees (2001)

In 2001, a resolution was passed to issue a maximum of 24,000,000 stock options to key employees of the Fortum Group and to a wholly owned subsidiary of Fortum Corporation. Of the total number of stock 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 would have been exercisable from 15 April 2006 through to 1 May 2007. However, the exercise period would not have commenced for any stock 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 stock options marked with the letter A were annulled, a total of 212,500 non-transferred stock options marked with the letter B were annulled, and all of the 8,000,000 non-transferred stock options marked with the letter C were annulled. In October 2005, a total of 537,500 stock options marked with the letter A and in December 2005, a total of 1,087,500 stock options marked with the letter B were annulled.

The subscription price of the stock 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 stock 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 stock 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 stock 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 stock options marked with a letter A listed on 17 October 2005 was 4,937,500. Each stock 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 2006, a total of 4,662,550 shares were subscribed for and entered into the trade register with the stock options marked with a letter A. Total of 274,950 shares can still be subscribed for and registered with the stock options 2001A such that the share capital is increased by a maximum of EUR 934,830, which corresponds to 0.0% of the share capital at the end of 2006. At the end of 2006, the subscription price of the stock 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. By the end of 2006, a total of 5,360,133 shares were subscribed and entered into the trade register with the stock options marked with a letter B. Total of 1,339,867 shares could still have been registered with stock option 2001B such that the share capital is increased by a maximum of EUR 4,555,548, which corresponds to 0.2% of the share capital at the end of 2006. At the end of 2006, the subscription price of the stock options marked with the letter B was EUR 3.40.

A total of 1,614,817 shares could still have been registered with 2001 stock option scheme (with either letter A or B) such that the share capital is increased by a maximum of EUR 5,490,378 which corresponds to 0.2% of the share capital at the end of 2006. 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. The stock options are freely transferable, when the relevant share subscription period has commenced. This scheme covered approximately 350 persons.

## Stock option scheme for key employees (2002)

In March 2002, a resolution was passed to issue a maximum of 25,000,000 stock options to key employees of the Fortum Group and to a wholly owned subsidiary of Fortum Corporation. Of the total number of stock 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. The Board of Directors could distribute stock options to the key personnel, only if the increase in Fortum Group's earnings per share (EPS) was at least five percent compared with the preceding period. The proportion of the annual maximum amount that became available for distribution was influenced by the Company's relative share price development compared to the European Utilities Index during a period of twelve calendar months preceding the month that the stock options were distributed.

The total number of stock options marked with a letter A listed on 1 October 2004 was 10,767,000. Each stock warrant entitles the holder to subscribe for one share. The warrants are exercisable during the period from 1 October 2004 through to 30 April 2007. By the end of 2006, a total of 10,644,900 shares were subscribed for and entered into the trade register with the stock options marked with a letter A. At the end of 2006 total of 122,100 shares could still have been registered with the stock options 2002A such that the share capital is increased by a maximum of EUR 415,140, which corresponds to 0.0% of the share capital at the end of 2006. At the end of 2006, the subscription price of the stock options marked with the letter A was EUR 3.40.

The total number of stock options marked with a letter B listed on 2 October 2006 was 10,003,000. Each stock warrant entitles the holder to subscribe for one share. The warrants are exercisable during the period from 2 October 2006 to 30 April 2009. By the end of 2006, a total of 4,856,488 shares were subscribed for and entered into the trade register with the stock options marked with a letter B. At the end of 2006 total of 5,146,512 shares could still have been registered with the stock options 2002B such that the share capital is increased by a maximum of EUR 17,498,141, which corresponds to 0.6% of the share capital at the end of 2006. At the end of 2006, the subscription price of the stock options marked with the letter B was EUR 3.40.

A total of 5,268,612 shares can be subscribed for pursuant to the 2002 stock options (with either letter A or B) such that the share capital is increased by a maximum of EUR 17,913,281, which corresponds to 0.6% of the share capital at the end of 2006. 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. The stock options are freely transferable, when the relevant share subscription period has commenced. This scheme (either with letter A or B) covered some 350 persons.

## Stock option schemes with expiry date in 2005

### Management stock option scheme (1999)

In 1999, a resolution was passed to issue a total of 15,000 stock options to the Group management. The stock 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 stock options have been redeemed following the termination of some employment contracts before 1 October 2002.

The preconditions for this stock option scheme were met, and a total of 11,768 stock options were listed on 1 October 2002. Each stock option entitled the holder to subscribe for 1,000 shares. The stock 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 stock warrants, which entitled 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 stock warrants listed on 17 May 2002 was 6,159,300. Each stock 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.

### Movements in the number of share options outstanding and their related weighted average exercise prices are as follows

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Weighted average exercise price, EUR | Number of options (thousand) | Weighted average exercise price, EUR | Number of options (thousand) |
| Outstanding at the beginning of the period | 3.40 | 20,664 | 4.85 | 29,098 |
| Granted during the period | – | 0 | – | 0 |
| Forfeited during the period | 3.40 | 21 | 4.42 | 218 |
| Exercised during the period | 3.40 | 13,760 | 5.94 | 8,210 |
| Expired or cancelled during the period | – | 0 | 3.40 | 6 |
| Outstanding at the end of the period | 3.40 | 6,883 | 3.75 | 20,664 |
| Exercisable at the end of the period | 3.40 | 6,883 | 3.40 | 3,940 |

A total of 21 (4,101) thousand options held by Fortum Assets Oy were annulled in December 2006 (2005).

### Share options outstanding at the end of the year have the following expiry dates and exercise prices

| | | 2006 | | 2005 | |
|---|---|---|---|---|---|
| | Expiry date | Exercise price in EUR per share | Number of options (thousand) | Exercise price in EUR per share | Number of options (thousand) |
| Management share option scheme (1999) | 1.10.2005 | – | – | 5.61 | – |
| Bond loan with warrants for employees (1999) | 17.5.2005 | – | – | 3.40 | – |
| Share options scheme for key employees (2001A) | 1.5.2007 | 3.40 | 275 | 3.40 | 3,301 |
| Share options scheme for key employees (2001B) | 1.5.2007 | 3.40 | 1,340 | 4.47 | 6,700 |
| Share options scheme for key employees (2002A) | 1.5.2007 | 3.40 | 122 | 3.40 | 639 |
| Share options scheme for key employees (2002B) | 1.5.2009 | 3.40 | 5,146 | 3.40 | 10,024 |
| | | | 6,883 | | 20,664 |

### Fair value of stock options

In compliance with IFRS, the fair value has been defined for 2002B options that were granted 15 April 2003 and vested 2 October 2006. The fair value of transferable 2002B options has been determined at the grant date by using the Binomial valuation model and has been expensed over the vesting period. The fair values of other option schemes have not been determined and they are not included in expense recognition. During the year 2006 the fair valuation of 2002B had an impact of EUR –4 million (EUR –3 million) on the Group's profit. In 2006 this amount included an additional EUR 1.5 million expense due to the following adjustments done to the valuation parameters.

The subscription price EUR 6.19 was deducted with the dividend of EUR 0.31 paid before grant date. The dividend yield was adjusted to be zero since the dividends reduce the exercise price according to the terms of the option scheme. The option life was shortened to reflect the average length of time similar options have remained outstanding.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical share prices at the grand date over the prior three and a half years added with a 7% margin. The risk-free interest rate is based on the government zero coupon bond interest rate at the measurement date with a maturity equaling the option exercise period.

### Fair value measurement assumptions

| | 2006 | Prior years |
|---|---|---|
| Number of options granted, thousand | 7,657 | 7,657 |
| Estimated departures, % | 5 | 5 |
| Share price, EUR | 6.41 | 6.41 |
| Subscription price, EUR | 5.88 | 6.19 |
| Expected average volatility, % | 30 | 30 |
| Dividend yield, % | 0 | 4.89 |
| Option life, years | 4 | 6 |
| Risk-free interest rate, % | 4 | 4 |

## Management shareholding and stock options

On 31 December 2006, the members of the Supervisory Board of Fortum Corporation owned a total of 2,400 shares or 0.0 % of the shares and voting rights. The members of the Board of Directors and the President and CEO owned a total of 201,641 shares, which corresponds to 0.0% of the company's shares and voting rights. Other members of the Fortum Management Team owned a total of 167,950 shares which corresponds to 0.0 % of the company's shares and voting rights.

### Shares held by member of the Board of Directors

| | 2006 | 2005 |
|---|---|---|
| Peter Fagernäs | 30,591 | 30,591 |
| Christian Ramm-Schmidt | 1,000 | n/a |
| Total | 31,591 | 30,591 |

### Shares held by members of Fortum Management Team

| | 2006 | 2005 |
|---|---|---|
| Mikael Frisk | 14,900 | 14,900 |
| Timo Karttinen | 30,000 | 18,870 |
| Tapio Kuula | 50,050 | 50,050 |
| Juha Laaksonen | 20,000 | 20,000 |
| Mikael Lilius | 170,050 | 150,050 |
| Christian Lundberg | 30,000 | 20,000 |
| Carola Teir-Lehtinen | 23,000 | 17,970 |
| Total | 338,000 | 291,840 |

### Stock options held by members of Fortum Management Team on 31 December 2006

| | 2001A received | 2001B received | 2002A received | 2002B received | 2002B remaining |
|---|---|---|---|---|---|
| Mikael Frisk | 100,000 | 100,000 | 150,000 | 150,000 | 0 |
| Timo Karttinen | 50,000 | 75,000 | 90,000 | 120,000 | 0 |
| Tapio Kuula | 100,000 | 100,000 | 200,000 | 200,000 | 0 |
| Juha Laaksonen | 100,000 | 100,000 | 250,000 | 175,000 | 0 |
| Mikael Lilius | 200,000 | 200,000 | 340,000 | 340,000 | 0 |
| Christian Lundberg | – | – | 150,000 | 175,000 | 0 |
| Carola Teir-Lehtinen | 100,000 | 100,000 | 150,000 | 150,000 | 55,970 |

Fortum Management Team did not have any remaining stock options from the option schemes 2001A, 2001B and 2002A on 31 December 2006.

### Stock options held by members of Fortum Management Team on 31 December 2005

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

# 31 Minority Interests

## Principal minority interests

| EUR million | | 2006 | 2005 |
|---|---|---|---|
| AB Fortum Värme Holding samägt med Stockholms stad | Sweden | 228 | 180 |
| Fortum Wroclaw S.A. | Poland | 2 | 62 |
| Jyväskylän Energiatuotanto Oy | Finland | 4 | 4 |
| Tartu Energi Group | Estonia | 4 | 4 |
| Ekerö Energi Group | Sweden | 4 | 3 |
| Other | | 11 | 7 |
| Total minority interests | | 253 | 260 |

During 2006 Fortum acquired the 42,97% minority shares in Fortum Wroclaw S.A., Poland.

Fortum owns, via Fortum Power and Heat AB, 90.1% of the shares which represents 50,1% of the votes in AB Fortum Värme Holding samägt med Stockholms stad. 9.9% of the shares is owned by the City of Stockholm. The City of Stockholm holds preference shares in AB Fortum Värme Holding samägt med Stockholms stad, which entitles them 50% of the economical output. The ownership and administration of AB Fortum Värme Holding samägt med Stockholms stad is settled by a consortium agreement.

# 32 Interest-bearing Liabilities

| EUR million | 2006 | 2005 |
|---|---|---|
| Bonds | 2,775 | 1,542 |
| Loans from financial institutions | 306 | 333 |
| Finance lease liabilities | 32 | 32 |
| Other long-term interest-bearing debt | 947 | 1,211 |
| Total long-term interest-bearing debt | 4,060 | 3,118 |
| Current portion of long-term bonds | 10 | 697 |
| Current portion of loans from financial institutions | 40 | 92 |
| Current portion of other long-term interest-bearing debt | 321 | 1 |
| Current portion of financial lease liabilities | 14 | 15 |
| Commercial papers | 55 | 21 |
| Other short-term interest-bearing debt | 2 | 2 |
| Total short-term interest-bearing debt | 442 | 828 |
| Total interest-bearing debt | 4,502 | 3,946 |

## Interest-bearing debt

| EUR million | Effective interest rate | Carrying amount 2006 | Repricing under 1 year | Repricing 1–5 years | Repricing over 5 years | Fair value 2006 | Carrying amount 2005 | Fair value 2005 |
|---|---|---|---|---|---|---|---|---|
| Bonds | 4.6 | 2,785 | 835 | 716 | 1,234 | 2,887 | 2,239 | 2,354 |
| Loans from financial institutions | 3.6 | 346 | 345 | 1 | – | 348 | 425 | 430 |
| Other long-term interest-bearing debt [1] | 4.9 | 1,314 | 1,287 | 16 | 11 | 1,309 | 1,259 | 1,376 |
| **Total long-term interest-bearing debt [2]** | 4.6 | 4,445 | 2,467 | 733 | 1,245 | 4,544 | 3,923 | 4,160 |
| Commercial paper | 3.1 | 55 | 55 | – | – | 55 | 21 | 21 |
| Other short-term interest-bearing debt | 4.3 | 2 | 5 | – | – | 2 | 2 | 2 |
| **Total short-term interest-bearing debt** | 3.1 | 57 | 60 | – | – | 57 | 23 | 23 |
| Total interest-bearing debt | 4.6 [3] | 4,502 | 2,527 | 733 | 1,245 | 4,601 | 3,946 | 4,183 |

[1] Includes loan from State Nuclear Waste Management Fund EUR 627 million (2005: 605 million), financing arrangement related to Nybroviken Kraft AB EUR 320 million (2005: 308 million),financial leases EUR 46 million (2005: 47 million), loans from Fortum's Finnish pension fund EUR 33 million (2005: 35 million), and other loans EUR 288 million (2005: 264 million).

[2] Including current portion of long-term debt

[3] The effective interest rate including interest bearing debt and derivatives is 4.1%

## Bond Issues

| Issued- Maturity | Loan description [1] | Interest basis | Interest rate | Effective interest | Currency | Nominal million | Carrying amount |
|---|---|---|---|---|---|---|---|
| 2003 / 2010 | Fortum Oyj EUR 4,000 Million EMTN Programme | Fixed | 4.625 | 4.728 | EUR | 500 | 492 |
| 2003 / 2013 | Fortum Oyj EUR 4,000 Million EMTN Programme | Fixed | 5.000 | 5.164 | EUR | 500 | 516 |
| 2000 / 2007 | Fortum Oyj EUR 4,000 Million EMTN Programme | Floating | Euribor 3M+0.78 | | EUR | 10 | 10 |
| 2000 / 2008 | Fortum Oyj EUR 4,000 Million EMTN Programme | Floating | Euribor 3M+0.75 | | EUR | 20 | 20 |
| 2000 / 2008 | Fortum Oyj EUR 4,000 Million EMTN Programme | Floating | Stibor 3M+0.60 | | SEK | 200 | 22 |
| 2003 / 2008 | Fortum Oyj EUR 4,000 Million EMTN Programme | Fixed | 6.100 | 6.242 | EUR | 500 | 500 |
| 2006 / 2011 | Fortum Oyj EUR 4,000 Million EMTN Programme | Fixed | 3.750 | 3.793 | SEK | 2,000 | 221 |
| 2006 / 2009 | Fortum Oyj EUR 4,000 Million EMTN Programme | Floating | Stibor 3M+1.00 | | SEK | 2,500 | 276 |
| 2006 / 2016 | Fortum Oyj EUR 4,000 Million EMTN Programme | Fixed | 4.500 | 4.615 | EUR | 750 | 738 |
| | | | | | | | 2,795 |
| Hedging swaps | | | | | | | 10 |
| Total outstanding carrying amount 31 December 2006 | | | | | | | 2,785 |

[1] EMTN = Euro Medium Term Note



### Nybroviken Kraft AB (Nykab)

Nybroviken Kraft AB (Nykab) is a financing arrangement of hydropower 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 99 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 221 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 320 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 has 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 IAS 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 a security for the loan from AP-fonden.

### Finance lease liabilities

On 31 December 2006 Fortum had a small number of finance leasing agreements for machinery and equipment. No new leasing commitments were entered into in 2006 or 2005. In 2005 one lease agreement was terminated due to exercise of the purchase option.

| EUR million | 2006 | 2005 |
|---|---|---|
| **Minimum lease payments** | 57 | 56 |
| Less future finance charges | 11 | 9 |
| **Present value of finance lease liabilities** | 46 | 47 |

### Maturity of finance lease liabilities

| EUR million | 2006 | 2005 |
|---|---|---|
| **Minimum lease payments** | | |
| Less than 1 year | 15 | 16 |
| 1–5 years | 15 | 12 |
| Over 5 years | 27 | 28 |
| Total | 57 | 56 |

### Present value of finance lease liabilities

| EUR million | 2006 | 2005 |
|---|---|---|
| Less than 1 year | 14 | 15 |
| 1–5 years | 8 | 8 |
| Over 5 years | 24 | 24 |
| Total | 46 | 47 |

# 33 Deferred Income Taxes

| EUR million<br>The movement in deferred tax assets and liabilities during the year: | 1 Jan 2006 | Charged to Income Statement | Charged in Equity | Exchange rate differences, reclassifications and other changes | Acquisitions and Disposals | 31 Dec 2006 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Property, plant and equipment | 3 | 6 | – | – | 8 | 17 |
| Provisions | 16 | 4 | – | – | 9 | 29 |
| Tax losses and tax credits carry-forward | 8 | 1 | – | – | – | 9 |
| Other | 31 | –8 | – | –10 | 2 | 15 |
| Total deferred tax assets | 58 | 3 | – | –10 | 19 | 70 |
| Offset against deferred tax liabilities | –40 | – | – | – | – | –65 |
| Deferred tax assets after offset | 18 | 3 | – | –10 | 19 | 5 |
| | | | | | | |
| **Deferred tax liabilities** | | | | | | |
| Property, plant and equipment | 1,582 | –38 | – | 70 | 215 | 1,829 |
| Derivative financial instruments | –68 | 8 | 68 | 9 | 2 | 19 |
| Current assets | 0 | – | – | – | 7 | 7 |
| Other | 38 | –7 | – | –26 | – | 5 |
| Offset against deferred tax assets | –40 | – | – | – | – | –65 |
| **Deferred tax liabilities after offset** | 1,512 | –37 | 68 | 53 | 224 | 1,795 |

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-forward to the extent that the realisation of the related tax benefit through future profits is probable. The recognised tax assets relates to losses carry-forward with no expiration date and partly with expiry date as described below.

| EUR million | Amount | Deferred tax assets |
|---|---|---|
| Losses without expiration date (Norway) | 23 | 6 |
| Losses with expiration date (Poland) | 15 | 2 |

Deferred tax assets of EUR 14 million (2005: 15 million) have not been recognised in the consolidated financial statements, because the realisation is not probable. The biggest part of the unrecognised tax asset (EUR 13 million) relates to capital loss in UK, which has no expiration date. Rest of the unrecognised tax losses (EUR 1 million) relates to loss carry-forward that are unlikely to be used under the expiration time.

Deferred income tax liabilities of EUR 4 million (2005: 4 million) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of 100% owned subsidiaries. Such amounts are permanently reinvested.

Deferred tax liability of EUR 0.8 million (2005: none) has been booked on retained earnings in associated company based on the withholding tax that would be payable if the profits were distributed. Deferred tax EUR 0.2 million has also been booked on the retained earnings that are expected to be distributed from Estonian subsidiaries. Unremitted earnings totalled EUR 25 million on 31 December 2006 (2005: 16 million).

Deferred tax assets and liabilities from acquisitions mainly refer to Fortum Espoo.

| EUR million<br>The movement in deferred tax assets and liabilities during the year | 1 Jan 2005 | Charged to Income Statement | Charged in Equity | Exchange rate differences and other changes | Acquisitions and Disposals [1] | 31 Dec 2005 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Property, plant and equipment | 3 | – | – | – | – | 3 |
| Provisions | 46 | –13 | – | – | –17 | 16 |
| Tax losses and tax credits carry-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** | | | | | | |
| Property, plant and equipment | 1,687 | 76 | – | –52 | –129 | 1,582 |
| Derivative 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 |

[1] Includes the effects from the deconsolidation of Neste Oil due to the dividend of approximately 85% of the shares in the company.

## 34 Pension and Other Provisions

| EUR million | Pension | Impregnated poles | Environmental | Other | Total |
|---|---|---|---|---|---|
| **At 1 January 2006** | 119 | 17 | 21 | 31 | 188 |
| Provisions for the period | 7 | – | 2 | 50 | 59 |
| Provisions used | – | – | –10 | –32 | –42 |
| Provisions reversed | – | –17 | – | –2 | –19 |
| **At 31 December 2006** | 126 | 0 | 13 | 47 | 186 |
| | | | | | |
| Allocation between current and non-current provisions: | | | | | |
| Current provisions | – | – | – | 1 | 1 |
| Non-current provisions | 126 | – | 13 | 46 | 185 |

The provision for impregnated poles has been reversed, since EU legislation allows to re-use the poles. Previous legislation forbade the re-use and demanded dismantling of the poles. The related investment cost in property, plant and equipment has also been reversed. The net effect to the income statement is less than EUR 1 million.

Environmental provision relates 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 onerous contracts. The provision is estimated to be used within two to five years. Pension obligations include EUR 2 million (2005: 2 million) of unpaid liabilities related to defined contribution plans, see Note 35 Pension Obligations.

## 35 Pensions 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. The concerned pensions are primarily retirement pensions, early retirement disability pensions and family pensions but contain also early retirement arrangements.

In Finland the most significant pension plan is the Finnish Statutory Employment Pension Scheme (TEL) in which benefits are directly linked to employee's 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 to the principles for calculating disability component of pension liabilities under TEL, effective from January 2006 onwards. 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, was released at the end of 2005. In addition certain employees in Finland have additional pension coverage through companies own pension fund or through insurance companies.

In Sweden the Group operates several defined benefit and defined contribution plans like the general ITP-pension plan and the PA-KL and PA-KFS plans that are eligible for employees within companies formerly owned by municipalities. The pension arrangements comprise normally retirement pension, complementary retirement pensions, survivors' pension and disability pension. The most significant pension plan is the ITP-plan for white-collar employees in permanent employment (or temporary employees after a certain waiting period), who fulfill the age conditions. To qualify for a full pension the employee must have a projected period of pensionable service, from the date of entry until retirement age, of at least 30 years. The ITP-plan is partly financed through insurance premiums or through provisions in the balance sheet (book-reserves). The part of the ITP multiemployer pension plan that is secured by paying pension premiums to Alecta, in Fortums case the collective family pension, is accounted for as a defined contribution plan due to lack of information necessary to account for the plan as a defined benefit plan.

The Norwegian companies have defined benefit pension plans where the benefits are based on the 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 plans 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 average remaining employment period.

### Amounts recognised in the income statement

| EUR million | 2006 | 2005 |
|---|---|---|
| Current service cost | –13 | –10 |
| Interest cost | –15 | –14 |
| Expected return on plan assets | 13 | 11 |
| Acquisition | 0 | –5 |
| Past service cost | 0 | 1 |
| Total included in employee costs (Note 14) | –15 | –17 |

The actual return on plan assets in Finland and Sweden totalled EUR 33 million (2005: 18 million).

### Amounts recognised in the balance sheet

| EUR million | 2006 | 2005 |
|---|---|---|
| Present value of funded obligations | 361 | 368 |
| Fair value of plan assets | –250 | –228 |
| | 111 | 140 |
| Present value of unfunded obligations | 1 | 1 |
| Unrecognised actuarial gains and losses | 12 | –24 |
| Liability in the balance sheet | 124 | 117 |

Pension plan assets include the Company's ordinary shares with a fair value of EUR 6 million (2005: 5 million) and buildings occupied by the Group with a fair value of EUR 59 million (2005: 53 million).

### The principal actuarial assumptions used

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| EUR million | Finland | Sweden | Other countries | Finland | Sweden | Other countries |
| Discount rate, % | 4.50 | 4.00 | 4.75 | 4.50 | 5.00 | 4.80 |
| Expected return on plan assets, % | 6.50 | 4.00 | 5.80 | 6.30 | 5.00 | 5.80 |
| Future salary increases, % | 3.50 | 3.50 | 3.20 | 3.50 | 3.00 | 3.20 |
| Future pension increases, % | 2.00 | 2.00 | 2.70 | 2.10 | 2.00 | 2.00 |

### Amounts recognised in the balance sheet

| EUR million | 2006 Finland | Sweden | Other countries | Total |
|---|---|---|---|---|
| Present value of funded obligations | 190 | 149 | 22 | 361 |
| Fair value of plan assets | –210 | –24 | –16 | –250 |
| | –20 | 125 | 6 | 111 |
| Present value of unfunded obligations | 0 | 0 | 1 | 1 |
| Unrecognised actuarial gains and losses | 38 | –26 | 0 | 12 |
| Liability in the balance sheet | 18 | 99 | 7 | 124 |

### Amounts recognised in the balance sheet

| EUR million | 2005 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 | 4 | –28 | 0 | –24 |
| Liability in the balance sheet | 14 | 96 | 7 | 117 |

### Balance sheet reconciliation

| EUR million | 2006 | 2005 |
|---|---|---|
| At 1 January | 117 | 86 |
| Impact of acquired/sold companies | 4 | 17 |
| Structural changes in pension fund arrangements | 3 | 11 |
| Total expense charged in the income statement | –15 | 17 |
| Contributions paid | 15 | –14 |
| **At 31 December** | 124 | 117 |

### Balance sheet obligations

| EUR million | 2006 | 2005 |
|---|---|---|
| Pension benefits | 124 | 117 |
| Overfunded pension plan shown as asset [1)] | 0 | –11 |
| Net liability | 124 | 106 |

[1)] The treatment in 2005 relates to the discontinued operations

# 36 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 obligation to fully fund the legal liability, decided by the governmental authorities, for decommissioning of the power plant and disposal of spent fuel through the State Nuclear Waste Management Fund.

On 31 December the following carrying values regarding nuclear related assets and liabilities are included in the balance sheet:

| EUR million | 2006 | 2005 |
|---|---|---|
| **Nuclear provisions** | | |
| At 1 January | 418 | 401 |
| Additional provisions | 24 | 9 |
| Used during the year | –17 | –14 |
| Unwinding of discount | 24 | 22 |
| **At 31 December** | 450 | 418 |
| | | |
| Carrying value of Fortum's share in the State Nuclear Waste Management Fund | 450 | 418 |

## Nuclear 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.

## Carrying value of Fortum's Share in the State Nuclear Waste Management Fund

Other long-term investments include the carrying amount of Fortum's share of the State Nuclear Waste Management Fund. Fortum contributes funds to the State Nuclear Waste Management 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. The carrying value of the Fund in Fortum's balance sheet is calculated according to IFRIC 5 Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

## Fortum's legal liability and share of the State Nuclear Waste Management Fund

### Fortum's legal liability and share of the State Nuclear Waste Management Fund at year end are as follows:

| EUR million | 2006 | 2005 |
|---|---|---|
| Liability for nuclear waste management according to the Nuclear Energy Act | 685 | 618 |
| | | |
| Fortum's funding target obligation to the State Nuclear Waste Management Fund | 649 | 618 |
| Fortum's share of the State Nuclear Waste Management Fund | –636 | –610 |
| Difference covered by real estate mortgages | 13 | 8 |

The legal liability calculated according to the Nuclear Energy Act in Finland and decided by the governmental authorities as at 31 December 2006 is EUR 685 million (2005: 618 million). The carrying value of the liability in the balance sheet calculated according to IAS 37 is at 31 December 2006 EUR 450 million (2005: 418 million). The main reason for the difference in liability is that the legal liability is not discounted to net present value.

Fortum's share of the State Nuclear Waste Management Fund as of 31 December 2006 is EUR 636 million (2005: 610 million). The carrying value in the balance sheet is EUR 450 million (2005: 418 million). The difference is due to the fact that IFRIC 5 limits the carrying amount of Fortum's share of the State Nuclear Waste Management 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 was fully funded at year-end 2005. In 2006 Fortum has utilised the possibility according to the Nuclear Energy Act to reduce the funding target 2006 and to fully cover the legal liability over a period of three years, ie 2006–2008. The difference between the funding target for Fortum to the State Nuclear Waste Management Fund at year-end and Fortum's share of the State Nuclear Waste Management Fund at year-end is due to timing of the annual calculation of the liability and will be paid during the first quarter 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 pledged assets, See Note 40.

Fortum uses the right to borrow back from the State Nuclear Waste Management Fund according to certain rules. The loans are included in interest-bearing liabilities, see Note 32.

# 37 Other Non-current Liabilities

| EUR million | 2006 | 2005 |
|---|---|---|
| Connection fees | 400 | 259 |
| Other liabilities | 85 | 53 |
| Total | 485 | 312 |

Connection fees to the electricity network in Finland that are paid before 2003 are refundable if the customer would ever disconnect the initial connection.

# 38 Trade and Other Current Liabilities

| EUR million | 2006 | 2005 |
|---|---|---|
| Trade payables | 242 | 262 |
| Accrued expenses and deferred income | | |
| Personnel expenses | 93 | 82 |
| Interest expenses | 154 | 141 |
| Other accrued expenses and deferred income | 127 | 159 |
| Other liabilities | | |
| VAT-liability | 61 | 56 |
| Energy taxes | 31 | 43 |
| Advances received | 78 | 42 |
| Other liabilities | 58 | 81 |
| Total | 844 | 866 |

The management consider that the amount of trade and other payables approximates fair value.

### Treatment of balance sheet items relating to revenue from projects in progress

| EUR million | 2006 | 2005 |
|---|---|---|
| Prepayments and accrued income | 28 | 8 |
| Deductions in receivables | 28 | 8 |
| | | |
| Advance payments received | 2 | 6 |
| Deductions in liabilities | 2 | 6 |

# 39 Subsidiaries by Segment on 31 December 2006

1) Name change
2) Acquired
3) Founded
4) Shares held by the parent company
5) Dormant
6) Demerger

○ = Power Generation
□ = Heat
▲ = Distribution
● = Markets
▼ = Other Operations

| Company Name | | Country | Segment | Group holding % |
|---|---|---|---|---|
| Asunto Oy Imatran Voimakaari | | Finland | ▼ | 100.0 |
| Fortum Assets Oy | | Finland | ▼ | 100.0 |
| Fortum Espoo Markets Oy | 6) | Finland | ● | 100.0 |
| Fortum Espoo Power and Heat Oy | 6) | Finland | ○ □ ▼ | 100.0 |
| Fortum Espoo Distribution Oy | 6) | Finland | ▲ | 100.0 |
| Fortum Espoo Sähkönsiirto Oy | 3) | Finland | ▲ | 100.0 |
| Fortum Heat and Gas Oy | 4) | Finland | ○ □ ▲ ▼ ● | 100.0 |
| Fortum Lämpö Oy | | Finland | □ | 100.0 |
| Fortum Markets Oy | 4) | Finland | ● | 100.0 |
| Fortum Nuclear Services Oy | | Finland | ○ | 100.0 |
| Fortum Power and Heat Oy | 4) | Finland | ○ □ ▲ ▼ ● | 100.0 |
| Fortum Sähkönsiirto Oy | 4) | Finland | ▲ | 100.0 |
| Hexivo Oy | | Finland | ○ | 52.0 |
| Imatran Voima Oy | | Finland | ▲ | 100.0 |
| Imatrankosken Voima Oy | | Finland | ▲ | 100.0 |
| Jyväskylän Energiatuotanto Oy | | Finland | □ | 60.0 |
| Kiinteistö Oy Espoon Energiatalo | | Finland | ▼ | 100.0 |
| Killin Voima Oy | | Finland | ○ | 60.0 |
| Koillis-Pohjan Energiantuotanto Oy | | Finland | ○ | 100.0 |
| Koskivo Oy | | Finland | ▲ | 100.0 |
| KPPV-Sijoitus Oy | | Finland | ▲ | 100.0 |
| Kuopion Kaupunkienergia Oy | 2) | Finland | ▼ | 100.0 |
| Linnankosken Voima Oy | | Finland | ▲ | 100.0 |
| Lounais-Suomen Lämpö Oy | | Finland | ▲ | 100.0 |
| Mansikkalan Voima Oy | | Finland | ▲ | 100.0 |
| Oy Pauken Ab | | Finland | ▼ | 100.0 |
| Oy Tersil Ab | | Finland | ▲ | 100.0 |
| Oy Tertrade Ab | | Finland | ▲ | 100.0 |
| Rajapatsaan Voima Oy | | Finland | ▲ | 100.0 |
| Saimaanrannan Voima Oy | | Finland | ▲ | 100.0 |
| Tunturituuli Oy | | Finland | ○ | 55.4 |
| Varsinais-Suomen Sähkö Oy | | Finland | ▲ | 100.0 |
| Viikinki Energia Oy | 2) | Finland | ▼ | 100.0 |
| Olstens France S.a.r.l. | | France | ▼ | 100.0 |
| Fortum Liegenschaftsverwaltungs GmbH | 5) | Austria | ▼ | 100.0 |
| Fortum Project Finance N.V. | 1) 4) | Belgium | ▼ | 100.0 |
| Fortum Energi A/S | 5) | Denmark | ● | 100.0 |
| AS Anne Soojus | | Estonia | □ | 60.0 |
| AS Fortum Tartu | | Estonia | □ | 60.0 |
| AS Tartu Joujaam | | Estonia | □ | 60.0 |
| AS Tartu Keskkatlamaja | | Estonia | □ | 60.0 |
| Fortum CFS Eesti osauhing | 3) | Estonia | ▼ | 100.0 |
| Fortum Elekter AS | | Estonia | ▲ | 99.3 |
| Fortum Termest AS | | Estonia | □ | 99.7 |
| Lauka Turvas OU | | Estonia | ○ | 60.0 |
| Fortum Service Deutschland GmbH | | Germany | ○ | 100.0 |
| Fortum Capital Ltd | | Great Britain | ▼ | 100.0 |
| Fortum Direct Ltd | | Great Britain | ○ | 100.0 |
| Fortum Energy Ltd | | Great Britain | ○ | 100.0 |
| Fortum Gas Ltd | | Great Britain | ○ | 100.0 |

table continues

| Company Name | Country | Segment | Group holding % |
|---|---|---|---|
| Fortum Insurance Ltd | Great Britain | ▼ | 100.0 |
| Fortum O&M (UK) Limited | Great Britain | ○ | 100.0 |
| Grangemouth CHP Limited | Great Britain | ○ | 100.0 |
| IVO Energy Limited | Great Britain | ○ | 100.0 |
| Kildare Energy Ltd | Ireland | ○ | 55.0 |
| UAB Fortum Ekosiluma | Lithuania | ■ | 100.0 |
| UAB Fortum Heat Lietuva | Lithuania | ■ | 100.0 |
| UAB Joniskio energija | Lithuania | ■ | 66.0 |
| UAB Svencioniu energija | Lithuania | ■ | 50.0 |
| Fortum Sendi Prima Sdn Bhd | Malaysia | ○ | 100.0 |
| Baerum Fjernvarme AS | Norway | ■ | 100.0 |
| Fortum Distribution AS | Norway | ▲ ● | 100.0 |
| Fortum Förvaltning AS | Norway | ○ | 100.0 |
| Fortum Heat AS | Norway | ■ | 100.0 |
| Fortum Holding Norway AS | Norway | ○ ▲ ▼ | 100.0 |
| Fortum Markets AS | Norway | ● | 100.0 |
| Fortum Service AS | Norway | ○ | 100.0 |
| Mosjøen Fjernvarme AS [2] | Norway | ■ | 100.0 |
| Fortum DZT Service Sp. z o.o. | Poland | ■ | 93.6 |
| Fortum Czestochowa S.A. | Poland | ■ | 87.6 |
| Fortum DZT S.A. | Poland | ■ | 93.6 |
| Fortum Heat Polska Sp. z o.o. | Poland | ■ | 100.0 |
| Fortum Plock Sp. z o.o. | Poland | ■ | 85.0 |
| Fortum Wroclaw S.A. | Poland | ■ | 98.2 |
| Nowe Wiadomosci Walbrzyskie Sp. z o.o. | Poland | ■ | 87.6 |
| LLC Fortum Energy OOO Fortum Energija | Russia | ▼ | 100.0 |
| AB Fortum Värme Holding samägt med Stockholms stad | Sweden | ■ | 50.1 |
| AB Fortum Värme samägt med Stockholms stad | Sweden | ■ | 50.1 |
| AB Ljusnans Samkörning | Sweden | ▲ | 80.0 |
| Akallaverket AB | Sweden | ■ | 37.6 |
| Arvika Fjärrvärme AB | Sweden | ■ | 30.1 |
| Blybergs Kraft AB | Sweden | ○ | 66.7 |
| Brännälven Kraft AB | Sweden | ○ | 35.4 |
| Bullerforsens Kraft AB | Sweden | ○ | 88.0 |
| Ekerö Energi AB | Sweden | ▲ | 81.7 |
| Ekerö Energi Försäljning AB | Sweden | ● | 81.7 |
| Fortum Alfa AB | Sweden | ▼ | 100.0 |
| Fortum Arrendekraft AB [2] | Sweden | ○ | 100.0 |
| Fortum Beta AB | Sweden | ▼ | 100.0 |
| Fortum Dalälvens Kraft AB | Sweden | ○ | 100.0 |
| Fortum Distribution AB | Sweden | ▲ | 100.0 |
| Fortum Distribution Ryssa AB | Sweden | ▲ | 100.0 |
| Fortum Fastigheter AB | Sweden | ▼ | 100.0 |
| Fortum Generation AB | Sweden | ○ | 100.0 |
| Fortum Holding AB [1][4] | Sweden | ▼ | 100.0 |
| Fortum Indalskraft AB | Sweden | ○ | 100.0 |
| Fortum Ljunga Kraft AB | Sweden | ○ | 100.0 |
| Fortum Ljusnans Kraft AB | Sweden | ○ | 100.0 |
| Fortum Markets AB | Sweden | ● | 100.0 |
| Fortum Portfolio Services AB [1] | Sweden | ● | 100.0 |

table continues

39 Subsidiaries by Segment on 31 December 2006 continues

[1] Name change
[2] Acquired
[3] Founded
[4] Shares held by the parent company
[5] Dormant
[6] Demerger

○ = Power Generation
□ = Heat
▲ = Distribution
● = Markets
▼ = Other Operations

| Company Name | | Country | Segment | Group holding % |
|---|---|---|---|---|
| Fortum Power and Heat AB | | Sweden | ▼ ● □ | 100.0 |
| Fortum Service AB | | Sweden | ○ | 100.0 |
| Fortum Service Öst AB | | Sweden | ○ | 100.0 |
| Fortum Sverige AB | [1] [4] | Sweden | ▼ | 100.0 |
| Fortum Värme Fastigheter AB | | Sweden | □ | 50.1 |
| Fortum Värme Nynäshamn AB | | Sweden | □ | 100.0 |
| Fortum Älvkraft i Värmland AB | | Sweden | ○ | 100.0 |
| Hällefors Värme AB | | Sweden | □ | 47.6 |
| Ljusnans Fiskodling AB | | Sweden | ○ | 100.0 |
| Mellansvensk Kraftgrupp AB | | Sweden | ○ | 86.9 |
| Netcircle AB | | Sweden | ○ | 100.0 |
| NGI Naturgasinvest AB | | Sweden | □ | 52.1 |
| Nybroviken Kraft AB | | Sweden | ○ | 52.9 |
| Nynäshamn Gasterminal AB | [1] [3] | Sweden | □ | 50.1 |
| Oreälvens Kraft AB | | Sweden | ○ | 65.0 |
| Parteboda Kraft AB | | Sweden | ○ | 52.9 |
| Recotech AB | | Sweden | ○ | 100.0 |
| Ryssa Energi AB | | Sweden | ● | 100.0 |
| Sigtuna-Väsby Fastighets AB | | Sweden | □ | 50.1 |
| Svensk Naturgas AB | | Sweden | □ | 100.0 |
| Säffle 5:35 Fastighets AB | | Sweden | □ | 50.1 |
| Säffle Fjärrvärme AB | | Sweden | □ | 25.6 |
| Uddeholm Kraft AB | | Sweden | ▼ | 100.0 |
| Voxnan Kraft AB | | Sweden | ○ | 52.9 |
| Värmlandsenergi AB | | Sweden | ▼ | 100.0 |
| Värmlandskraft OKG-delägarna AB | | Sweden | ○ | 73.3 |
| FB Generation Services B.V. | | The Netherlands | ○ | 75.0 |
| Fortum East China Energy Investments B.V. | | The Netherlands | ○ | 100.0 |
| Fortum Finance B.V. | | The Netherlands | ▼ | 100.0 |
| Fortum Holding B.V. | [4] | The Netherlands | ○ □ ▼ | 100.0 |
| Fortum Power Holding B.V. | | The Netherlands | ○ | 100.0 |
| Fortum Russia Holding B.V. | | The Netherlands | ▼ | 100.0 |
| Fortum Yellow Sea Energy Investments B.V. | | The Netherlands | ▼ | 100.0 |

## Sold, merged and dissolved subsidiaries

Bromölla Fjärrvärme AB
Cajero AB
Espoon Kaupunkienergia Oy
Fortum Energy Solutions (Thailand) Ltd
Fortum Espoo Oy
Fortum Heat Sarpsborg AS
Fortum Investments Ltd
Fortum Power Finance CV
Fortum Service Industripartner AB
Koillis-Pohjan Holding Oy
Kotkan Putkityö Oy
NetCircle Sverige AB
Streamgate AB

# 40 Pledged Assets

| EUR million | 2006 | 2005 |
|---|---|---|
| On own behalf | | |
| For debt | | |
| Pledges | 176 | 144 |
| Real estate mortgages | 49 | 49 |
| For other commitments | | |
| Real estate mortgages | 56 | 66 |
| On behalf of associated companies and joint ventures | | |
| Pledges and real estate mortgages | 3 | 3 |

Finnish participants in the State Nuclear Waste Management Fund are allowed to borrow from the Fund. Fortum has borrowed from the fund and has pledged 53,000 (2005: 50,000) Kemijoki shares as a security. The shares have a carrying value of EUR 102 million (2005: 73 million).

Fortum has pledged shares in subsidiaries and associated companies of EUR 51 million (2005: 54 million) as a guarantee to AP-fonden, for a loan in Fortum's Swedish subsidiary, Nybroviken Kraft AB. Real estate mortgages are also given for loans from Fortum's pension fund for EUR 41 million (2005: 41 million). Regarding the relevant interest-bearing liabilities, see Note 32 Interest-bearing Liabilities.

Fortum has given real estate mortgages in Naantali and Inkoo power plants in Finland for a value of EUR 56 million (2005: 53 million) as a security to the State Nuclear Waste Management Fund for the uncovered part of the legal liability and unexpected events. The amount of the security is adjusted by the end of June the following year. See also Note 36 Nuclear Related Assets and Liabilities.

Pledges include also bank deposits as trading collateral of EUR 2 million (2005: 0 million) for trading with Nord Pool.

# 41 Commitments

## Capital commitments

### Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

| EUR million | 2006 | 2005 |
|---|---|---|
| Property, plant and equipment | 266 | 80 |
| Intangible assets | 0 | 1 |
| Total | 266 | 81 |

## Operating lease commitments

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:

### Future minimum lease payments on operating leases

| EUR million | 2006 | 2005 |
|---|---|---|
| Not later than 1 year | 20 | 17 |
| Later than 1 year and not later than 5 years | 38 | 32 |
| Later than 5 years | 78 | 76 |
| Total | 136 | 125 |

Lease rental expenses amounting to EUR 19 million (2005: 24 million) are included in the income statement in other operating expenses. Future minimum lease payments include from 2006 land leases with long lease periods. Comparison numbers for 2005 have been restated.

## 42 Contingent Liabilities

| EUR million | 2006 | 2005 |
|---|---|---|
| On own behalf | | |
| Other contingent liabilities | 144 | 94 |
| On behalf of associated companies and joint ventures | | |
| Guarantees | 213 | 208 |
| Other contingent liabilities | 125 | 125 |
| On behalf of others | | |
| Guarantees | 12 | 2 |
| Other contingent liabilities | 1 | 3 |

Under Swedish law, Fortum has a strictly unlimited liability for third-party damages resulting from dam accidents. Together with other hydro power producers in Sweden, Fortum has taken out liability cover which will pay out a maximum of SEK 7,000 million (2005: 6,000 million) from this type of damages.

According to Swedish law, nuclear companies in Sweden shall pledge assets to the Swedish Nuclear Waste Fund to guarantee that sufficient funds exist to cover future expenses of nuclear waste management. Owners of the nuclear companies have issued guarantees for the commitments. Fortum has given guarantees to Fortum's associated companies, Forsmarks Kraftgrupp AB and OKG AB, to cover unexpected events for EUR 185 million (2005: 161 million).

Fortum owns shares in the Finnish nuclear company Teollisuuden Voima Oy (TVO). As TVO is an operator of nuclear power plants it has an obligation to fully cover the legal liability decided by governmental authorities for future decommissioning of the power plants and disposal of spent fuel through the Finnish State Nuclear Waste Management Fund. Fortum has given a guarantee, EUR 20 million (2005: 20 million), to TVO to cover Fortum's part of TVO's uncovered part of the legal liability and for unexpected events. The size of the total guarantee is adjusted by the end of June the following year.

Other contingent liabilities include guarantees that are issued for the fulfillment of various contractual obligations in the UK business and guarantees relating to the sold Enprima business. On closing day, these obligations amounted to a maximum of EUR 128 million (2005: 83 million).

Meri-Pori power plant in Finland is owned by Fortum 54.55% and TVO 45.45%. Based on the participation agreement Fortum has to give a guarantee to TVO against possible loss of asset or breach in contract of TVO's share of the asset, EUR 125 million (2005: 125 million).

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 (734/1978) Chapter 14a Paragraph 6.

## 43 Legal Actions and Official Proceedings

The Energy Authority (EMI) in Sweden has performed supervision of 2003 year's distribution prices on basis of the "Nätnyttomodell". The authority notified 17 companies in June 2005 and two companies in February and June 2006 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 2007. A court decision on prices in 2003 is expected during the first quarter of 2008, at the earliest.

In November 2005, 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 grid areas is not in compliance with EMI's own instructions. Fortum has applied for withdrawal of the supervision decision for these two grid areas.

In December 2006, EMI published information on those companies that will be supervised more closely for their 2005 distribution prices. Based on EMI's decision on supervision, three Fortum areas exceeded the stipulated charge limit.

A subsidiary of Fortum, Grangemouth CHP Limited, is a defendant in a court case regarding greenhouse gas emissions allowances in the High Court of Justice in London. Grangemouth CHP Limited is a party to an Electricity Supply Agreement with Ineos Manufacturing Scotland Limited, pursuant to which Grangemouth CHP Limited provides electricity from its CHP plant to the Grangemouth site in Scotland until April 2016. Ineos Manufacturing Scotland Limited claims that it is entitled to all of the emissions allowances allocated under the EU ETS scheme for greenhouse gas emission allowance trading with respect to the CHP plant. Grangemouth CHP Limited denies this claim.

The Finnish Competition Authority gave on 2 June 2006 its conditional approval to the transaction by which Fortum acquired control in E.ON Finland Oyj. On 3 July 2006 Fortum appealed against the decision to the Market 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.

# 44 Related Party Transactions

At the beginning of 2006 the Finnish State owned 51.52% of the company and at the end of 2006 50.82%. See Note 45 Shares and shareholders for further information on Fortum shareholders. All transactions between Fortum and other companies owned by the Finnish State are on arms length basis. In the ordinary course of business Fortum engages in transactions on commercial terms with associated companies and other related parties, which are on same terms as they would be for third parties, except for some associates as discussed later in this note.

## Board of Directors and Fortum Management Team

Fortum has not been involved in any material transactions with members of the Board of Directors or Fortum Management Team. Fortum has issued a loan of EUR 65 thousand to a member of the Fortum Management Team. The loan is a constant payment loan with interest rate of 4.25% which will be amortized semi-annually and its due in 2009. Members of the Board of Directors and Fortum Management Team holdings of options and shares are disclosed in Note 30 Employee bonus and Incentive Schemes. Compensation to members of the Supervisory Board, the Board of Directors and Fortum Management Team are disclosed in Note 14 Management Remuneration and Employee costs.

## Finnish State and companies owned by the Finnish State

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.

## Associated companies and joint ventures

Fortum owns shareholdings in associated companies and joint ventures which in turn own hydro-and nuclear power plants. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership or other agreements. Each owner is liable for an equivalent portion of costs regardless of output. The associated companies are not profit making, since the owners purchase electricity at production cost including interest costs and income taxes, which generally is lower than market price. For further information of transactions and balances with associated companies and joint ventures, see Note 23 Investments in associated companies and joint ventures.

# 45 Shares and Shareholders

## Shares and share capital

Fortum has one class of shares. By the end of 2006, a total of 887,393,646 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. At the end of 2006 Fortum Corporation's share capital, paid in its entirety and entered in the trade register, was EUR 3,022,782,396. Under the Articles of Association 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.

The Board of Directors of Fortum Corporation proposes to Annual General Meeting of Shareholders to be held on 28 March 2007 that the minimum and maximum capital requirements in Paragraph 3, sub-section 1 of the Articles of Association shall be deleted.

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

Fortum Corporation's shares are listed on the Helsinki Stock Exchange. The trading code is FUM1V.

### Share capital 1998–2006

| | Number of shares | Share capital, EUR |
|---|---|---|
| Fortum established on 7 February 1998 | 500,000 | 1,681,879 |
| Rights issue in 1998 | 782,282,635 | 2,631,409,886 |
| Employee issue in 1998 | 2,000,000 | 6,727,517 |
| **Share capital on 31 December 1998** | 784,782,635 | 2,639,819,282 |
| | | |
| **Share capital on 31 December 1999** | 784,782,635 | 2,639,819,282 |
| | | |
| Script issue in 2000 | – | 28,441,677 |
| Rights issue in 2000 | 60,825,940 | 206,808,196 |
| **Share capital on 31 December 2000** | 845,608,575 | 2,875,069,155 |
| | | |
| **Share capital on 31 December 2001** | 845,608,575 | 2,875,069,155 |
| | | |
| Subscriptions with options in 2002 | | |
| – 1999 bond loan with warrants | 148,380 | 504,492 |
| – 1999 management share option scheme | 3,000 | 10,200 |
| **Share capital on 31 December 2002** | 845,759,955 | 2,875,583,847 |
| | | |
| Subscriptions with options in 2003 | | |
| – 1999 bond loan with warrants | 159,520 | 542,368 |
| – 1999 management share option scheme | 2,913,000 | 9,904,200 |
| **Share capital on 31 December 2003** | 848,832,475 | 2,886,030,415 |
| | | |
| Subscriptions with options in 2004 | | |
| – 1999 bond loan with warrants | 4,560,730 | 15,506,482 |
| – 1999 management share option scheme | 7,154,000 | 24,323,600 |
| – 2002 A share options scheme for key employees | 6,536,700 | 22,224,780 |
| **Share capital on 31 December 2004** | 867,083,905 | 2,948,085,277 |
| | | |
| Subscriptions with options in 2005 | | |
| – 1999 bond loan with warrants | 1,284,370 | 4,366,858 |
| – 1999 management share option scheme | 1,698,000 | 5,773,200 |
| – 2001 A share options scheme for key employees | 1,636,350 | 5,563,590 |
| – 2002 A share options scheme for key employees | 3,591,400 | 12,210,760 |
| **Share capital on 31 December 2005** | 875,294,025 | 2,975,999,685 |
| | | |
| **Subscriptions with options in 2006** | | |
| – 2001 A share options scheme for key employees | 3,026,200 | 10,289,080 |
| – 2001 B share options scheme for key employees | 5,360,133 | 18,224,452 |
| – 2002 A share options scheme for key employees | 516,800 | 1,757,120 |
| – 2002 B share options scheme for key employees | 4,856,488 | 16,512,059 |
| Cancellation of own shares | –1,660,000 | – |
| **Total shares and share capital on 31 December 2006** | 887,393,646 | 3,022,782,396 |

## Shareholders on 31 December 2006

| Shareholder | No. of shares | Holding % |
|---|---|---|
| Finnish State | 450,932,988 | 50.82 |
| Ilmarinen Mutual Pension Insurance Company | 10,879,053 | 1.23 |
| Social Insurance Institution | 7,195,896 | 0.81 |
| The municipality of Kurikka | 6,203,500 | 0.70 |
| The State Pension Fund | 5,600,000 | 0.63 |
| Varma Mutual Pension Insurance Company | 4,450,000 | 0.50 |
| Etera Mutual Pensions Insurance Company | 3,015,283 | 0.34 |
| OP-Delta Investment Fund | 2,826,608 | 0.32 |
| Fennia Mutual Pensions Insurance Company | 2,755,221 | 0.31 |
| Svenska Handelsbanken Ab | 1,858,798 | 0.21 |
| Nominee registrations | 312,994,286 | 35.27 |
| Other shareholders in total | 78,682,013 | 8.86 |
| Total number of shares | 887,393,646 | 100.00 |

## Breakdown of share ownership on 31 December 2006

### By number of shares owned

| Number of shares | No. of share-holders | % of share-holders | No. of shares | % of total amount of shares |
|---|---|---|---|---|
| 1–100 | 4,647 | 9.26 | 300,018 | 0.03 |
| 101–500 | 21,775 | 43.40 | 5,763,742 | 0.65 |
| 501–1,000 | 12,995 | 25.90 | 8,804,154 | 0.99 |
| 1,001–10,000 | 10,167 | 20.26 | 25,605,797 | 2.89 |
| 10,001–100,000 | 514 | 1.03 | 12,919,843 | 1.46 |
| 100,001–1,000,000 | 65 | 0.13 | 21,575,227 | 2.43 |
| 1,000,001–10,000,000 | 11 | 0.02 | 37,536,722 | 4.23 |
| over 10,000,000 | 2 | 0.00 | 461,812,041 | 52.04 |
| | 50,176 | 100.00 | 574,317,544 | 64.72 |
| Unregistered/uncleared transactions on 31 December | | | 81,816 | 0.01 |
| Nominee registrations | | | 312,994,286 | 35.27 |
| Total | | | 887,393,646 | 100.00 |

### By shareholder category

| | % of total amount of shares |
|---|---|
| Finnish shareholders | |
| Corporations | 0.7 |
| Financial and insurance institutions | 1.9 |
| General government | 56.1 |
| Non-profit organisations | 1.1 |
| Households | 4.8 |
| Non-Finnish shareholders | 35.4 |
| Total | 100.00 |

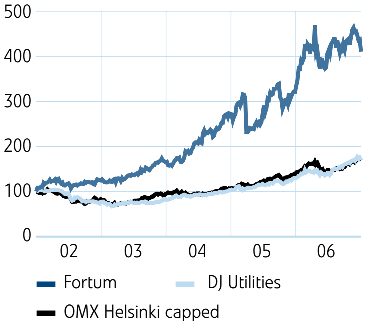
## Key share ratios

| | FAS 2002 | FAS 2003 | IFRS 2004 | IFRS 2005 | IFRS 2006 |
|---|---|---|---|---|---|
| Earnings per share total Fortum, EUR | 0.79 | 0.91 | 1.48 | 1.55 | 1.22 |
| Earnings per share continuing operations, EUR | – | – | 0.79 | 1.01 | 1.22 |
| Earnings per share discontinued operations, EUR | – | – | 0.69 | 0.54 | – |
| Diluted earnings per share total Fortum, EUR | 0.78 | 0.90 | 1.46 | 1.53 | 1.21 |
| Diluted earnings per share continuing operations, EUR | – | – | 0.78 | 1.00 | 1.21 |
| Diluted earnings per share discontinued operations, EUR | – | – | 0.68 | 0.53 | – |
| Cash flow per share total Fortum, EUR | 1.60 | 1.86 | 2.06 | 1.61 | 1.31 |
| Cash flow per share continuing operations, EUR | – | – | 1.44 | 1.46 | 1.31 |
| Equity per share, EUR | 6.97 | 7.55 | 8.65 | 8.17 | 8.91 |
| Dividend per share total Fortum, EUR [1] | 0.31 | 0.42 | 0.58 | 1.12 | 1.26 [2] |
| Dividend per share continuing operations, EUR | | | | 0.58 | 0.73 [2, 3] |
| Dividend per share additional in 2006 / discontinued operations in 2005, EUR | | | | 0.54 | 0.53 [2] |
| Payout ratio total Fortum, % | 39.2 | 46.2 | 39.2 | 72.3 | 103.3 [2,5] |
| Payout ratio continuing operations, % | | | | 57.4 [4] | 59.8 [2,3,5] |
| Payout ratio additional dividend in 2006 / discontinued operations in 2005, % | | | | 100.0 [4] | 43.4 [2,5] |
| Dividend yield, % | 5.0 | 5.1 | 4.3 | 7.1 | 5.8 [2] |
| Price/earnings ratio Fortum (P/E) | 7.9 | 9.0 | 9.2 | 10.2 | 17.7 |
| Share prices | | | | | |
| At the end of the period, EUR | 6.25 | 8.18 | 13.62 | 15.84 | 21.56 |
| Average share price, EUR | 5.87 | 6.94 | 10.29 | 13.87 | 20.39 |
| Lowest share price, EUR | 4.75 | 5.66 | 7.45 | 10.45 | 15.71 |
| Highest share price, EUR | 6.52 | 8.75 | 13.99 | 16.90 | 23.48 |
| Market capitalisation at the end of the period, MEUR | 5,286 | 6,943 | 11,810 | 13,865 | 19,132 |
| Trading volumes | | | | | |
| Number of shares, 1,000 shares | 251,216 | 270,278 | 478,832 | 900,347 | 830,764 |
| In relation to the weighted average number of shares, % | 29.7 | 31.9 | 59.2 | 103.2 | 0.94 |
| Number of shares, 1,000 shares | 845,776 | 849,813 | 867,084 | 875,294 | 887,394 |
| Average number of shares, 1,000 shares | 845,642 | 846,831 | 852,625 | 872,613 | 881,194 |
| Diluted adjusted average number of shares, 1,000 shares | 851,482 | 858,732 | 861,772 | 887,653 | 886,929 |

[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 2007.
[3] In accordance with Group's dividend policy.
[4] 2005 payout ratio for continuing and discontinued operations are calculated based on the respective earnings per share from continuing and discontinued operations.
[5] Payout ratios for proposed dividends in 2006 are based on the total earnings per share.

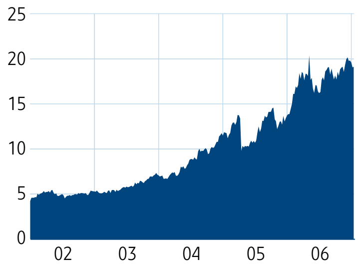
Years 2002–2003 have not been restated to comply with IFRS. They are presented under Finnish Accounting Standards (FAS).
Definitions of Key Ratios on pages 96 and 97.

### Share quotations 2002–2006

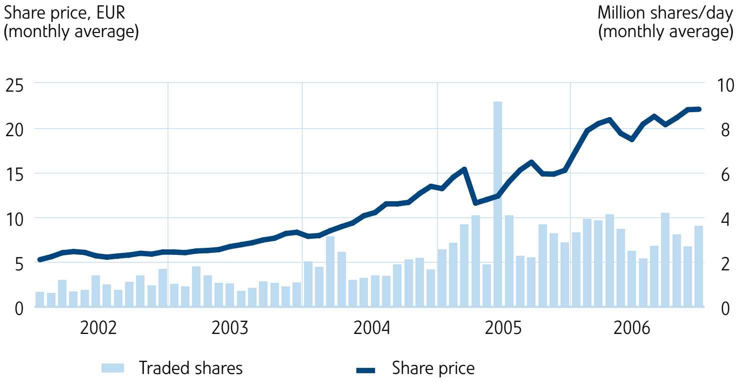



### Market capitalisation 2002–2006

EUR 1,000 million




### Number of shares traded 2002–2006




# 46 Events After the Balance Sheet Date

Storms in January, especially in Sweden, have caused approximately EUR 10 million additional costs for the Distribution segment.

In January Fortum's subsidiary in Estonia, Fortum Tartu AS announced an investment in a new CHP-plant in the City of Tartu. The size of the investment is around EUR 60 million. Fortum owns 60% of the company.

# Key Ratios



| | IFRS 2004 | IFRS 2005 | IFRS 2006 |
|---|---|---|---|
| Continuing operations: | | | |
| Sales, MEUR | 3,835 | 3,877 | 4,491 |
| EBITDA, MEUR | 1,583 | 1,754 | 1,884 |
| Operating profit, MEUR | 1,195 | 1,347 | 1,455 |
| – of sales % | 31.2 | 34.7 | 32.4 |
| Comparable operating profit, MEUR | 1,148 | 1,334 | 1,437 |
| Profit before income tax, MEUR | 962 | 1,267 | 1,421 |
| – of sales % | 25.1 | 32.7 | 31.6 |
| Profit for the period from continuing operations, MEUR | 703 | 936 | 1,120 |
| – of which attributable to equity holders, MEUR | 670 | 884 | 1,071 |
| | | | |
| Capital employed, MEUR | 12,890 | 11,357 | 12,663 |
| Capital employed continuing operations, MEUR | 10,739 | 11,357 | 12,663 |
| | | | |
| Interest-bearing net debt, MEUR | 5,095 | 3,158 | 4,345 |
| Capital expenditure and gross investments in shares continuing operations, MEUR | 514 | 479 | 1,395 |
| Capital expenditure continuing operations, MEUR | 335 | 346 | 485 |
| | | | |
| Net cash from operating activities continuing operations, MEUR | 1,232 | 1,271 | 1,151 |
| | | | |
| Return on capital employed, % | 15.8 | 16.6 | 13.4 |
| Return on capital employed continuing operations, % | 11.4 | 13.5 | 13.4 |
| Return on shareholders' equity, % | 18.2 | 18.7 | 14.4 |
| Return on shareholders' equity continuing operations, % [1] | – | 13.5 | 14.4 |
| Interest coverage | 8.0 | 11.6 | 11.5 |
| Funds from operations/interest-bearing net debt, % | 36.4 | 43.2 | 30.6 |
| Gearing, % | 67 | 43 | 53 |
| Net debt / EBITDA | 2.1 | 1.4 | 2.3 |
| Net debt / EBITDA continuing operations | – | 1.8 | 2.3 |
| Equity-to-assets ratio, % | 44 | 49 | 48 |
| | | | |
| Average number of employees continuing operations | 8,592 | 8,939 | 8,910 |

[1] Return on equity for continuing operations for 2005 is calculated based on profit for the period from continuing operations divided by total equity at the end of the period. Profit for the period from discontinued operations has been subtracted from total equity on 31 December 2005.

| | FAS 2002 | FAS 2003 | IFRS 2004 | IFRS 2005 | IFRS 2006 |
|---|---|---|---|---|---|
| Total Fortum: | | | | | |
| Sales, MEUR | 11,148 | 11,392 | 11,659 | 5,918 | 4,491 |
| Operating profit, MEUR | 1,289 | 1,420 | 1,916 | 1,864 | 1,455 |
| – of sales % | 11.6 | 12.5 | 16.4 | 31.5 | 32.4 |
| Profit before income tax, MEUR | 1,008 | 1,184 | 1,700 | 1,776 | 1,421 |
| – of sales % | 9.0 | 10.4 | 14.6 | 30.0 | 31.6 |
| | | | | | |
| Capital employed, MEUR | 13,765 | 12,704 | 12,890 | 11,357 | 12,663 |
| | | | | | |
| Interest-bearing net debt, MEUR | 5,848 | 5,626 | 5,095 | 3,158 | 4,345 |
| Capital expenditure and gross investments in shares, MEUR | 4,381 | 1,136 | 830 | 578 | 1,395 |
| – of sales % | 39.3 | 10.0 | 7.1 | 9.8 | 31.1 |
| | | | | | |
| Return on capital employed, % | 11.1 | 11.4 | 15.8 | 16.6 | 13.4 |
| Return on shareholders' equity, % | 10.5 | 12.3 | 18.2 | 18.7 | 14.4 |
| Gearing, % [1] | 80 | 85 | 67 | 43 | 53 |
| Equity-to-assets ratio, % | 41 | 40 | 44 | 49 | 48 |
| | | | | | |
| Net cash from operating activities, MEUR | 1,351 | 1,577 | 1,758 | 1,404 | 1,151 |
| | | | | | |
| Dividends, MEUR [2] | 262 | 357 | 506 | 987 | 1,119 [3] |
| | | | | | |
| Research and development expenditure, MEUR | 33 | 35 | 26 | 14 | 17 |
| – of sales % | 0.3 | 0.3 | 0.2 | 0.2 | 0.4 |
| | | | | | |
| Average number of employees | 14,053 | 13,343 | 12,859 | 10,026 | 8,910 |

[1] Gearing is defined as interest-bearing net debt over shareholders' equity plus minority interest.
In 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 2007. The total amount is calculated based on the number of registered shares on 30 January 2007.

Years 2002–2003 have not been restated to comply with IFRS. They are presented under Finnish Accounting Standards (FAS).
Definitions of Key Ratios on pages 96 and 97.

# Parent Company Financial Statements, Finnish GAAP (FAS)

## Income Statement

| EUR million | Note | 2006 | 2005 |
|---|---|---|---|
| **Sales** | 2 | 82 | 73 |
| Other income | 3 | 5 | 420 |
| Employee costs | 4 | –45 | –33 |
| Depreciation, amortisation and write-downs | | –8 | –9 |
| Other expenses | | –65 | –85 |
| **Operating profit** | | –31 | 366 |
| Financial income and expenses | 5 | 38 | 873 |
| **Profit before extraordinary items** | | 7 | 1,239 |
| Extraordinary items | 6 | 638 | 482 |
| **Profit before income taxes** | | 645 | 1,721 |
| Income tax expense | 7 | –123 | –157 |
| **Profit for the period** | | 522 | 1,564 |

## Balance Sheet

| EUR million | Note | 2006 | 2005 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | 8 | | |
| Intangible assets | | 15 | 10 |
| Property, plant and equipment | | 12 | 11 |
| Investments in group companies | | 11,605 | 5,166 |
| Interest-bearing receivables from group companies | | 2,159 | 7,803 |
| Investments in associated companies | | 0 | 5 |
| Interest-bearing receivables from associated companies | | 2 | 14 |
| Other non-current assets | | 2 | 1 |
| **Total non-current assets** | | 13,795 | 13,010 |
| | | | |
| **Current assets** | | | |
| Trade and other receivables from group companies | 9 | 673 | 519 |
| Trade and other receivables from associated companies | 9 | 0 | 4 |
| Trade and other receivables | 9 | 43 | 112 |
| Deferred tax assets | | 2 | 2 |
| Cash and cash equivalents | 10 | 73 | 643 |
| **Total current assets** | | 791 | 1,280 |
| **Total assets** | | 14,586 | 14,290 |

| EUR million | Note | 2006 | 2005 |
|---|---|---|---|
| SHAREHOLDERS' EQUITY AND LIABILITIES | | | |
| **Shareholders' equity** | 12 | | |
| Share capital | | 3,023 | 2,976 |
| Share issue | | 0 | 2 |
| Share premium | | 2,822 | 2,818 |
| Retained earnings | | 1,543 | 997 |
| Profit for the period | | 522 | 1,564 |
| **Total shareholders' equity** | | 7,910 | 8,357 |
| | | | |
| **Provisions for liabilities and charges** | | 1 | – |
| | | | |
| **Liabilities** | | | |
| Non-current liabilities | | | |
| External interest-bearing liabilities | 13 | 3,540 | 2,280 |
| Interest-bearing liabilities to group companies | 13 | 2,528 | 2,445 |
| Interest-bearing liabilities to associated companies | 13 | 164 | 157 |
| Other non-current liabilities | | 27 | 43 |
| **Total non-current liabilities** | | 6,259 | 4,925 |
| Current liabilities | | | |
| External interest-bearing liabilities | 13 | 71 | 736 |
| Trade and other payables to group companies | 14 | 135 | 178 |
| Trade and other payables to associated companies | 14 | 5 | 3 |
| Trade and other payables | 14 | 205 | 91 |
| **Total current liabilities** | | 416 | 1,008 |
| **Total liabilities** | | 6,675 | 5,933 |
| **Total equity and liabilities** | | 14,586 | 14,290 |

# Cash Flow Statement

| EUR million | 2006 | 2005 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit for the period | 522 | 1,564 |
| **Adjustments:** | | |
| Income tax expense | 123 | 157 |
| Extraordinary items | –638 | –482 |
| Financial costs – net | –38 | –873 |
| Depreciations, amortisation and write-downs | 9 | 9 |
| **Operating profit before depreciations** | –22 | 375 |
| Non-cash flow items and divesting activities | 2 | 414 |
| Interest and other financial income | 134 | 308 |
| Interest and other financial expenses paid, net | –217 | –243 |
| Dividend income | 156 | 726 |
| Group contribution received | 482 | 443 |
| Realised foreign exchange gains and losses | 220 | 104 |
| Income taxes paid | –158 | –134 |
| **Funds from operations** | 597 | 1,993 |
| Increase/decrease in trade and other short-term receivables | –15 | 5 |
| Decrease/increase in trade and other short-term payables | –42 | 1 |
| **Change in working capital** | –57 | 6 |
| **Net cash from operating activities** | 540 | 1,999 |
| | | |
| **Cash flow from investing activities** | | |
| Capital expenditures | –15 | –12 |
| Acquisition of shares in subsidiaries | –6,439 | –213 |
| Proceeds from sales of fixed assets | 1 | 6 |
| Proceeds from sales of shares in subsidaries | – | 171 |
| Proceeds from sales of shares in associates | 3 | – |
| Change in interest-bearing receivables and other non-current assets | 5,655 | – |
| **Net cash used in investing activities** | –795 | –48 |
| | | |
| **Cash flow before financing activities** | –255 | 1,951 |
| | | |
| **Cash flow from financing activities** | | |
| Proceeds from long-term liabilities | 1,338 | 28 |
| Payment of long-term liabilities | –725 | –481 |
| Change in short-term liabilities | 41 | –393 |
| Proceeds from stock options exercised | 49 | 22 |
| Repurchase of own shares | –31 | – |
| Dividends paid | –987 | –506 |
| **Net cash used in financing activities** | –315 | –1,330 |
| | | |
| **Net increase (+)/decrease (–) in cash and cash equivalents** | –570 | 621 |
| | | |
| Cash and cash equivalents at the beginning of the period | 643 | 22 |
| Cash and cash equivalents at the end of the period | 73 | 643 |
| **Net increase (+)/ decrease (–) in cash and cash equivalents** | –570 | 621 |

# Parent Company Notes to the Financial Statements, FAS

## 1 Accounting Policies and Principles

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 operating 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.

### Property, plant and equipment and depreciation

The balance sheet value of property, plant and equipment consists of historical costs less depreciation and other deductions. Property, plant and equipment 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 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-related compensation benefits

Before 2006 the 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. Since 2006 the premium basis for social charges has changed, and there is no obligations to pay social charges from the option income any more. 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 | 2006 | 2005 |
|---|---|---|
| Finland | 66 | 66 |
| Sweden and other countries | 16 | 7 |
| Total | 82 | 73 |

## 3 Other Income

| EUR million | 2006 | 2005 |
|---|---|---|
| Gain on sales of shareholdings | – | 414 |
| Rental income | 5 | 6 |
| Total | 5 | 420 |

Gain on sales of shareholdings in 2005 consists of the sale of approximately 15% of the shares in Neste Oil, EUR 381 million, and gains from sales of shares to other companies within the group, EUR 33 million.

## 4 Employee Costs

| EUR million | 2006 | 2005 |
|---|---|---|
| Personnel expenses | | |
| Wages, salaries and remunerations | 34 | 31 |
| Indirect employee costs | | |
| Pension costs [1)] | 6 | -3 |
| Other indirect employee costs | 2 | 3 |
| Other personnel expenses | 3 | 2 |
| Total | 45 | 33 |

[1)] 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, members of the Board of Directors and the Supervisory Board | 2 | 2 |
| | | |
| **Average number of employees** | 565 | 576 |

## 5 Financial Income and Expenses

| EUR million | 2006 | 2005 |
|---|---|---|
| Dividend income from group companies | 147 | 733 |
| Interest and other financial income from group companies | 121 | 282 |
| Interest and other financial income | 17 | 19 |
| Exchange rate differences | –21 | 39 |
| Write-downs on other long-term investments | – | 2 |
| Interest and other financial expenses to group companies | –84 | –96 |
| Interest and other financial expenses | –142 | –106 |
| Total | 38 | 873 |

| Total interest income and expenses | | |
|---|---|---|
| Interest income | 137 | 301 |
| Interest expenses | –221 | –207 |
| Interest net | –84 | 94 |

# 6 Extraordinary Items

| EUR million | 2006 | 2005 |
|---|---|---|
| Group contributions from Group companies | 638 | 482 |

# 7 Income Tax Expense

| EUR million | 2006 | 2005 |
|---|---|---|
| Taxes on regular business operations | –43 | 37 |
| Taxes on extraordinary items | 166 | 120 |
| Total | 123 | 157 |
| | | |
| Current taxes from the period | 129 | 157 |
| Current taxes from prior periods | –5 | 1 |
| Changes in deferred tax | –1 | –1 |
| Total | 123 | 157 |

# 8 Non-current Assets

## Intangible assets

| EUR million | Intangible assets total |
|---|---|
| Cost 1 January 2006 | 20 |
| Additions | 9 |
| Disposals | 0 |
| Cost 31 December 2006 | 29 |
| | |
| Accumulated depreciation 1 January 2006 | 10 |
| Disposals | 0 |
| Depreciation for the period | 4 |
| Accumulated depreciation 31 December 2006 | 14 |
| | |
| Carrying amount 31 Decembeer 2006 | 15 |
| Carrying amount 31 December 2005 | 10 |

## Property, plant and equipment

| EUR million | Buildings and structures | Machinery and equipment | Advances paid and construction in progress | Total |
|---|---|---|---|---|
| Cost 1 January 2006 | 1 | 17 | 3 | 21 |
| Additions | – | 5 | – | 5 |
| Disposals | – | –1 | 0 | –1 |
| Cost 31 December 2006 | 1 | 21 | 3 | 25 |
| | | | | |
| Accumulated depreciation 1 January 2006 | 0 | 10 | – | 10 |
| Disposals | – | –1 | – | –1 |
| Depreciation for the period | 0 | 4 | – | 4 |
| Accumulated depreciation 31 December 2006 | 0 | 13 | 0 | 13 |
| | | | | |
| Carrying amount 31 December 2006 | 1 | 8 | 3 | 12 |
| Carrying amount 31 December 2005 | 1 | 7 | 3 | 11 |

### Investments

| EUR million | Shares in Group companies | Receivables from Group companies | Shares in associated companies | Receivables from associated companies | Other non current assets | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2006** | 5,166 | 7,803 | 5 | 14 | 1 | 12,989 |
| Additions | 6,439 | 4 | – | 0 | 1 | 6,444 |
| Disposals | – | –5,648 | –5 | –12 | – | –5,665 |
| **At 31 December 2006** | 11,605 | 2,159 | 0 | 2 | 2 | 13,768 |
| | | | | | | |
| **Carrying amount 31 December 2006** | 11,605 | 2,159 | 0 | 2 | 2 | 13,768 |
| **Carrying amount 31 December 2005** | 5,166 | 7,803 | 5 | 14 | 1 | 12,989 |

## 9 Trade and Other Receivables

| EUR million | 2006 | 2005 |
|---|---|---|
| Trade and other receivables from group companies | | |
| Trade receivables | 25 | 10 |
| Other receivables | 638 | 491 |
| Accrued income and prepaid expenses | 10 | 18 |
| Total | 673 | 519 |
| | | |
| Trade and other receivables from associated companies | | |
| Accrued income and prepaid expenses | 0 | 4 |
| | | |
| Trade and other receivables | | |
| Trade receivables | 1 | 1 |
| Other receivables | 2 | 1 |
| Accrued income and prepaid expenses | 40 | 110 |
| Total | 43 | 112 |

## 10 Cash and Cash Equivalents

| EUR million | 2006 | 2005 |
|---|---|---|
| Cash at bank and in hand | 73 | 496 |
| Commercial papers | 0 | 147 |
| Total | 73 | 643 |

## 11 Pension Commitments to Corporate Management

For the President and CEO and the members of the Fortum Management Team, the retirement age is 60. The pension obligations are covered either through insurance companies or Fortum Pension Fund.

## 12 Changes in Shareholders' Equity

| EUR million | Share capital | Share issue | Share premium | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance 31 December 2005** | 2,976 | 2 | 2,818 | 2,561 | 8,357 |
| Stock options excercised | 47 | –2 | 4 | – | 49 |
| Cash dividend | – | – | – | –987 | –987 |
| Repurchase of own shares | – | – | – | –31 | –31 |
| Profit for the period | – | – | – | 522 | 522 |
| **Balance 31 December 2006** | 3,023 | 0 | 2,822 | 2,065 | 7,910 |
| | | | | | |
| **Balance 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 |
| Profit for the period | – | – | – | 1,564 | 1,564 |
| **Balance 31 December 2005** | 2,976 | 2 | 2,818 | 2,561 | 8,357 |

| EUR million | 2006 | 2005 |
|---|---|---|
| Distributable funds 31 December | 2,065 | 2,561 |

## 13 Interest-bearing Liabilities

| EUR million | 2006 | 2005 |
|---|---|---|
| **External interest-bearing liabilities** | | |
| Bonds | 2,782 | 1,547 |
| Loans from financial institutions | 98 | 97 |
| Other long-term interest-bearing debt | 660 | 636 |
| Total long-term interest-bearing debt | 3,540 | 2,280 |
| Current portion of long-term bonds | 10 | 660 |
| Current portion of loans from financial institutions | 5 | 54 |
| Commercial papers | 55 | 21 |
| Other short-term interest-bearing debt | 1 | 1 |
| Total short-term interest-bearing debt | 71 | 736 |
| Total external interest-bearing debt | 3,611 | 3,016 |

### Maturity of external interest-bearing liabilities

| **Year** | |
|---|---|
| 2007 | 71 |
| 2008 | 540 |
| 2009 | 276 |
| 2010 | 499 |
| 2011 | 265 |
| 2012 and later | 1,960 |
| Total | 3,611 |

| **External interest-bearing liabilities due after five years** | | |
|---|---|---|
| Bonds | 1,248 | 498 |
| Loan from financial institutions | 52 | 95 |
| Other long-term liabilities | 660 | 637 |
| Total | 1,960 | 1,230 |

### Other interest-bearing liabilities due after five years

| | | |
|---|---|---|
| Interest-bearing liabilities to group companies | 17 | 14 |
| Interest-bearing liabilities to associated companies | 164 | 157 |
| Total | 181 | 171 |

# 14 Trade and Other Payables

| EUR million | 2006 | 2005 |
|---|---|---|
| Trade and other payables to group companies | | |
| Trade payables | 1 | 1 |
| Other liabilities | 127 | 170 |
| Accruals and deferred income | 7 | 7 |
| Total | 135 | 178 |
| | | |
| Trade and other payables to associated companies | | |
| Accruals and deferred income | 5 | 3 |
| Total | 5 | 3 |
| | | |
| Trade and other payables | | |
| Trade payables | 8 | 9 |
| Other liabilities | 2 | 1 |
| Other short-term accruals and deferred income | 195 | 81 |
| Total | 205 | 91 |

# 15 Contingent Liabilities

| EUR million | 2006 | 2005 |
|---|---|---|
| **On own behalf** | | |
| Other contingent liabilities | 5 | 4 |
| | | |
| **On behalf of group companies** | | |
| Guarantees | 460 | 493 |
| | | |
| **On behalf of associated companies** | | |
| Guarantees | – | 13 |
| | | |
| **On behalf of others** | | |
| Guarantees | 6 | |
| **Contingent liabilities total** | 471 | 510 |

## Operating leases

| EUR million | 2006 | 2005 |
|---|---|---|
| Lease payments | | |
| Not later than 1 year | 1 | 1 |
| Later than 1 year and not later than 5 years | 1 | 0 |
| Total | 2 | 1 |

## Derivatives

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| EUR million | Contract or notional value | Fair value | Not recognised as an income | Contract or notional value | Fair value | Not recognised as an income |
| Interest rate swaps | 2,245 | 11 | –6 | 914 | 47 | 43 |
| Forward foreign exchange contracts [1), 2)] | 12,756 | –38 | 5 | 11,045 | 101 | –4 |
| Currency swaps | 2,358 | –63 | 7 | 1,926 | –2 | –1 |

1) Includes also closed forward and future positions

2) Includes net investment hedges against shareholders equity in foreign group companies in 2005

# Definitions of Key Ratios

| | | |
|---|---|---|
| EBITDA (Earnings before interest, taxes, depreciation and amortisation) continuing operations | = | Operating profit continuing operations + Depreciation, amortisation and impairment charges continuing operations |
| 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. |
| Funds from operations (FFO) | = | Net cash from operating activities before change in working capital |
| Gross investments in shares | = | Subsidiary shares, shares in associated companies and other shares in available for sale financial assets. Investments in subsidiary shares are net of cash and grossed with interest-bearing liabilities in the acquired company. |
| Return on shareholders' equity, % | = | $\frac{\text{Profit for the year}}{\text{Total equity average}} \times 100$ |
| Return on capital employed, % | = | $\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Capital employed average}} \times 100$ |
| Return on capital employed continuing operations, % | = | $\frac{\text{Profit before taxes continuing operations + interest and other financial expenses continuing operations}}{\text{Capital employed continuing operations average}} \times 100$ |
| Return on net assets, % | = | $\frac{\text{Operating profit + Share of profit (loss) in associated companies and joint ventures}}{\text{Net assets average}} \times 100$ |
| Comparable return on net assets, % | = | $\frac{\text{Comparable operating profit + Share of profit (loss) in associated companies and joint ventures (adjusted for IAS 39 effects)}}{\text{Comparable net assets average}} \times 100$ |
| 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, % | = | $\frac{\text{Interest-bearing net debt}}{\text{Total equity}} \times 100$ |

| | | | |
|---|---|---|---|
| Equity-to-assets ratio, % | = | Total equity including minority interest / Total assets | × 100 |
| Net debt / EBITDA | = | Interest-bearing net debt / Operating profit + Depreciation, amortisation and impairment charges | |
| Net debt / EBITDA continuing operations | = | Interest-bearing net debt / Operating profit continuing operations + Depreciation, amortisation and impairment charges continuing operations | |
| Interest coverage | = | Operating profit / Net interest expenses | |
| Earnings per share (EPS) | = | Profit for the period - minority interest / Average number of shares during the period | |
| Cash flow per share | = | Net cash from operating activities / Average number of shares during the period | |
| Equity per share | = | Shareholder's equity / Number of shares at the end of the period | |
| Payout ratio, % | = | Dividend per share / Earnings per share | × 100 |
| Payout ratio continuing operations, % | = | Dividend per share continuing operation / Earnings per share continuing operation | × 100 |
| Dividend yield, % | = | Dividend per share / Share price at the end of the period | × 100 |
| Price/earnings (P/E) ratio | = | Share price at the end of the period / Earnings per share | |
| Average share price | = | Amount traded in euros during the period / 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 | |

# Proposal for Distribution of Earnings







Parent company's distributable equity as of 31 December 2006 amounted to EUR 2,065 million. After the end of the financial period there has been no material changes in the financial position of the Company.

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a cash dividend of EUR 1.26 per share for 2006, totalling EUR 1,119 million based on the number of registered shares as of 30 January 2007. Of this total dividend, EUR 0.73 per share is in accordance with the Group's dividend policy. An additional dividend of EUR 0.53 per share is proposed in order to steer Fortum's capital structure towards the agreed target.

Espoo, 30 January 2007

Peter Fagernäs

Esko Aho

Birgitta Johansson-Hedberg

Birgitta Kantola

Matti Lehti

Marianne Lie

Christian Ramm-Schmidt

Mikael Lilius

President and CEO

# Auditors' Report

## To the shareholders of Fortum Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Fortum Corporation for the period 1.1.–31.12.2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the parent company's financial statements, the report of the Board of Directors, and the administration.

The audit has been conducted in accordance with generally accepted auditing standards. In our audit we have examined the bookkeeping and accounting principles, contents and presentation sufficiently enough in order to evaluate that the financial statements and the report of the Board of Directors are free of material misstatements or deficiencies. In our audit of the administration we have evaluated if the actions of the members of the Supervisory Board and Board of Directors and the Managing Director of the parent company have legally complied with the rules of the Companies' Act.

## Consolidated financial statements

The consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Accounting Act, of the consolidated results of operations as well as of the financial position.

## Parent company's financial statements, report of the Board of Directors and administration

The parent company's financial statements and the report of the Board of Directors have been prepared in accordance with the Accounting Act and other applicable rules and regulations governing the preparation of financial statements and the report of the Board of Directors.

The consolidated financial statements and parent company's financial statements and the report of the Board of Directors give a true and fair view, as defined in the Accounting Act, of the group and parent company's result of operations as well as of the position. The report of the Board of Directors is consistent with the financial statements.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Supervisory Board and the Board of Directors and the Managing Directors of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the treatment of the distributable funds is in compliance with the Companies Act.

Espoo, 30 January 2007

Deloitte & Touche Ltd
Authorized Public Audit Firm

Mikael Paul
APA

# 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 2006 as well as consolidated financial statements, the Board of Director's proposal for the distribution of earnings, the Operational and Financial review by the Board of Director's 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 Director's 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, 7 February 2007

Timo Kalli

| | | |
|---|---|---|
| Martti Alakoski | Lasse Hautala | Rakel Hiltunen |
| Mikko Immonen | Kimmo Kalela | Kimmo Kiljunen |
| Jari Koskinen | Oras Tynkkynen | Sirpa Paatero |

Ben Zyskowicz

## Equity analysts covering Fortum

ABG Sundal Collier, Oslo
ABN Amro, Helsinki
Carnegie Investment Bank AB, Finland Branch, Helsinki
Citigroup Smith Barney, London
Crédit Agricole Cheuvreux Nordic, Stockholm
Credit Suisse, London
Danske Equities, Copenhagen
Deutsche Bank, Helsinki
Dresdner Kleinwort, London
Enskilda Securities, Helsinki
EQ Bank, Helsinki
Evli, Helsinki
FIM Securities, Helsinki
Goldman Sachs, London
Handelsbanken, Helsinki
ING Bank, London
JPMorgan, London
Kaupthing Bank, Helsinki
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