



A total of 175,000,000 Shares of Fortum Corporation, a company incorporated in the Republic of Finland (the "Company"), nominal value FIM 20 per share (the "Shares"), are being offered by the Republic of Finland (the "Selling Shareholder") and the Company as described herein. The Selling Shareholder is offering 59,727,646 Shares (the "Offer Shares") in a global offering (the "Global Offering"), consisting of: (i) an offering of 25,000,000 Offer Shares to institutional investors outside of the Republic of Finland (the "International Offering"), and (ii) an offering of 34,727,646 Offer Shares to institutional investors in the Republic of Finland (the "Finnish Offering"). The Selling Shareholder is also offering 22,000,000 Shares to retail investors in the Republic of Finland (the "Finnish Retail Offering"), at the offering price set forth below, provided that, under certain conditions, as described below, such retail investors will be eligible to receive free Shares. In addition, the Company is issuing and offering (i) 91,272,354 Shares to former shareholders and warrant holders of Neste Oyj ("Neste") participating in the Exchange Offer (as defined herein), in exchange for shares and warrants of Neste that have been transferred to the Company by such former shareholders and warrant holders, and (ii) up to 2,000,000 Shares to employees of the Company and its subsidiaries (the "Employee Offering") at an offering price representing a ten percent discount from the offering price specified below. The Global Offering, the Finnish Retail Offering, the Exchange Offer and the Employee Offering are referred to herein collectively as the "Offerings." Offers and sales of Shares outside of the United States will be made in reliance on Regulation S under the Securities Act of 1933, as amended (the "Securities Act"), and offers and sales of Shares in the United States will be made only to qualified institutional buyers in reliance on Rule 144A under the Securities Act.

The Company will not receive any of the proceeds from the sale of Shares by the Selling Shareholder in the Global Offering or the Finnish Retail Offering or any cash proceeds from the offering of Shares to former shareholders and warrant holders of Neste pursuant to the Exchange Offer. See "Use of Proceeds."

The Shares have been conditionally approved for listing on the main list of the HEX Helsinki Exchanges and have been approved for quotation on the Stock Exchange Automated Quotation System International of the London Stock Exchange. Trading of the Shares on the HEX Helsinki Exchanges is expected to commence on December 18, 1998.

See "Investment Considerations" for a discussion of certain matters that should be considered by prospective investors.

Offering Price: FIM 32 per Offer Share

THE OFFER SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. ACCORDINGLY, THE OFFER SHARES ARE BEING OFFERED AND SOLD ONLY (i) TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144A, AND (ii) TO CERTAIN PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. FOR CERTAIN RESTRICTIONS ON RESALE, SEE "UNDERWRITING."

The Offer Shares are offered severally by the Managers, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that the Offer Shares will be ready for delivery in book-entry form through the facilities of the Finnish Book-Entry Securities System, Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system and Cedelbank, société anonyme, starting from December 17, 1998, against payment therefor in immediately-available funds.

Morgan Stanley Dean Witter

Warburg Dillon Read

**Conventum
Evli**

Merita Corporate Finance

The date of this Offering Memorandum is December 10, 1998.

Fortum Corporation (the “Company” and, together with its subsidiaries, “Fortum,” “Fortum Group” or the “Group”) accepts responsibility for the completeness and accuracy of the information contained in this Offering Memorandum. To the best knowledge and belief of the members of the Board of Directors of the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is accurate and complete in all material respects and there have not been omitted material facts, the omission of which would make misleading any statements of fact or opinion herein. The Republic of Finland, acting through the Ministry of Trade and Industry (the “Finnish State” or the “Selling Shareholder”), accepts responsibility for the statements under the captions “Investment Considerations—Ownership and Controlling Interest of the Finnish State,” “Ownership Structure and Relationship with the Finnish State—Relationship with the Finnish State” and “Ownership Structure and Relationship with the Finnish State—Guidelines on the Operation of State-Controlled Companies” in this Offering Memorandum. Other than as set forth above, no representation or warranty, express or implied, is made by the Selling Shareholder as to the accuracy or completeness of information contained in this Offering Memorandum. No representation or warranty, express or implied, is made by any Manager as to the accuracy or completeness of information contained in this Offering Memorandum.

No person has been authorized to give any information or to make any representation not contained in this Offering Memorandum and, if given or made, such information or representation must not be relied upon as having been authorized by the Company, the Selling Shareholder or the Managers. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of the Company or the Group since such date. Nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Company, the Selling Shareholder or any Manager as to the future.

The Offer Shares have not been and will not be registered under the Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Offer Shares are being offered and sold (i) within the United States only to qualified institutional buyers (“QIBs”) (as defined in Rule 144A under the Securities Act (“Rule 144A”)) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, and (ii) outside of the United States in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S under the Securities Act (“Regulation S”). Prospective purchasers are hereby notified that sellers of the Offer Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See “Underwriting — Selling Restrictions.”

The distribution of this Offering Memorandum and the offer or sale of the Offer Shares in certain jurisdictions is restricted by law. Persons into whose possession this Offering Memorandum may come are required by the Company, the Selling Shareholder and the Managers to inform themselves about and to observe such restrictions. This Offering Memorandum may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorized or is unlawful. Further information with regard to restrictions on offers and sales of the Offer Shares and the distribution of this Offering Memorandum is set forth under “Underwriting — Selling Restrictions.” This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to buy any of the Offer Shares in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction.

No document issued in connection with the offer of the Offer Shares may be passed on to any person in the United Kingdom unless that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom the document may otherwise lawfully be issued or passed on.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SHARES. SPECIFICALLY, THE MANAGERS MAY BID FOR AND PURCHASE SHARES IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON SEAQ INTERNATIONAL OR OVER-THE-COUNTER MARKETS OR OTHERWISE OUTSIDE OF FINLAND. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. FOR A DESCRIPTION OF THESE ACTIVITIES SEE “UNDERWRITING.”

Certain statements in this Offering Memorandum, including certain statements set forth under the captions “Summary,” “Investment Considerations,” “Dividends,” “Fortum Group — Business Strategy,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business of Fortum,” and “Environmental Regulation” constitute “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Fortum, or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other important factors include, among others: general economic and business conditions; regulatory and deregulatory developments in energy markets, including environmental regulations; changes in, or the failure or inability to comply with, government regulations; changes in market prices for oil, gas, petrochemicals and other fuels for electricity generation; changes in market prices for electricity; entry of competitors into or exit of competitors from the energy markets; changes in costs associated with future decommissioning of nuclear facilities or in the handling of spent nuclear fuel; possible inaccuracy of crude oil and gas reserve estimates; changes in business strategy or development plans or targets; availability, terms and deployment of capital; currency fluctuations; availability of qualified personnel; industry trends; and other factors referenced in this Offering Memorandum. These forward-looking statements are not guarantees of the future operational or financial performance of the Company or Fortum. See “Investment Considerations.”

Unless otherwise indicated, the statistical and other market information relating to the operating areas of Fortum and its business divisions, as set forth in this Offering Memorandum, is based on statistics prepared by the Finnish Energy Industries Federation (“Finergy”); Nordel, an association for electricity cooperation in the Nordic countries (“Nordel”); Nord Pool, the Norwegian-Swedish electricity exchange (“Nord Pool”); the Finnish Electricity Market Authority; the Finnish Electricity Association; the Platt’s publication of Standard & Poor’s Commodities Division (“Platt’s”); the Oil and Gas Journal; and the Finnish Petroleum Federation; and on estimates of Fortum’s management.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SECURITIES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

FOR NEW HAMPSHIRE RESIDENTS ONLY: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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As used herein "Birka Energi" refers to "Birka Energi AB," a company jointly-owned by Fortum and the City of Stockholm, which was previously named "Stadshuset AB." As used herein the term "formation of Birka Energi" refers to the transactions described above.

FINANCIAL AND CERTAIN OTHER INFORMATION

The consolidated financial statements of IVO and Neste are prepared in accordance with generally accepted accounting principles in Finland ("Finnish GAAP"), which differs in certain respects from International Accounting Standards ("IAS") and certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"). The consolidated financial position and results of operations of IVO and Neste as presented in the summary and selected financial information of IVO and Neste included elsewhere in this Offering Memorandum and the audited consolidated financial statements and unaudited interim consolidated financial statements of IVO and Neste from which such summary and selected financial information has been derived comply, in all material respects, with IAS, except for the accounting of a FIM 517 million asset transfer tax relating to the formation of Fortum, which under IAS would be charged to the income statement and not directly to equity. For a discussion of the principal differences between Finnish GAAP as currently in effect and U.S. GAAP, see "Annex A: Summary of Major Differences between Finnish GAAP and U.S. GAAP." As used herein, the term "Swedish GAAP" refers to generally accepted accounting principles in Sweden, which also differs in certain significant respects from U.S. GAAP.

This Offering Memorandum contains unaudited pro forma consolidated financial statements of Fortum for the years ended December 31, 1995, 1996 and 1997 (the "Pro Forma Consolidated Financial Statements"), and for the nine months ended September 30, 1997 and 1998 (the "Pro Forma Interim Consolidated Financial Statements"). This pro forma financial information is presented to illustrate the consolidated results of Fortum in accordance with Finnish GAAP, as if the Combination had taken place as of January 1, 1995, and is based on accounting policies and procedures described under "Accounting Policies and Procedures" in the Pro Forma Consolidated Financial Statements. The Pro Forma Consolidated Financial Statements and the Pro Forma Interim Consolidated Financial Statements have been prepared using the pooling-of-interests method. The pro forma financial information has been derived from the audited consolidated financial statements of IVO and Neste for the years ended December 31, 1995, 1996 and 1997 and from the unaudited interim consolidated financial statements of IVO and Neste for the nine months ended September 30, 1997 and 1998. The Pro Forma Consolidated Financial Statements and the Pro Forma Interim Consolidated Financial Statements essentially represent the sum of figures derived from the audited consolidated financial statements or unaudited interim consolidated financial statements, as the case may be, of IVO and Neste, after intra-group eliminations and certain other adjustments. The pro forma financial information has not been adjusted for the potential benefits or savings that may result from the Combination, nor does it reflect the potential costs to Fortum of effecting the Combination. However, the pro forma financial information reflects the payment of asset transfer taxes of FIM 517 million by the Company in connection with the transfer to it of the IVO shares and the Neste shares. See "Fortum Group — Formation of Fortum" and the Report of Authorized Public Accountants for further information with respect to the preparation of the Pro Forma Consolidated Financial Statements.

Prior to the formation of Fortum, IVO published interim reports for the first, second and third calendar quarter of each year and Neste for the first four and eight months of each year. Beginning with the second calendar quarter of 1998, Fortum has adopted a policy of publishing interim reports for the first, second and third calendar quarter of each year. Consequently, unaudited consolidated interim financial information for the nine months ended September 30, 1998 and 1997 in respect of Fortum, IVO and Neste is included in this Offering Memorandum. However, it has not been practicable to include, as part of such interim financial information, balance sheet information in respect of Fortum and Neste for the nine months ended September 30, 1997 or cash flow information in respect of Fortum and Neste for the nine months ended September 30, 1997 and 1998.

In addition, this Offering Memorandum contains certain pro forma income statement information with respect to Birka Energi for the year ended December 31, 1997. This pro forma information is presented to illustrate the consolidated results of Birka Energi and Fortum as if the formation of Birka Energi had taken place as of January 1, 1997. Financial information has been derived from the audited consolidated financial statements of Gullspång and Stockholm Energi, from the audited financial statements of Stadshuset AB, and from the Pro Forma Consolidated Financial Statements for the year ended December 31, 1997. The pro forma information has not been adjusted to reflect any benefits or savings, or the costs to Birka Energi, Stockholm Energi and Fortum, of effecting the formation of Birka Energi.

Financial information set forth in a number of tables in this Offering Memorandum has been rounded. Accordingly, in certain instances, the sum of the numbers in a column or row may not conform exactly to the total figure given for that column or row.

FORMATION OF FORTUM

Combination of IVO and Neste

The Company was established by the Finnish State in February 1998 to form a parent company for a new energy group combining Imatran Voima Oy and Neste Oyj (the “Combination”). The objective was to create a leading European energy group that would provide a full range of energy-related services in its home market of Northern Europe, and participate in selected energy markets in other parts of Europe and in certain other countries throughout the world.

On April 9, 1998, the Company and the Finnish State entered into an agreement (the “Combination Agreement”) to enable the Company to obtain ownership of all outstanding shares of both Imatran Voima Oy (“IVO” and, together with its subsidiaries, the “IVO Group”) and Neste Oyj (“Neste” and, together with its subsidiaries, the “Neste Group”). Pursuant to the Combination Agreement, the Company offered shares in the Company to the minority shareholders and holders of warrants of Neste in exchange for the shares and warrants of Neste held by them (the “Exchange Offer”), and offered as an alternative to purchase for cash all shares and warrants of Neste held by such minority shareholders and warrant holders, as required by the Articles of Association of Neste and the Finnish Securities Market Act (the “Redemption Offer”). The redemption price for Neste shares was FIM 168.10 per share and for Neste warrants FIM 81.60 per warrant. The price of the Shares to be issued to Neste shareholders and warrant holders accepting the Exchange Offer will be equal to the public offering price of the Offer Shares pursuant to the Global Offering, with the exchange value of such shareholders’ shares in Neste to be FIM 178 or FIM 176 per share, and the exchange value of each warrant to be FIM 91.50 or 89.50 depending, in each case, on the date on which they accepted the Exchange Offer, plus, in each case, an additional amount accruing at an annual rate of four percent from and including May 15, 1998 to December 3, 1998, the last day of the cancellation period. The Finnish State further agreed to transfer its entire shareholding in Neste and IVO to the Company in exchange for Shares. The approval of the competition authorities of the European Union (the “EU”) to the transfer of IVO shares to the Company, and the resulting consolidation of ownership of IVO and Neste, was obtained on June 3, 1998.

The Exchange Offer and the Redemption Offer commenced on April 30, 1998. The Redemption Offer expired on June 1, 1998, and the Exchange Offer expired on June 30, 1998. The Finnish State transferred its entire shareholding in Neste to the Company on June 1, 1998. The transfer of Neste shares to the Company pursuant to the Exchange Offer and the Redemption Offer, together with the transfer of Neste shares to the Company by the Finnish State, resulted in the Company acquiring 99.86 percent of Neste’s issued shares. The Company commenced redemption procedures pursuant to the Finnish Companies Act on June 2, 1998, to acquire the remaining Neste shares, which procedures, including the posting of a bond by the Company for the payment of the redemption price for such Neste shares, have resulted in 100 percent ownership of Neste by the Company as of August 28, 1998. Separately, on June 23, 1998, certain minority holders of shares in IVO sold their shares in IVO to the Company. The Finnish State and the Finnish Social Insurance Institution (“SII”) transferred their entire shareholdings in IVO to the Company in exchange for Shares on June 26, 1998. This resulted in the Company obtaining a 100 percent ownership interest in IVO. Consequently, IVO and Neste became wholly-owned subsidiaries of the Company. At present, the Finnish State holds 97.5 percent of the Shares, with the remaining 2.5 percent being held by the SII.

Former minority shareholders of Neste shares representing an aggregate of 97.25 percent of the Neste shares held by approximately 18,820 minority shareholders, together with certain holders of warrants issued by Neste, elected to participate in the Exchange Offer. During the period beginning on November 24, 1998 and expiring on December 3, 1998, former shareholders and warrant holders of Neste that accepted the Exchange Offer had the right to cancel their subscriptions for Shares and receive from the Company instead cash consideration of FIM 168.10 for each Neste share or FIM 81.60 for each Neste warrant previously held by them plus, in each case, an additional amount accruing at the annual rate of four percent from and including May 15, 1998 to the date of payment. Former shareholders of Neste entitled to a total of 140,974 Shares used their cancellation right and received total cash consideration of FIM 24.2 million from the Company. None of the former warrant holders of Neste cancelled their acceptance of the Exchange Offer.

Formation of Birka Energi

As a result of a series of transactions effected on September 14, 1998, Stockholm Energi AB, a power company based in central Sweden (together with its subsidiaries, “Stockholm Energi”), and Fortum’s Swedish subsidiary Gullspång Kraft AB (“Gullspång”), also a Swedish power company based in central Sweden, were combined under the ownership of Birka Energi AB (“Birka Energi”). Birka Energi, which is 50 percent owned by each of Fortum and the City of Stockholm, owns and operates power and heating plants and electricity distribution networks, as well as district heating and cooling networks, in the greater Stockholm area and central Sweden. As a result of the combination, Birka Energi has become the largest power and heat company in Sweden by number of customers and the third-largest power and heat company in Sweden by generating capacity. See “Business of Fortum — Description of Operations by Division — Power and Heat Division — Birka Energi.”

Certain references in this Offering Memorandum to “Fortum” relating to historical information may refer to one or both of its predecessor groups, the IVO Group and the Neste Group. As used herein the terms “Selling Shareholder” and “Finnish State” refer to the Republic of Finland.

The Fortum Group comprises the parent company, Fortum Corporation, and its sub-groups, the IVO Group and the Neste Group. Both the IVO Group and the Neste Group have a number of subsidiaries in Finland and throughout the world. The most significant group companies of the IVO Group are the parent company, Imatran Voima Oy, and its subsidiaries Länsivoima Oyj, IVO Power Engineering Oy, IVO Generation Services Ltd and Enermet Oy, and Birka Energi AB, an associated company. The most significant group companies of the Neste Group are the parent company, Neste Oyj, and its subsidiaries, Neste Markkinointi Oy, Gasum Oy, Neste Canada Inc., Neste Oxo Aktiebolag, Neste Resins Corporation, Neste Petroleum A/S and Krems Chemie AG.

Until January 1, 1999, Fortum will continue to conduct its operations through eight divisions, which correspond to the divisions through which the IVO Group and the Neste Group conducted substantially all of their operations prior to the Combination. For purposes of presentation in this Offering Memorandum, the Energy Division of Neste is referred to as the “Gas Division” of Fortum and the Energy Division of IVO is referred to as the “Power and Heat Division” of Fortum.

As used herein, “Finnish markka,” “markka” and “FIM” refer to the currency of Finland; “U.S. dollars,” “dollars” and “U.S.\$” refer to the currency of the United States; “Swedish krona,” “krona” and “SEK” refer to the currency of Sweden; and “NOK” refers to the currency of Norway.

All references to “tons” in this Offering Memorandum are to metric tons. One metric ton represents 0.984 tons.

Certain information relating to the Group’s operating data in this Offering Memorandum has been presented separately for the Nordic countries and the Baltic states. As used herein, “Nordic countries” refers to Denmark, Finland, Norway and Sweden; “Baltic states” refers to Estonia, Latvia and Lithuania; and “Baltic Rim area” refers to the Baltic states, northwestern Russia and Poland.

FOREIGN CURRENCY PRESENTATION

Fortum publishes its financial statements expressed in Finnish markka. Solely for convenience, this Offering Memorandum contains translations of certain Finnish markka amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the Finnish markka amounts actually represent such U.S. dollar amounts, or could be converted into U.S. dollars at the rate indicated or at any other rate. Unless otherwise indicated, the translations of Finnish markka amounts into U.S. dollars have been made at the rate of US\$1.00 = FIM 5.0984, the middle rate between the bid and offer price of Finnish markka for U.S. dollars fixed by the Bank of Finland at 12:00 noon (the “Bank of Finland Middle Rate”) on September 30, 1998. The Bank of Finland Middle Rate on September 30, 1998 differs from actual rates used in the preparation of Fortum’s Pro Forma Consolidated Financial Statements and Pro Forma Interim Consolidated Financial Statements, and U.S. dollar amounts used in this Offering Memorandum differ from the actual U.S. dollar amounts that were translated into Finnish markka in the preparation of such financial statements. For historical information regarding rates of exchange between the Finnish markka and the U.S. dollar and certain other currencies, see “Exchange Rates.”

ENFORCEMENT OF LIABILITIES AND SERVICE OF PROCESS

The Company is organized under the laws of Finland, with its domicile in Helsinki. All of the directors and executive officers of the Company and certain of the experts named herein are non-residents of the United States. All or a substantial portion of the assets of such non-resident persons and of the Company are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or the Company, or to enforce against them in U.S. courts judgments obtained in such courts predicated upon civil liability provisions of the federal or state securities laws of the United States. The Company has been advised by Mr. Harri Pynnä, General Counsel of the Company, that there is doubt as to the enforceability in Finland, in original actions instituted in U.S. courts, of civil liabilities predicated solely upon the federal securities laws of the United States.

In addition, the Company has been advised by Mr. Pynnä that the United States and Finland do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil matters. Therefore, final judgments for the payment of money rendered by a U.S. court in the United States based on civil liability, whether or not predicated solely upon the federal securities laws of the United States, would not be enforceable in Finland.

The principal executive office of the Company is located at Snellmaninkatu 13, FIN-00170 Helsinki, Finland, and its telephone number is (358-9) 618-580.

AVAILABLE INFORMATION

The Company is not required to file periodic reports under Section 13 or 15 of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Company has, however, agreed to (i) furnish certain public reports and documents to the U.S. Securities and Exchange Commission (the “SEC”) pursuant to Rule 12g3-2(b) under the Exchange Act, (ii) be subject to the periodic reporting and other requirements under the Exchange Act and, in accordance with that Act, file reports and other information with the SEC, or (iii) furnish to investors upon request such information as may be required under Rule 144A.

SUMMARY

The following summary should be read in conjunction with, and is qualified in its entirety by, the detailed information appearing elsewhere in this Offering Memorandum and the Pro Forma Consolidated Financial Statements. See "Investment Considerations" for a discussion of certain factors that should be considered in connection with an investment in the Offer Shares.

FORTUM

General

Fortum is an international energy group based in Finland, with substantial operations in the Nordic countries. Fortum's operations include oil and gas exploration and production, refining and sales of petroleum products, transmission, sale and distribution of natural gas, generation, sale and distribution of power and heat, operation and maintenance of power and heating plants, design, planning and construction of power and heating plants and related consulting services, engineering of transmission and distribution systems and other power-related facilities, manufacturing and sale of energy-measurement devices and related services, and production and sale of chemicals.

Fortum's operations are principally located in Finland and Sweden, but it also has ownership interests in oil exploration and production projects, power and heating plants, tanker vessels, terminals, gasoline and diesel fuel retail outlets, chemical plants, and other interests in its operating areas in Europe, the Middle East, Africa, Asia and North America. During the nine months ended September 30, 1998, the average number of employees of Fortum was 18,981, with 78 percent based in the Nordic countries. On a pro forma basis, Fortum had total net sales of FIM 60,044 million (U.S.\$11,777 million) in 1997, resulting in pro forma operating profit of FIM 4,407 million (U.S.\$864 million). For the nine months ended September 30, 1998, Fortum had total net sales of FIM 38,044 million (U.S.\$7,462 million) and operating profit of FIM 2,390 million (U.S.\$469 million) on a pro forma basis. As of September 30, 1998, Fortum had total assets of FIM 67,241 million (U.S.\$13,189 million) on a pro forma basis.

Formation of Fortum

Fortum is an international energy group formed through the combination of the IVO Group and the Neste Group, two Finnish industrial groups with extensive operations in the energy sector in the Nordic countries and certain other countries throughout the world. Prior to the Combination, IVO had been 95.60 percent owned by the Finnish State, while Neste had been a publicly quoted company, the shares of which were 83.17 percent owned by the Finnish State. Ownership of IVO and Neste was consolidated in the Company through a series of transactions beginning in April 1998, resulting in the formation of a leading European energy group that provides a full range of energy-related services in its home market of Northern Europe and in other markets on a selective basis. See "Formation of Fortum — Combination of IVO and Neste."

As a result of the Combination, IVO and Neste are wholly-owned subsidiaries of the Company, 97.5 percent of the share capital of the Company is currently held by the Finnish State and the remaining 2.5 percent of the share capital of the Company is held by the SII. The Finnish State now seeks the partial privatization of the Company through the offerings of Shares to the public in Finland and, through the Global Offering, to Finnish and international institutional investors.

Key Strengths

Fortum's objective is to be one of the leading energy groups in Europe, at the forefront of innovation in each of the markets in which it operates. Management seeks to achieve this objective by building on Fortum's existing key strengths:

- One of the leading energy companies in the Nordic countries.
- Integrated operations at each stage of the energy chain.
- Experience in the deregulated energy markets of the Nordic countries.
- Customer-focused business.
- Environmentally-responsible operations and products.
- Well-positioned to pursue future opportunities in Russia and Central Europe.

Business Strategy

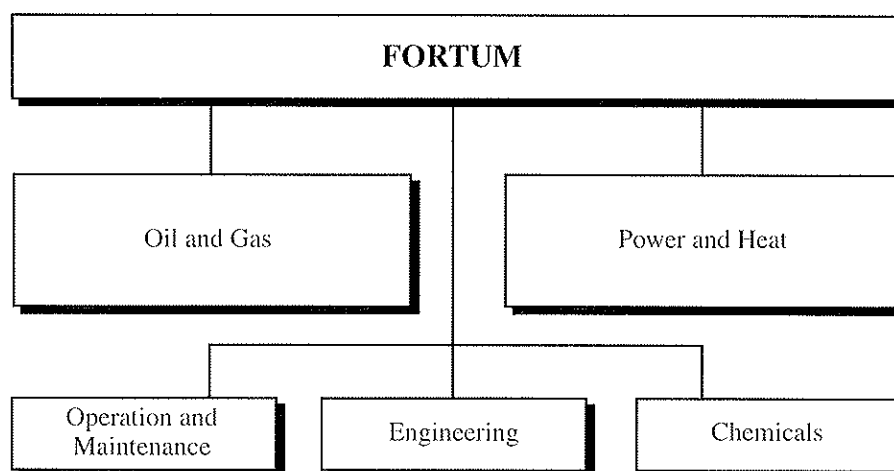
Fortum's business strategy, which is being implemented under the direction of its new centralized corporate management with the goal of continuously increasing shareholder value, consists of three principal components: restructuring and focusing on core operations, improving efficiency of current operations, and growing through investments and acquisitions in core business areas.

Restructuring and Focusing on Core Operations

The Group combines two of the Nordic countries' leading energy groups, the IVO Group and the Neste Group. Fortum has begun the process of integrating these two organizations in order to realize the benefits of efficiencies that may be derived through the elimination of overlapping organizations and operations. The implementation of this restructuring is currently under way and management has established a number of working groups to coordinate this process.

Management is focusing the operations of Fortum on its core business area, energy. Management is actively exploring alternatives in respect of certain operations and assets that are not directly related to Fortum's core businesses. These operations and assets will be divested or other steps taken on a timely basis following a review of these alternatives by management, which will be completed shortly. In this regard, management is actively considering options with respect to Fortum's operations in the chemicals business and the manufacture of energy measurement devices.

The diagram set forth below shows the divisional structure of Fortum following consolidation of Fortum's existing eight divisions as from January 1, 1999.



Oil and Gas Division. The Oil and Gas Division will integrate the upstream activities of the existing Exploration and Production Division with the downstream operations of the existing Oil Division, and will also include the gas-related businesses of the current Gas Division, including Fortum's interest in Gasum Oy ("Gasum") and the division's liquefied petroleum gas ("LPG") operations.

Power and Heat Division. The Power and Heat Division will combine the operations of the existing Power and Heat Division (power and heat generation, sales and distribution) and the heat operations of the existing Gas Division, as well as certain other related operations.

Operation and Maintenance Division. The Operation and Maintenance Division will consist of the operations of the existing Operation and Maintenance Division, which focuses on power and heating facilities. Cooperation between the maintenance of Fortum's existing oil refineries and the Operation and Maintenance Division will also be increased.

Engineering Division. The Engineering Division will combine the existing Engineering Division, which focuses on power and heating facilities and transmission systems, with the oil and gas engineering unit. The Engineering Division will focus on energy-related planning, project design and construction, and consulting services.

Chemicals Division. The Chemicals Division will be incorporated as a separate Group subsidiary, and will continue to operate under its existing strategy as a non-core business within Fortum, pending a decision with respect to the future of the chemicals business in relation to Fortum.

Fortum's management has decided to rebrand all of its core operations under the Fortum name. This process will begin in 1999. However, the name "IVO" is well-established within the energy markets and the name "Neste" within the retail petroleum markets in which Fortum operates. Management believes that these consumer brand names represent important assets of Fortum and intends to continue to utilize these and certain other consumer brand names for marketing purposes for the foreseeable future.

Improving Efficiency of Current Operations

In tandem with the process of integrating Fortum's operations at all stages of the energy production and distribution process, management intends to implement a program to improve efficiency in business operations and capital deployment with respect to Fortum's current operations. Fortum's goal is to achieve a return on equity after taxes and a return on capital employed before taxes of 12 to 15 percent following the restructuring of the Group's operations, selected investments and acquisitions in its core business areas and the divestment of non-core assets.

Growing through Investments and Acquisitions in Core Areas

Management is planning significant investments and intends to pursue acquisitions in its core business areas within its home market of Northern Europe, as appropriate opportunities arise. In addition, the Group's experience of operating in Russia and Central Europe provides Fortum with the basis upon which to evaluate selectively investment opportunities in this region that may arise in the future when market conditions are appropriate.

Principal acquisitions and investments currently being considered by management in the area of power generation and distribution include acquisitions of electricity generation, sales and distribution companies in the Nordic countries, construction of new combined heat and power ("CHP") plants in Finland and Sweden, and participation in selected generation projects in Europe and certain countries in Southeast Asia.

In the area of oil refining and petroleum product distribution, major strategic initiatives relate to further upgrading of the Porvoo refinery to increase Fortum's production of advanced traffic fuels and their components, continuing to construct new retail outlets in the developing markets of the Baltic Rim area, pursuing opportunities to purchase interests in additional oil refining and marketing operations in the Baltic Rim area and developing an oil pipeline from Russia to Finland and, in the longer term, natural gas pipeline networks in Northern Europe.

Management

The implementation of Fortum's business strategy is being supervised by the Board of Directors of the Company and is the responsibility of the President and Chief Executive Officer of the Company, with the assistance of its Corporate Executive Committee. As of January 1, 1999, the Corporate Executive Committee will be joined by the new heads of Fortum's divisions, who will report to the President and Chief Executive Officer of the Company. See "Management."

Recent Developments

Formation of Birka Energi

As a result of a series of transactions effected on September 14, 1998, Stockholm Energi and Gullspång were combined under the ownership of Birka Energi, which is 50 percent owned by each of Fortum and the City of Stockholm. Birka Energi owns and operates power and heating plants and electricity distribution networks, as well as district heating and cooling networks, in the greater Stockholm area and central Sweden. As a result of the combination, Birka Energi has become the largest energy company in Sweden by number of customers and the third-largest energy company in Sweden by generating capacity.

Prior to the transfer of shares in Gullspång to Birka Energi, Gullspång paid a dividend of approximately SEK 1.5 billion (approximately FIM 1 billion) to IVO Energi AB ("IVO Energi"), a Swedish subsidiary of Fortum.

As of September 30, 1998, Birka Energi had total assets of FIM 43,845 million and interest-bearing net liabilities of FIM 21,208 million. Calculated on a pro forma basis, Birka Energi had net sales of FIM 9,172 million and operating profit of FIM 1,929 million for the year ended December 31, 1997. See "Pro Forma Income Statement Information Relating to Birka Energi" included elsewhere in this Offering Memorandum.

Divestment of Borealis

In August 1998, Fortum disposed of its 50 percent interest in Borealis A/S, the parent company of a Danish petrochemicals group ("Borealis"), as part of a strategy of focusing the operations of the Chemicals Division in its core product areas. Borealis was classified as an associated company within the Group's other operations.

Businesses of Fortum

Fortum's business operations will be reorganized as from January 1, 1999. Until that time, Fortum will continue to be comprised of eight divisions, corresponding to the divisions through which the IVO Group and the Neste Group conducted substantially all of their operations prior to the Combination. As part of the process of integrating the operations of the IVO Group and the Neste Group, certain of Fortum's operations are to be consolidated or discontinued, and certain divisions are to be combined into five new divisions. See "Fortum Group — Business Strategy." Fortum's Power and Heat, Operation and Maintenance, Engineering and Energy Measurement Divisions were previously part of the IVO Group, while Fortum's Exploration and Production, Oil, Gas and Chemicals Divisions were previously part of the Neste Group.

The following table sets forth the pro forma net sales, operating profit and identifiable assets of each of the divisions of Fortum for the year ended and as of December 31, 1997.

	Year ended and as of December 31, 1997					
	Net Sales	Percent of Total	Operating Profit	Percent of Total	Identifiable Assets	Percent of Total
	<i>(FIM in millions, except for percentages) (pro forma; unaudited)</i>					
Exploration and Production	1,244	1.9	532	12.0	4,302	7.9
Oil	37,882	58.9	544	12.3	10,487	19.3
Gas	3,655	5.7	372	8.4	1,808	3.3
Power and Heat	10,896	16.9	2,066	46.7	28,005	51.5
Operation and Maintenance	1,371	2.1	92	2.1	90	0.2
Engineering	2,179	3.4	80	1.8	441	0.8
Energy Measurement	413	0.6	32	0.7	214	0.4
Chemicals	5,129	8.0	173	3.9	2,691	5.0
Other Operations(1)	887	1.4	189	4.3	6,287	11.5
Grid Services(2)	671	1.1	347	7.8	34	0.1
Subtotal	64,327	100.0	4,427	100.0	54,359	100.0
Eliminations	(4,283)		(20)		(286)	
Total	60,044		4,407		54,073	

(1) Includes other operations and associated companies that are not directly related to Fortum's main business divisions.

(2) IVO's grid assets, which were sold on August 31, 1997.

Exploration and Production

Fortum is engaged in upstream oil and gas activities through partnerships or joint ventures in connection with 19 exploration and development projects in Norway, Oman, Russia and Algeria. Three of these projects, located in Norway and Oman, are currently in commercial production. For the year ended December 31, 1997, the division's share of production from fields in which it had interests amounted to 1.67 million tons, corresponding to an average of 32,550 oil-equivalent barrels per day. As of December 31, 1997, Fortum's share of net proven and probable reserves of crude oil and natural gas from these fields amounted to 258 million barrels of oil-equivalent.

Oil

Fortum operates two oil refineries and engages in bulk sales and supply, marketing and retail sales and logistical services relating to oil and petroleum products. Fortum's refineries are the only oil refineries in Finland,

and have a combined annual capacity of approximately 14 million tons (280,000 bpd). These refineries refine crude oil and other feedstocks into gasolines, diesel fuels, light and heavy fuel oils, aviation fuels, LPG, bitumens and specialty oils, mainly for distribution in Finland, Sweden and other markets in the Baltic Rim area. Fortum also conducts trading operations in the international crude oil, feedstock and refined products markets. The retail marketing and sales of Fortum's petroleum products are conducted throughout Finland and the Baltic Rim area, with retail marketing and sales carried out through Fortum's network of 1,138 retail outlets. Fortum manages its own shipping and logistics and specializes in maritime transport of crude oil and petroleum products, particularly in the Baltic and North Seas and in Arctic waters. Additionally, Fortum develops base oils, motor fuel components, lubricants and specialty fuels and conducts oil research and development.

Gas

Fortum operates in the transmission, distribution and sale of natural gas, the distribution and sale of LPG, the supply of heat and steam and the design and manufacture of renewable energy systems. Natural gas activities in Finland are conducted through Gasum, which is 75 percent owned by Fortum and 25 percent owned by RAO Gazprom, the Russian natural gas company. LPG activities include distribution operations in Finland, where Fortum is the leading LPG distributor, the purchase of LPG feedstocks for Fortum's refineries, international LPG trading and bulk LPG distribution operations in Sweden.

In connection with the Combination, Fortum has undertaken to EU competition authorities to reduce Fortum's shareholding in Gasum to 25 percent by June 3, 1999. Outside of Finland, Fortum will seek to expand its operations in the sale and distribution of natural gas and the utilization of natural gas in power generation.

Power and Heat

Fortum operates in the areas of power and heat generation, sales and distribution. The Power and Heat Division owns and manages hydroelectric, nuclear and thermal power plants as well as process steam and district heating plants, and also has interests in plants and generating facilities owned and operated by other parties. In addition to selling electricity produced by its power plants, Fortum sells electricity procured from other generating facilities (including from Russia) and offers electricity marketing services to other electricity companies. Fortum also owns regional and local electricity distribution networks. Fortum is one of the two largest electricity suppliers in the Nordic countries by volume of electricity sold, volume of electricity produced and number of customers. As of December 31, 1997, the Power and Heat Division's total electricity and heat generating capacity in the Nordic countries was 8,770 MW and 2,533 MW, respectively, of which approximately two-thirds was in Finland. Fortum also has electricity and heat generating operations elsewhere in Europe and in Asia.

Operation and Maintenance

In addition to operating and maintaining the majority of its own power and heating plants in Finland and a number of plants outside of Finland in which Fortum has or has had an interest, Fortum contracts with other companies that own power and heating plants to operate and maintain these facilities, and performs maintenance and service tasks of varying scope and duration for industrial facilities and power plants. As of September 30, 1998, the Operation and Maintenance Division operated and maintained a total of 56 power and heating plants within Finland and six outside Finland (not including Birka Energi). These facilities together represented a total of 6,300 MW of electricity generating capacity and 2,500 MW of process steam and district heat production capacity.

Engineering

Through the Engineering Division, Fortum contracts for the design and construction of power plants and electricity transmission systems, generally on a turnkey basis. In addition, it offers project management, design and consulting services, and technical support and development for existing facilities. In addition to providing engineering services with respect to projects being undertaken by other Fortum divisions, the Engineering Division contracts with customers in the power and electricity, railway and telecommunications industries. Principal markets of the Engineering Division are in Finland, Russia, Central Europe and Asia.

Energy Measurement

The Energy Measurement Division develops, manufactures and markets equipment, systems and services for measuring electricity and for electricity load control, including meters, terminal units and metering and control systems and services.

Chemicals

The Chemicals Division develops, produces and markets chemicals and polymers, principally for industrial uses. The Chemicals Division's principal products are adhesive resins, used primarily by the wood panel industry; oxo products, for use in the production of paints, coatings and plastics; unsaturated polyesters and gelcoats, for reinforced plastics and coating applications; and paper chemicals. Chemical production is carried out in 41 production facilities located in 17 countries in Europe, North America and Asia. The Chemicals Division also engages in the international trading of polymers, intermediates and basic chemicals.

Selling Shareholder

The Finnish State currently owns 97.5 percent of the outstanding share capital of the Company and will own approximately 75.5 percent of the outstanding share capital of the Company immediately following the completion of the Offerings. See "Ownership Structure and Relationship with the Finnish State."

The Finnish Parliament has authorized the Council of State to reduce the Finnish State's shareholding in the Company to no less than 50.1 percent. Approval by the Finnish Parliament would be required for any further disposition of the Finnish State's shareholding in the Company. The timing and manner of any further sale of Shares after the Offerings, or its effect on the Company's shareholders, cannot be determined at this time.

It has been the practice of the Finnish State not to intervene in the day-to-day management of the Company, and the Company has conducted and conducts its day-to-day operations in a manner similar to that of Finnish corporations in which the Finnish State is not in a position of a controlling shareholder. Management believes that the Finnish State will continue to observe such practice. See "Ownership Structure and Relationship with the Finnish State — Relationship with the Finnish State."

Summary Financial Information

The financial statements set forth on the following pages present: (i) summary pro forma consolidated financial information for Fortum; (ii) summary historical financial information for IVO; and (iii) summary historical financial information for Neste.

SUMMARY PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR FORTUM

The pro forma financial information shown below and on the following page is presented to illustrate the consolidated results of Fortum on a pro forma basis, as if the Combination had taken place as of January 1, 1995. See "Formation of Fortum" and "Financial and Certain Other Information." The underlying financial information for each of the years in the three years ended December 31, 1997, has been derived from audited consolidated financial statements of IVO and Neste. See the summary consolidated financial information for IVO and Neste set forth on the following pages. The information included herein should be read in conjunction with, and is qualified in its entirety by reference to, the Pro Forma Consolidated Financial Statements and the other information included elsewhere in this Offering Memorandum. The interim pro forma financial information shown below is based upon the consolidated interim reports of IVO and Neste and is unaudited but reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Pro forma information for Fortum essentially represents the sum of figures derived from the audited consolidated financial statements and unaudited interim consolidated financial statements, as the case may be, of IVO and Neste after intra-group eliminations and certain other adjustments. The pro forma information has not been adjusted for the potential benefits or savings that may result from the Combination, nor does it reflect the potential costs to Fortum of effecting the Combination. However, the pro forma financial information reflects the payment by the Company of an asset transfer tax of FIM 517 million. Fortum's financial statements are prepared in accordance with Finnish GAAP, which differs in certain significant respects from U.S. GAAP. However, the consolidated financial position and results of operations of IVO and Neste as presented in the summary and selected financial information of IVO and Neste included elsewhere in this Offering Memorandum and the audited consolidated financial statements and unaudited interim consolidated financial statements of IVO and Neste from which such summary and selected financial information has been derived comply, in all material respects, with IAS, except for the accounting of the asset transfer tax, which under IAS would be charged to the income statement and not directly to equity. For a narrative discussion of the principal differences between Finnish GAAP as currently in effect and U.S. GAAP, see "Annex A: Summary of Major Differences between Finnish GAAP and U.S. GAAP." See also "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Summary Historical Consolidated Financial Information for IVO" and "Summary Historical Consolidated Financial Information for Neste." Financial information shown below is not adjusted to reflect the disposition by Fortum of 50 percent of the share capital of the Gasum Group, which is scheduled to take place by June 3, 1999, or, other than as to balance sheet information as of September 30, 1998, the formation of Birka Energi. See "Business of Fortum — Description of Operations by Division — Gas Division" and "Business of Fortum — Description of Operations by Division — Power and Heat Division — Birka Energi." See also "Accounting Policies and Principles" included in the Pro Forma Consolidated Financial Statements elsewhere in this Offering Memorandum for a discussion of the accounting policies and principles applied in the preparation of Fortum's pro forma financial information shown below.

The pro forma financial information set forth below has been prepared on the basis set forth above. The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of Fortum's financial condition or results of operations on a pro forma basis as if the Combination had actually occurred as of January 1, 1995.

	Year ended December 31,				Nine months ended September 30,		
	1995	1996	1997	1997	1997	1998	1998
	(FIM)	(FIM)	(FIM)	(U.S.\$)(1)	(FIM)	(FIM)	(U.S.\$)(1)
	(pro forma; unaudited)						
	(millions)						
INCOME STATEMENT DATA							
Net sales(2)							
Continuing operations	50,882	52,588	54,134	10,618	38,864	34,149	6,698
Acquired operations	0	2,378	5,355	1,050	3,593	4,558	894
Discontinued operations	1,740	1,786	1,096	215	1,031	—	—
Eliminations	(773)	(684)	(541)	(106)	(481)	(663)	(130)
Total	51,849	56,068	60,044	11,777	43,007	38,044	7,462
Share of profits of associated companies	452	67	444	87	284	224	44
Other operating income	663	488	628	123	360	319	63
Operating expenses(2)(3)	(47,224)	(50,902)	(53,946)	(10,581)	(38,435)	(33,905)	(6,650)
Depreciation(3)	(2,222)	(2,456)	(2,763)	(542)	(2,047)	(2,292)	(450)
Operating profit							
Continuing operations	2,641	2,176	2,658	521	2,018	1,564	307
Acquired operations	(1)	493	1,163	228	776	846	166
Discontinued operations	886	603	595	117	385	—	—
Eliminations	(8)	(7)	(9)	(2)	(10)	(20)	(4)
Total	3,518	3,265	4,407	864	3,169	2,390	469
Financial income and expenses(3)(4)	(1,024)	(963)	(1,451)	(284)	(1,086)	(921)	(181)
Profit before extraordinary items and taxes	2,494	2,302	2,956	580	2,083	1,469	288
Extraordinary items	24	207	1,939	380	2,726	(24)	(5)
Profit before taxes	2,518	2,509	4,895	960	4,809	1,445	283
Income taxes	(1,082)	(773)	(547)	(107)	(444)	(499)	(98)
Minority interests	(61)	(165)	(308)	(61)	(214)	(124)	(24)
Net profit for the period	1,375	1,571	4,040	792	4,151	822	161

Footnotes on the following page.

	Year ended and as at December 31				Nine months ended and as at September 30,		
	1995	1996	1997	1997	1997	1998	1998
	(FIM)	(FIM)	(FIM)	(U.S.\$)(1)	(FIM)	(FIM)	(U.S.\$)(1)
				(pro forma; unaudited)			(millions)
CASH FLOW DATA							
Net cash from operating activities	3,610	4,077	4,337	851	N/A	N/A	N/A
Cash flow from investing activities(3)	(1,821)	(5,638)	(3,371)	(662)	N/A	N/A	N/A
Cash flow from financing activities(3)	(1,486)	(1,396)	217	43	N/A	N/A	N/A
Net increase (decrease) in cash and marketable securities	303	(2,957)	1,183	232	N/A	N/A	N/A
BALANCE SHEET DATA(5)							
Total assets	N/A	62,373	69,389	13,610	N/A	67,241	13,189
Fixed assets and other long-term investments(3)	N/A	47,603	52,440	10,286	N/A	51,969	10,193
Current assets(4)	N/A	14,770	16,949	3,324	N/A	15,272	2,996
Shareholders' equity(6)	N/A	19,712	23,374	4,584	N/A	23,404	4,590
Minority interests	N/A	2,767	1,744	342	N/A	1,197	235
Provisions for liabilities and charges	N/A	82	219	43	N/A	290	57
Interest-bearing debt(3)	N/A	24,468	26,611	5,220	N/A	27,099	5,315
Deferred tax liabilities(6)	N/A	4,720	4,252	834	N/A	4,664	915
Other interest-free liabilities	N/A	10,624	13,189	2,587	N/A	10,587	2,077

- (1) Translated solely for convenience at an exchange rate of US\$1.00 = FIM 5.0984, the Bank of Finland Middle Rate on September 30, 1998.
- (2) Neste's credit losses, freight and other delivery expenses, which have previously been entered under sales adjustments in the financial statements of Neste, have been entered under other operating expenses.
- (3) Properties acquired through finance leasing agreements have been recognized as assets, and related debt has been recognized as liabilities, on the balance sheet of Fortum. Consequently, depreciation on the fixed assets under lease and interest expenses on the related debt has been entered in the income statement of Fortum instead of rental expenses.
- (4) In 1998, unrealized exchange rate gains on long-term loans, currency deposits and loans receivable have been entered in the income statement. As a result, a total of FIM 50 million of exchange rate gains has been recognized as income.
- (5) In September 1998, Fortum exchanged its Gullspång shares for 50 percent ownership of Birka Energi. Birka Energi's balance sheet was consolidated with the Group according to the proportionate method of consolidation as of September 30, 1998. Until September 30, 1998, Gullspång's results have been consolidated as a subsidiary of the Company.
- (6) Since January 1, 1998, deferred tax assets on loss carry-forwards have been recognized in deferred tax liabilities. As a result of this change, a total of FIM 112 million for deferred tax assets for previous periods has been entered directly in shareholders' equity in the statutory and pro forma financial statements of Fortum.

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION FOR IVO

The following summary consolidated financial information for IVO should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements of IVO. The summary consolidated financial information for each of the years in the five-year period ended December 31, 1997, has been derived from audited financial statements of IVO. The interim financial information included in these financial statements is based upon the consolidated interim reports of IVO and is unaudited but reflects all adjustments that are, in the opinion of the management, necessary for a fair presentation of the results for the interim periods presented. The consolidated financial statements of IVO have been prepared in accordance with Finnish GAAP. Finnish GAAP differs in certain significant respects from U.S. GAAP. However, the consolidated financial position and results of operations of IVO as presented below and the audited consolidated financial statements and unaudited interim consolidated financial statements of IVO from which such information has been derived comply, in all material respects, with IAS. For a discussion of the principal differences between Finnish GAAP and U.S. GAAP, see "Annex A: Summary of Major Differences Between Finnish GAAP and U.S. GAAP."

	Year ended December 31,						Nine months ended September 30,		
	1993	1994	1995	1996	1997	1997	1997	1998	1998
	(FIM)	(FIM)	(FIM)	(FIM)	(FIM)	(U.S.\$)(1)	(FIM)	(FIM)	(U.S.\$)(1)
	(audited)						(unaudited)		
	(millions)								
INCOME STATEMENT DATA									
Net sales	6,744	7,602	8,055	11,937	13,775	2,702	9,843	9,518	1,867
Share of profits of associated companies ..	(19)	7	33	85	83	16	44	88	17
Other operating income	36	43	141	202	502	98	259	237	46
Operating expenses(2)	(5,069)	(6,134)	(6,097)	(9,200)	(10,572)	(2,073)	(7,370)	(7,432)	(1,458)
Depreciation(2)	(769)	(781)	(795)	(982)	(1,197)	(235)	(911)	(1,029)	(201)
Operating profit	923	737	1,337	2,042	2,591	508	1,865	1,382	271
Financial income and expenses(2)(3)	(640)	(390)	(208)	(306)	(618)	(121)	(610)	(385)	(76)
Profit before extraordinary items and income taxes	283	347	1,129	1,736	1,973	387	1,255	997	195
Extraordinary items	118	334	51	28	2,936	575	3,503	48	9
Profit before taxes	401	681	1,180	1,764	4,909	962	4,758	1,045	204
Income taxes	(134)	(118)	(458)	(568)	(812)	(159)	(731)	(268)	(52)
Minority interests	2	(3)	(8)	(115)	(252)	(49)	(172)	(71)	(14)
Net profit for the period	269	560	714	1,081	3,845	754	3,855	706	138
CASH FLOW DATA									
Net cash from operating activities	1,556	840	1,573	2,369	1,697	333	574	810	159
Cash flow from investing activities	(1,378)	(56)	(308)	(4,293)	(1,188)	(233)	(627)	(1,122)	(220)
Cash flow from financing activities	(303)	(986)	(656)	1,013	563	110	1,052	221	43
Adjustment items	14	(6)	(3)	(2)	13	3	19	17	3
Net increase (decrease) in cash and marketable securities	(111)	(208)	606	(913)	1,085	213	1,018	(74)	(15)
BALANCE SHEET DATA(4)									
Total assets	16,046	15,702	16,167	28,175	33,963	6,661	36,577	39,952	7,836
Fixed assets and other long-term investments(2)	12,192	11,817	11,485	23,237	27,365	5,367	27,963	33,140	6,500
Current assets	3,854	3,885	4,682	4,938	6,598	1,294	8,614	6,812	1,336
Shareholders' equity	6,343	6,777	7,402	8,362	12,037	2,361	12,080	11,600	2,275
Minority interest	51	50	82	2,394	1,328	260	2,700	764	150
Provision for liabilities and charges	1	21	14	24	44	9	21	22	4
Interest-bearing debt(2)	6,147	5,060	4,634	10,840	11,909	2,336	14,133	18,549	3,638
Deferred tax liabilities	1,699	1,669	1,761	2,725	2,638	517	2,497	2,977	584
Non-interest-bearing liabilities(2)(3)(5) ...	1,805	2,125	2,274	3,830	6,007	1,178	5,146	6,040	1,185

- (1) Translated solely for convenience at an exchange rate of US\$1.00 = FIM 5.0984, the Bank of Finland Middle Rate on September 30, 1998.
- (2) Beginning in 1998, properties acquired through finance leasing agreements have been recognized as assets, and related debt has been recognized as liabilities, on the balance sheet of IVO. Depreciation on the fixed assets under lease and interest expenses on the related debt have been entered in the income statement of IVO instead of rental expenses. The impact of the changes has been accounted for in respect of the comparable period in 1997.
- (3) In 1998, unrealized exchange rate gains on long-term loans, currency deposits and loan receivables have been entered in the income statement. As a result, a total of FIM 50 million of exchange gains has been recognized as income.
- (4) In September 1998, IVO exchanged its Gullspång shares for 50 percent ownership of Birka Energi. Birka Energi's balance sheet was consolidated with the Group according to the proportionate method of consolidation as of September 30, 1998. Until September 30, 1998, Gullspång's results have been consolidated as a subsidiary of the Company.
- (5) Includes valuation items (exchange gains) and other non-interest-bearing liabilities.

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION FOR NESTE

The following summary consolidated financial information for Neste should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements of Neste. The summary consolidated financial information for each of the years in the five-year period ended December 31, 1997, has been derived from audited financial statements of Neste. The interim financial information included in these financial statements is based upon the consolidated interim reports of Neste and is unaudited but reflects all adjustments that are, in the opinion of the management, necessary for a fair presentation of the results for the interim periods presented. The consolidated financial statements of Neste have been prepared in accordance with Finnish GAAP. Finnish GAAP differs in certain significant respects from U.S. GAAP. However, the consolidated financial position and results of operations of Neste as presented below and in the audited consolidated financial statements and unaudited interim consolidated financial statements of Neste from which such information has been derived comply, in all material respects, with IAS. For a discussion of the principal differences between Finnish GAAP and U.S. GAAP, see "Annex A: Summary of Major Differences Between Finnish GAAP and U.S. GAAP."

	Year ended December 31,						Nine months ended September 30,		
	1993	1994	1995	1996	1997	1997	1997	1998	1998
	(FIM)	(FIM)	(FIM)	(FIM)	(FIM)	(U.S.\$)(1)	(FIM)	(FIM)	(U.S.\$)(1)
			(audited)			(millions)	(unaudited)		
INCOME STATEMENT DATA									
Net sales(2)	63,089	49,201	43,335	43,375	45,660	8,956	33,355	28,695	5,628
Share of profits of associated companies(3)	81	171	419	(18)	361	71	240	136	27
Other operating income	307	507	525	286	126	25	101	82	16
Operating expenses(2)(4)	(60,767)	(46,194)	(40,746)	(41,131)	(43,016)	(8,438)	(31,256)	(26,622)	(5,221)
Depreciation(4)	(2,170)	(1,442)	(1,391)	(1,434)	(1,514)	(297)	(1,136)	(1,263)	(248)
Operating profit	540	2,243	2,142	1,078	1,617	317	1,304	1,028	202
Financial income and expenses(4)	(2,061)	(1,012)	(778)	(512)	(634)	(124)	(476)	(532)	(105)
Profit before extraordinary items and taxes	(1,521)	1,231	1,364	566	983	193	828	496	97
Extraordinary items	92	(56)	(26)	179	(997)	(196)	(777)	(72)	(14)
Profit before reserves and taxes	(1,429)	1,175	1,338	745	(14)	(3)	51	424	83
Change in untaxed reserves	2,636	533	—	—	—	—	—	—	—
Income taxes	(110)	(349)	(624)	(205)	265	52	287	(238)	(47)
Minority interests	23	(6)	(53)	(51)	(56)	(11)	(42)	(53)	(10)
Net profit for the period	1,120	1,353	661	489	195	38	296	133	26
CASH FLOW DATA									
Net cash from operating activities	1,893	1,889	2,000	1,649	2,580	506	N/A	N/A	N/A
Cash flow from investing activities(4) ..	(4,020)	(315)	(821)	(1,325)	(2,152)	(422)	N/A	N/A	N/A
Cash flow from financing activities(4)	1,179	(1,037)	(1,467)	(2,374)	(312)	(61)	N/A	N/A	N/A
Net increase (decrease) in cash and marketable securities	(948)	537	(288)	(2,050)	116	23	N/A	N/A	N/A
BALANCE SHEET DATA									
Total assets	45,342	35,700	33,423	31,606	32,812	3,436	N/A	27,763	5,445
Fixed assets and other long-term investments(4)	28,566	22,833	22,033	21,755	22,448	4,403	N/A	18,825	3,692
Current assets	16,776	12,867	11,390	9,851	10,364	2,033	N/A	8,938	1,753
Shareholders' equity(5)(6)	3,268	4,658	11,816	12,025	12,012	2,356	N/A	11,496	2,255
Minority interests	68	342	362	373	416	82	N/A	433	85
Untaxed reserves(5)	8,117	7,530	—	—	—	—	N/A	—	—
Provisions for liabilities and charges ..	110	222	112	58	175	34	N/A	268	53
Interest-bearing debt(4)	22,835	16,172	12,943	10,847	11,915	2,337	N/A	8,410	1,649
Deferred tax liabilities(5)(6)	—	—	2,347	2,211	1,833	360	N/A	1,687	331
Other interest-free liabilities	10,944	6,776	5,843	6,092	6,461	1,267	N/A	5,469	1,072

- (1) Translated solely for convenience at an exchange rate of US\$1.00 = FIM 5.0984, the Bank of Finland Middle Rate on September 30, 1998.
- (2) Since January 1, 1998, credit losses, freight and other delivery expenses, which have previously been entered under sales adjustments in the financial statements of Neste, have been entered under operating expenses. The impact of this change has been accounted for in respect of the comparable period in 1997.
- (3) In 1995, the depreciation plan of goodwill on consolidation of Borealis was changed. As a result, annual depreciation entered in the share of profits of associated companies increased by FIM 330 million in 1995, 1996 and 1997.
- (4) Beginning in 1998, properties acquired through finance leasing agreements have been recognized as assets, and related debt has been recognized as liabilities, on the balance sheet of Neste. Depreciation of the fixed assets and interest expenses on the debt have been entered in the income statement of Neste instead of rental expenses. The impact of these changes has been accounted for in respect of the comparable period in 1997.
- (5) Beginning in 1995, untaxed reserves and accumulated depreciation above plan have been divided into shareholders' equity and deferred tax liabilities.
- (6) Since January 1, 1998, deferred tax assets on loss carry-forwards have been recognized in deferred tax liabilities. As a result of this change, a total of FIM 112 million of deferred tax assets for previous periods has been entered directly in shareholders' equity.

THE OFFERINGS

The Offerings	A total of 175,000,000 Shares is being offered by the Selling Shareholder and the Company in connection with the Global Offering, the Exchange Offer, the Finnish Retail Offering and the Employee Offering.
The Global Offering	
<i>The International Offering</i>	25,000,000 Offer Shares offered by the Selling Shareholder to institutional investors outside of the Republic of Finland.
<i>The Finnish Offering</i>	34,727,646 Offer Shares offered by the Selling Shareholder to institutional investors in the Republic of Finland by means of a separate Finnish-language document.
The Finnish Retail Offering	In conjunction with the Global Offering, 22,000,000 Shares are being offered by the Selling Shareholder to the public in Finland, at the same price per Share as the price per Offer Share in the Global Offering; provided that, under certain conditions, investors in the Finnish Retail Offering are eligible to receive free Shares based on the number of Shares purchased by them, as described under "Underwriting — Finnish Retail Offering." No such free Shares are offered in respect of Offer Shares offered in the Global Offering.
The Employee Offering	In connection with the Finnish Retail Offering, the Company is offering a maximum of 2,000,000 newly-issued Shares to employees of Fortum (with certain exceptions) at the same price per Share as the price per Offer Share in the Finnish Retail Offering, less a cash discount of ten percent. The Shares issued in connection with the Employee Offering carry no entitlement to free Shares.
The Exchange Offer	91,272,354 newly issued Shares offered by the Company to former shareholders and warrant holders of Neste, in exchange for shares and warrants of Neste that have been transferred to the Company by such former shareholders and warrant holders. The Company will receive no consideration as a result of the issuance of Shares pursuant to the Exchange Offer other than the transfer to the Company of shares of Neste, which has already taken place. See "The Combination."
Offer Price	FIN 32 per Offer Share. Except as described above, the offering price will be the same for each of the Offerings.
Shares Outstanding and Share Ownership	691,510,281 Shares are currently issued and outstanding, 97.5 percent of which are owned by the Selling Shareholder. Immediately following the completion of the Offerings, the Selling Shareholder will own approximately 75.5 percent of the Shares.
Lock-up	The Selling Shareholder and the Company have undertaken that, without the consent of the Lead Managers, as defined in "Underwriting" (which consent will not be unreasonably withheld), they will not, with certain exceptions, offer, sell, contract to sell or otherwise dispose of any Shares or securities convertible into Shares for 180 days from the date of this Offering Memorandum.
Dividends	Holders of Shares will be entitled to any future dividends declared by the Company, including any dividends declared by the Company in respect of the year ending December 31, 1998.
Listing and Trading	The Shares have been conditionally approved for listing on the main list of the HEX Helsinki Exchanges (the "Helsinki Stock Exchange") and have been approved for quotation on the Stock Exchange Automated Quotation System International of the London Stock Exchange ("SEAQ").

Use of Proceeds The Company will not receive any portion of the proceeds from the sale of Shares by the Selling Shareholder in the Offerings or from the offering of Shares to former shareholders and warrant holders of Neste pursuant to the Exchange Offer. The net proceeds to the Company from any issuance of Shares in the Employee Offering will be used for general corporate purposes.

Payment and Settlement Payment for and delivery of the Offer Shares are expected to take place on or about December 17, 1998. The Offer Shares may be delivered through the Finnish Book-Entry Securities System in Helsinki, Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system ("Euroclear") and Cedelbank, société anonyme.

The identification numbers for the Shares are as follows:

ISIN: FI0009007132.

Common Code: 9294627.

The trading symbol for the Shares on the Helsinki Stock Exchange will be "FUMIV."

INVESTMENT CONSIDERATIONS

Prior to making a decision to invest in the Offer Shares, prospective investors should carefully consider all of the information in this Offering Memorandum, including the following specific investment considerations. Certain other investment considerations relating to the business of Fortum are discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business of Fortum."

Electricity Markets

Electricity Prices

Fortum sells electricity both under bilateral contracts, typically with contract durations of one to five years, and on the spot market. Bilateral contracts may contain both fixed and variable price elements, in differing proportions, and the contractual terms on which electricity is sold are strongly influenced by the outlook for market prices over the duration of the contracts.

Spot electricity prices are subject to significant fluctuations resulting from a variety of factors with both short-term and long-term effects, the principal of which are consumer demand for electricity and availability of generation capacity, both of which are affected by weather conditions, fuel costs and changes in the regulatory environment. Contractual terms are subject to general competition among companies operating in the deregulated Nordic electricity markets.

Deregulation

Deregulation of the electricity markets in the Nordic countries has progressed considerably over the last several years, and has resulted in significant changes in the sales and distribution of electricity in this region as well as a high level of acquisitions and joint ventures among companies seeking to improve their competitive positions. While deregulation has created new opportunities for Fortum, it has also increased competition in the electricity industry of these countries. Electricity companies now compete for customers by means of a variety of new service models and product structures, and sales volumes are thus less certain.

Lowering of restrictions on the generation and cross-border supply of electricity means that Fortum increasingly competes with power companies from other countries, which may be able to operate at a lower cost. Some new entrants to the deregulated markets in which Fortum operates have tried to build market share through price competition, and management expects that increased competition from these and other new market entrants will continue to result in downward pressure on electricity prices.

Electricity Sales Contracts

In 1997, Fortum's total sales of electricity amounted to 48.1 TWh, of which approximately 70 percent were sales to large-scale customers, typically under long-term bilateral agreements with a fixed price. Measured by total delivery volume under contract (excluding Stockholm Energi), these agreements expire as follows: by the end of 1998, 18 percent; by the end of 1999, nine percent; by the end of 2000, 39 percent; and 34 percent thereafter. New contracts or spot sales may replace sales from contracts once they have expired. The sales prices in new contracts reflect the actual price levels in the spot market and futures market.

As the deregulated electricity market develops in Finland, some customers of electricity distribution companies are expected to terminate their electricity purchase arrangements and become direct customers of electricity generating companies. Accordingly, some customers of the electricity distribution companies that purchase electricity under long-term contracts from the Power and Heat Division may become direct customers of the division. However, it is possible that, to the extent such customers become direct customers of the division, the volume of electricity delivered under long-term contracts with electricity distribution companies will decrease correspondingly, offsetting some or all of the increase in the division's net sales resulting from any increase in its direct customer base.

Due to the current relatively low market price of electricity, prices under several of Fortum's long-term bilateral agreements are higher than the current spot market price of electricity. As a result, certain large customers that have long-term agreements with Fortum have requested renegotiation of these agreements, and claimed compensation for the difference between the price in the agreements and the market price. While management does not believe that there is legal basis for forced renegotiation or cancellation, it is possible that market conditions and other factors may require renegotiation of certain of these agreements. Currently, certain amendments to some existing agreements are being negotiated.

The Finnish Electricity Association has asked the Finnish Competition Authority to investigate IVO practices with respect to long-term electricity sales agreements. The investigation began September 1, 1998. The Ministry of Trade and Industry has appointed two administrators, with the current appointments expiring at the end of 1998, to review whether the wholesale electricity contracts include terms that may restrict competition in the Finnish electricity retail market and to make any necessary proposals based upon such review. It is not possible at this time to predict how long these investigations will continue, or their results.

Excess Capacity

Integration of the Nordic electricity markets exposes market participants, including Fortum, to the effects of excess capacity of producers in the Nordic countries and in other neighboring countries. For example, Norwegian power producers, which may have substantial excess capacity depending on weather conditions and the amount of precipitation, and Danish power producers, which have had lower operating costs due to differences in taxation and a surplus of coal-fired condensing power generation, have caused significant downward pressure on electricity prices in Finland and Sweden by exporting low-cost electricity to these markets. While limited power transmission capacity from northwestern Russia to the Nordic countries has to date limited the export to the Nordic countries of electricity produced in this region, it is possible that in the future the electricity markets of the Nordic countries could be affected significantly by the excess capacity in northwestern Russia.

Construction of new transmission interconnections among the countries of Northern Europe or from Russia to the Nordic countries could make it easier for countries with excess capacity to export power to Finland and Sweden, thereby depressing further prices in these countries. Currently, several projects to construct such connections are underway or being discussed, with new connections from Norway and Sweden to continental Europe expected to be completed between 1999 and 2004. Since the Nordic countries are already affected by excess capacity, it is possible that the opening of these new connections will have a positive effect on prices in the Nordic countries, as excess capacity can be exported to other countries. However, it is not possible at this stage to determine either the short- or long-term consequences of construction of these interconnections.

Price Regulation

While deregulation of electricity markets has progressed considerably in the Nordic countries, regulators still maintain the power to influence electricity prices, either directly or through taxation policies or other means. For example, the Electricity Market Authority, which monitors the electricity markets in Finland, is currently investigating the reasonableness of transfer prices of several Finnish electricity companies. One of the companies under investigation is Megavoima Oy, a subsidiary of Länsivoima Oyj, a Finnish electricity company 65.1 percent owned by Fortum ("Länsivoima"). The annual distribution volume of Megavoima Oy is less than 0.4 TWh. A preliminary decision by regulators in respect of Megavoima's pricing practices was given in November 1998, in which the pricing of Megavoima was considered unreasonable. Megavoima has until the end of November 1998 to respond to this decision. Another company under investigation is Stockholm Energi in Sweden, which was recently combined with Gullspång to form Birka Energi. On November 19, 1998, the Swedish national energy authority, Energimyndigheten, issued a report requiring Stockholm Energi and several other Swedish electricity companies to reduce the price of the electricity sold by them. Stockholm Energi has three weeks to file an appeal from the date of issuance of the report. Price regulation has not to date had a material adverse effect on Fortum's financial condition or results of operations, and the outcome of the investigations concerning Megavoima Oy and Stockholm Energi is not expected by management to have such a material adverse effect. However, there can be no assurance that authorities in one or more of the countries in which Fortum conducts electricity operations will not exercise the power to influence electricity prices in the future, or that Fortum's financial condition or results of operations will not be adversely affected as a result.

Each of the factors discussed above under the heading "Electricity Markets" may result in significant fluctuations in the price at which Fortum sells electricity, which could in turn materially affect Fortum's financial condition and results of operations.

Pricing of Crude Oil, Petroleum Products and Gas

Prices for crude oil, petroleum products and gas are subject to significant fluctuations resulting from a variety of factors affecting demand and supply, including changes in domestic and international economic conditions, political affairs and production levels, availability of imported products, marketing of competitive fuels, government regulation, and over-capacity of production facilities. While the diversity of Fortum's operations across the energy chain may serve to reduce the impact of these factors, the possibility that such fluctuations may affect Fortum's financial condition and results of operations cannot be excluded.

Environmental Considerations

Fortum's operations are subject to extensive environmental, health, safety and consumer protection laws and regulations adopted by governmental authorities in the jurisdictions in which Fortum operates. The nature of certain of Fortum's businesses, in particular petroleum refining, power and heating plant operations and chemical production, exposes Fortum to risks of environmental costs and liabilities arising from the manufacture, use, storage, transport and sale of materials that may be considered to be contaminants when released into the environment, including through flue gas emissions from thermal power and heating plants, nuclear power operations and other activities. Liability may also arise through the acquisition or ownership of properties or businesses. Fortum has established systems intended to reduce or prevent environmental damage as a result of its activities. There can be no assurance, however, that environmental contamination due to prior, present or future practices will not result in future liabilities that may be significant.

Management expects that because of the nature of Fortum's business operations it will become subject to increasingly stringent environmental and other regulatory requirements. These requirements may result in an increase in Fortum's capital expenditures and operating costs. Management's plans to meet these new requirements, and the costs of undertaking such plans, may change as further detailed engineering and economic studies are completed and new requirements are introduced. There can be no assurance that the actual costs of planned capital projects will not exceed current estimates. New environmental initiatives could result in significant additional expenditures or reduction or termination of certain operations, which could, in turn, have a material adverse effect on Fortum's financial condition or results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" and "Environmental Regulation."

Management believes that Fortum's operations comply in all material respects with applicable environmental laws, regulations, permits and guidelines both at the EU level and in all jurisdictions where Fortum operates, including Finland and Sweden. While it is too early to predict the effects of the UN climate convention and implementation of the Kyoto Protocol and certain other current proposals for environmental reforms, management is currently not aware of any provision of applicable existing law, regulation, permit or guideline or any presently proposed new law, regulation, permit or guideline or any presently proposed amendment to any such law, regulation, permit or guideline that would require such significant expenditure in the future that could reasonably be expected to have a material adverse effect on Fortum's financial condition or results of operations. See "Environmental Regulation — International Conventions — Kyoto Protocol to the UN Framework Convention on Climate Change."

Nuclear Power

Operation of a Nuclear Power Plant

The operation of a nuclear power plant involves substantial potential costs and liabilities, and is governed by strict international, EU and local nuclear regulatory regimes. See "Environmental Regulation." Fortum owns and operates one nuclear power plant, located at Loviisa, Finland, consisting of two plant units, and holds a 26.6 percent shareholding in Teollisuuden Voima Oy ("TVO"), which owns and operates a nuclear power plant in Olkiluoto, Finland, which has two plant units. In addition, Fortum has ownership interests in the Forsmark and Oskarshamn nuclear power plants in Sweden. See "Business of Fortum — Description of Operations by Division — Power and Heat Division — Nuclear Power." While sophisticated monitoring and control systems are in place at each of these facilities, the risks of leakage of radioactive gases or materials, or (under extreme circumstances) a severe reactor accident, though remote, cannot be excluded entirely. Liabilities or loss of power generation revenue resulting from any such event could have a material adverse effect on Fortum's financial condition and results of operations.

Disposal of Nuclear Waste

Under Finnish law, Fortum bears full legal and financial responsibility for management and disposal of nuclear waste produced by the Loviisa power plant. Fortum bears partial responsibility, proportionate to its output share, for the costs of management and disposal of nuclear waste produced by the Olkiluoto nuclear power plant of which it is a part-owner, pursuant to the shareholders' agreement relating thereto. A company established by Fortum and TVO is examining potential sites in Finland for final disposal of spent nuclear fuel from both the Loviisa and Olkiluoto power plants. Study of potential sites for the final disposal facility began in 1983 in accordance with the nuclear waste disposal program set forth by the Finnish Council of State, and a site is expected to be selected by 2000. Prior to the construction of the disposal facility, a decision of the Finnish

Council of State is required. Such a decision requires a consent of the Finnish Radiation and Nuclear Safety Authority and the municipal council of the community where the facility is to be located as well as the consent of the Finnish Parliament. Construction of the final repository is scheduled to begin in 2010, with disposal commencing in 2020. Both the Loviisa and Olkiluoto facilities already operate on-site permanent repositories for low-level and intermediate-level radioactive waste resulting from purification of water used in power plant operations and maintenance and operational activity, such as gloves, clothing and particulates. Waste is placed in containers and stored within a cavern complex excavated in bedrock over 50 meters underground. Such repositories will also house irradiated equipment and construction material when the respective nuclear facilities are decommissioned.

In Sweden, under the shareholders' agreements relating to the Forsmark and Oskarshamn nuclear power plants, Birka Energi bears partial responsibility, proportionate to its share of output, for the costs of management and disposal of radioactive waste and certain related funding costs from these facilities.

In both Finland and Sweden, the future costs of final disposal of spent fuel, management of low and intermediate-level radioactive waste and nuclear power plant decommissioning are provided for by state-established funds funded by annual contributions from nuclear power plant operators. See "Environmental Regulation — Finland — Nuclear Power" and "Environmental Regulation — Sweden — Nuclear Power." Even though contributions to such funds are sufficient to cover estimated future costs of final disposal of spent fuel, management of low and intermediate-level radioactive waste, plant decommissioning and a safety margin of more than ten percent has been included in the calculation of such estimated future costs, the possibility exists that actual costs could exceed fund provisions. If this were to occur, Fortum, for its part, would be responsible for any such excess costs.

Multi-layered containment systems and sophisticated safety protocols effectively isolate radioactive materials from the surrounding environment during the process of interim storage, packaging, transport, relocation and encasement of nuclear waste in the final storage repositories. However, though remote, the risk of radioactive leakage into the environment at various stages of this process, as well as from the final storage facilities themselves, cannot be excluded entirely and could have a material adverse effect on Fortum's financial condition and results of operations.

Regulation of Nuclear Power Plants

Governmental authorities hold considerable regulatory authority with respect to the continued operation of nuclear power plants, including monitoring of compliance with license conditions, amendment of conditions of existing licenses and the power to refuse applications for construction of new nuclear power plants or expansion of existing facilities. Exercise of this authority, as with all other regulatory authority, may be influenced significantly by changes in the balance of national political power. Recently, the government of Sweden has commenced procedures to close one unit of a nuclear power plant in that country prior to the end of its expected technical life, and construction of new nuclear power plants has been prohibited in Sweden since the 1980s. The Swedish government has tentatively indicated an intention of providing compensation, with certain limitations, to the owners of the power plant unit targeted for closure.

Management does not expect political events in Finland or Sweden to result in closure of the nuclear power plants in which Fortum holds interests within the foreseeable future. However, the possibility of closure prior to the end of the expected technical life of one or more of these power plants or other restrictive action relating thereto, as a result of changes in the regulatory regime, license conditions or national political environments of Finland or Sweden or other factors, cannot be excluded entirely.

Raw Materials

Fortum is dependent upon raw materials such as natural gas, coal, oil, peat, wood and uranium to fuel its power production facilities. Fortum also requires crude oil and other feedstocks for its refineries to produce various petroleum products, and requires a wide range of chemical components for the manufacture of chemicals. A substantial portion of Fortum's operations is dependent on continued access to these and other raw materials and supplies at appropriate prices.

All of the natural gas used by Fortum in Finland is sourced from Russia under a long-term supply contract. Crude oil and refinery feedstocks are primarily sourced from the North Sea and Russia. Wood and peat are mainly obtained from Finland and, to a lesser extent, Sweden. With respect to the Loviisa nuclear power plant, fuel rods and the uranium contained therein are acquired from suppliers in Russia, although Fortum is

currently preparing for the option of also procuring fuel rod assemblies from British Nuclear Fuels plc (BNFL), in which case the corresponding uranium would be purchased on international markets. Fuel for the Olkiluoto, Forsmark and Oskarshamn nuclear power plants is purchased on international markets. Chemical components for the production of gelcoats, adhesive resins and oxo products are sourced primarily from local suppliers in various parts of the world.

Management does not currently foresee difficulties in obtaining raw materials for Fortum's refining, manufacturing or power production activities. However, it is possible that Fortum's ability to obtain at appropriate prices raw materials that are necessary for its operations in one or more business sectors may be restricted or eliminated altogether as a result of changes in world markets, government restrictions, natural disturbances, regional hostilities or other factors.

Risks Relating to Trading and Hedging Activities

As part of the management of risks relating to fluctuations in prices of crude oil, electricity and other commodities related to Fortum's business, Fortum conducts trading operations in and relating to these commodities. Trading is conducted on international and regional markets, and involves spot transactions and contracts for future delivery, as well as options and other derivative products. To manage exchange rate risks arising from international transactions and operations, Fortum also conducts currency trading operations, involving forward exchange agreements, options, currency swaps and other derivative products.

Crude oil trading operations conducted by the Oil Division resulted in significant losses in 1996. Since that time, measures have been undertaken to improve risk management and supervision of trading operations. The level of trading activity has been reduced significantly during the 1990s.

Both IVO and Neste have adopted policies and controls relating to trading operations that are designed to limit exposure to market and other risks arising from these operations. These policies will be combined to develop a single set of guidelines to be applied throughout the Fortum Group, and supervision of all Fortum trading operations will be coordinated by Fortum's new centralized corporate management. While these steps are designed to limit Fortum's exposure to risks relating to trading operations, there can be no assurance that Fortum will not sustain losses in the future as a result of adverse movements in commodity prices or other factors affecting its trading positions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Interest Rate and Exchange Rate Risk."

Currency Exchange Rates

Net sales and operating results of Fortum are affected by changes in currency exchange rates, as a majority of Fortum's net sales and raw material purchases are denominated in foreign currencies, including primarily the currencies of the member states of the EU and the U.S. dollar. In 1996, Finland joined the EU's Exchange Rate Mechanism ("ERM"), pursuant to which the Finnish markka was linked to certain other Western European currencies, and Finland is to be among the first EU member states to join stage three ("Stage Three") of the EU's Economic and Monetary Union ("EMU"). Management does not expect Finland's participation in the EMU to adversely affect Fortum's financial condition or results of operations.

Finland is to participate in Stage Three from its commencement in January 1999, but Sweden will not be joining Stage Three at such time, and it is currently uncertain whether, and if so when, Sweden will convert to the euro. Since Fortum has significant operations in Sweden, Fortum's financial condition and results of operations will be particularly affected by the exchange rate between the euro and the Swedish krona. Although the exchange rate between the Finnish markka and the Swedish krona in recent years has been relatively stable, no assurance can be given that volatility in the future exchange rate between the Swedish krona, on the one hand, and the Finnish markka and, following its introduction, the euro will not adversely affect Fortum's financial condition and results of operations. See "— Computer Technology Conversion Risk" below.

Emerging Market Risks Related to Russia and Certain Other Countries

Fortum has operations in a number of countries with emerging markets, including Russia, the Baltic states, and other countries in Central Europe and Asia. These countries are subject to greater political, economic and social uncertainties than countries with more developed institutional structures, and the risk of loss resulting from changes in law, economic and social upheaval and other factors may be substantial. Among the more significant risks of operating and investing in emerging market countries are those arising from establishment or enforcement of foreign exchange restrictions, which could effectively prevent Fortum from repatriating profits or

liquidating assets and withdrawing from one or more of these countries, and changes in tax regulations or enforcement mechanisms, which could reduce substantially or eliminate any revenues derived from operations in these countries and reduce significantly the value of assets related to such operations.

Inadequacies of the legal systems and law enforcement mechanisms in Russia and certain other of the emerging markets in which Fortum operates leave it exposed to the possibility of considerable loss as a result of criminal or abusive practices by competitors, parties with which it contracts or others. Fortum has recently experienced difficulties in certain of its operations in Russia as a result of such activities, and management expects the risk of loss resulting from such conditions in Russia and certain other countries to continue for the foreseeable future. In the near term, the unstable political and economic situation in Russia may also, to a limited extent, adversely affect Fortum's business and results of operations. In particular, the collection of receivables and the invoicing and collection of charges for other uninvoiced work in relation to the construction of the Northwest power plant in St. Petersburg may become increasingly difficult. In addition, the economic conditions and political instability in Russia may negatively affect the operations of, and the results from, Fortum's 20 gasoline stations and related expansion plans in the St. Petersburg area as well as the value of certain limited investments by Fortum in Russia.

Fortum is involved in a variety of operations in Southeast Asia, including the design, construction and operation of power and heat plants, the manufacture of chemicals, and sales and service operations. The current economic turmoil in the region, marked by currency devaluations, banking crises and reduced consumer demand, has resulted in reduced sales of chemicals, delays in certain power and heating plant projects in which Fortum is involved, and the suspension or possible cancellation of two long-term operation and maintenance contracts. While Fortum's investments in Southeast Asia are not currently material, continued economic uncertainty in the region could have, directly or indirectly, an adverse effect on Fortum's financial condition and results of operations.

Due to the limited scope of investments and other exposures of Fortum in Russia and in Southeast Asia, management does not expect the current unstable political and economic conditions in these areas to have a material adverse effect on Fortum's financial condition or results of operations.

Computer Technology Related Risks

Fortum utilizes computerized systems to perform a variety of functions relating to its business, including operation of refineries, power and heating plants and other facilities, transmission and distribution of energy, navigation and communication, and financial and other operations.

Steps are being taken by Fortum to evaluate the likely impact of the Year 2000 changeover on its networks and systems. A considerable amount of work has already been undertaken to plan and test for Year 2000 compliance of existing core business systems. In addition, some of Fortum's units have already upgraded or replaced (or are in the process of replacing) core systems for other business reasons, and have incorporated Year 2000 compliance criteria within specifications for these replacements and upgrades. Contingency plans have also been developed. Based upon the results of these activities, management believes that all reasonable steps are being taken to ensure that the key systems within Fortum's direct control will be made Year 2000 compliant on a timely basis.

In addition, management is evaluating the extent to which systems that are material to Fortum's business operations and provided by third-party suppliers are Year 2000 compliant and, if not, when and if such compliance will be achieved. However, Fortum has less or no control over the compliance of these systems, and failure of these systems to meet Year 2000 compliance criteria may have a material adverse effect on Fortum's operations immediately before and after December 31, 1999.

There are currently more than 200 employees involved in Fortum's Year 2000 project in Finland. Direct costs relating to the project of no more than FIM 150 million are expected for 1998. Costs related to full implementation of Year 2000 compliance during 1999 are expected to be less than costs in 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Year 2000 and Euro Conversion."

Fortum is also in the process of preparing relevant information technology systems for the conversion of the Finnish markka to the euro. Principal areas affected by the conversion include accounting, financing, compensation administration, risk management and cash management. See "— Currency Exchange Rates" above.

While the processes of achieving Year 2000 compliance and preparing for conversion to the euro have proceeded smoothly to date, there can be no assurance that these efforts will not require costs or resources beyond those currently anticipated, or that unforeseen technical or other difficulties will not prevent the successful completion of one or both of these processes by the required time.

Integration of Operations of the IVO and Neste Groups

The formation of Fortum resulted in the combination of two independent business groups with diverse operations. While ownership of all shares in IVO and in Neste has been consolidated in the Company, the process of integration of the operations of the IVO Group and the Neste Group will require a significant amount of time and resources to complete.

Although IVO and Neste have both been controlled by the Finnish State, they have operated as independent companies. Integration of these two groups will require substantial attention from senior management and may also require significant expenditures. No assurance can be given that the operations of the IVO Group and the Neste Group will not be adversely affected by the process of integration and resulting diversion of management attention from other tasks. See “Fortum Group — Business Strategy.”

Ownership and Controlling Interest of the Finnish State

Upon completion of the Offerings, the Finnish State will hold approximately 75.5 percent of the Shares of and voting rights in the Company. Accordingly, the Finnish State, through its remaining shareholding, will continue to have the power to determine matters submitted for a vote of shareholders, including the approval of the annual financial statements, declarations of dividends, capital increases, amendments to the Company’s Articles of Association and the election and removal of members of the Board of Directors and the Supervisory Board of the Company.

Representatives of the Finnish State are required to observe certain guidelines in connection with the exercise of the Finnish State’s rights as a shareholder and the Finnish State’s internal decision-making relating to the administration of its ownership interests in state-controlled corporations. See “Ownership Structure and Relationship with the Finnish State — Guidelines on the Operation of State-Controlled Companies.”

The Finnish Parliament has authorized the Council of State to reduce the Finnish State’s shareholding in the Company to no less than 50.1 percent. Approval by the Finnish Parliament would be required for any further disposition of the Finnish State’s shareholding in the Company. The timing and manner of any further sale of Shares after the Offerings, or its effect on the Company’s shareholders, cannot be determined at this time.

Shares Eligible for Future Sale

Sales of substantial amounts of Shares in the public market following the Offerings, as well as the perception that such sales could occur, could have an adverse effect on the market for and the price of the Offer Shares. Each of the Company and the Finnish State has agreed that, it will not, for a period commencing on the date of this Offering Memorandum and ending 180 days after such date, issue, offer, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Shares held by each of them at the date of commencement of the Offerings, in each case without the prior consent of the Lead Managers, as defined in “Underwriting”, as representatives of the Managers, which consent shall not be unreasonably withheld; provided, however, that such restriction does not apply to any issuance of bonds with warrants, options or Shares underlying such warrants or options pursuant to existing employee incentive programs of the Company.

Absence of Prior Market for the Shares

Prior to the Offerings, there has been no public market for the Shares. The Shares have been conditionally approved for listing on the main list of the Helsinki Stock Exchange, and it is expected that trading of the Shares on the Helsinki Stock Exchange will commence on December 18, 1998.

The offer price of the Offer Shares has been determined by negotiation among the Company, the Selling Shareholder and the Managers, and may bear no relationship to the market price of the Shares subsequent to the Offerings. See “Underwriting.”

Dividends

The amount of future dividend payments, if any, will depend upon Fortum's future earnings, financial condition, cash flows, working capital requirements and other factors. In accordance with the Finnish Companies Act (the "Companies Act") and Finnish practice, dividends will be paid annually after the general meeting of shareholders has approved the Company's results and decided upon the amount of the dividend, if any, proposed by the Board of Directors. See "Dividends" and "Description of the Shares and Share Capital — Dividends and Other Distributions."

Foreign Investment Risk

An investment by a foreign currency investor in securities such as the Offer Shares, denominated in Finnish markkas, exposes the investor to a foreign currency risk. Any depreciation of the Finnish markka in relation to such foreign currency will reduce the value of the investment in foreign currency terms and any appreciation of the Finnish markka will increase the value of such investment in foreign currency terms.

Possible Unavailability of Preemptive Rights for U.S. Holders

U.S. holders of the Offer Shares may not be able to exercise any preemptive or preferential rights in respect of Offer Shares held by them unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements thereunder is available. See "Description of the Shares and Share Capital — Preemptive Rights."

DIVIDENDS

The Company's objective is to pay regular annual dividends based upon, and in relation to, profits. The amount of any dividends to be paid in the current and future years will depend on the Company's future earnings, financial condition, cash flows, working capital requirements, the business cycle, financial ratio targets and other factors. The Company's Board of Directors has adopted a dividend policy which is to be observed beginning with the year ended December 31, 1998. Under this policy, subject to the foregoing factors, the Board is to recommend to the shareholders a dividend competitive with the dividends paid by other international oil, gas and electricity companies in Fortum's industry peer group. Since its establishment in February 1998, the Company has neither declared nor paid any dividend.

The Offer Shares are entitled to any future dividend, including any dividend for the year ending December 31, 1998.

Under the Companies Act and in accordance with prevailing practice in Finland, dividends on the shares of a Finnish company are generally paid only annually and only after shareholder approval of the company's financial statements and of the amount of the dividend proposed by the Board of Directors. Accordingly, the payment by the Company of a dividend in respect of the Shares will require the approval of the holders of a majority of the votes carried by the Shares represented at the annual general meeting of shareholders held before the end of June in each year. Under the Companies Act, the amount of any dividend is limited to the lesser of the Company's and the Group's distributable funds available at the end of the preceding fiscal year and is further subject to additional limitations. As of September 30, 1998, total distributable funds for the Group on a pro forma basis, including the net profit for the nine months ended September 30, 1998, were FIM 7,748 million. Extraordinary shareholders' meetings of IVO and Neste held on September 8, 1998 each resolved to declare a dividend of FIM 500 million to the Company. As a result of these dividends, the Company's results for the nine months ended September 30, 1998, and therefore the amount of its distributable funds, increased by FIM 1 billion. As of September 30, 1998, the retained earnings for the Company totaled FIM 983 million. See "Description of the Shares and Share Capital — Dividends and Other Distributions."

Dividends paid to holders of Shares who are non-residents of Finland generally will be subject to Finnish withholding tax at a rate of 28 percent, which rate may be reduced pursuant to an applicable tax treaty to which Finland is a party. See "Taxation."

EXCHANGE RATES

In October 1996, Finland joined the ERM, pursuant to which the Finnish markka was linked to certain Western European currencies. The central parity against the German mark was set at FIM 3.04. The fluctuation range is currently set as a range of ± 15 percent against the European Currency Unit ("ECU"), which is typical for currencies in the ERM. In the beginning of May 1998, Finland was approved as one of the first 11 EU member states to join Stage Three of the EMU from its commencement date, following approval of Finland's participation in Stage Three by the Finnish Parliament. The relevant governing bodies and participating member states of the EU agreed to use the previously set ERM rates as the basis for determination of the exchange rates of the euro and the currencies of the countries participating in Stage Three. The final rates are to be effective from January 1, 1999.

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates of the Finnish markka against the U.S. dollar, expressed in Finnish markka per U.S. dollar at the Bank of Finland Middle Rate.

	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>End of Period</u>
		<i>(Finnish markka per U.S. dollar)</i>		
1993	6.0614	5.2940	5.7189	5.7845
1994	5.7999	4.5345	5.2184	4.7432
1995	4.8071	4.1839	4.3658	4.3586
1996	4.8487	4.3311	4.5905	4.6439
1997	5.6120	4.6290	5.1944	5.4207
1998 (through December 10)	5.6275	4.8383	5.3570	5.0488

Exchange rates for certain currencies against the Finnish markka, based on the Bank of Finland Middle Rate at year-end for the years indicated and at December 10, 1998, are given in the table below:

	<u>At December 31,</u>					<u>At December 10,</u>
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
	<i>(FIM per unit of currency)</i>					
U.S. dollar (U.S.\$)	5.78	4.74	4.36	4.64	5.42	5.05
Swedish krona (SEK)	0.69	0.64	0.65	0.67	0.69	0.63
German mark (DEM)	3.34	3.06	3.04	2.99	3.03	3.04
English pound sterling (GPB)	8.55	7.41	6.74	7.87	8.99	8.40
European currency unit (ECU)	6.46	5.82	5.60	5.77	5.98	5.96

USE OF PROCEEDS

The Company will not receive any portion of the proceeds from the sale of Shares by the Selling Shareholder in the Global Offering and will not receive any cash proceeds from the issuance of Shares pursuant to the Exchange Offer. The net proceeds to the Company of approximately FIM 54 million from the issuance of Shares in the Employee Offering will be used for general corporate purposes.

The net proceeds to the Selling Shareholder from the Global Offering are estimated to be approximately FIM 2,520 million (approximately U.S.\$500 million) after deduction of underwriting fees and estimated expenses.

PRO FORMA CAPITALIZATION

The following table sets forth Fortum's pro forma capitalization as of September 30, 1998, after giving effect to completion of the Exchange Offer and as adjusted to give effect to the application of net proceeds to the Company of approximately FIM 54 million from the issuance and sale of Shares in the Employee Offering (assuming issuance of 2,000,000 Shares in the Employee Offering). This table should be read in conjunction with the Pro Forma Consolidated Financial Statements and Pro Forma Interim Consolidated Financial Statements and the notes thereto included elsewhere in this Offering Memorandum.

	At September 30, 1998		
	Pro Forma (FIM)	As Adjusted (FIM) (millions)	As Adjusted (U.S.\$)(1)
Cash and marketable securities	4,162	4,216	827
Short-term interest-bearing liabilities (including current portion of long-term interest-bearing debt)	6,914	6,914	1,356
Shareholders' equity			
Share capital	15,656	15,696	3,079
Additional paid-in capital	—	18	4
Retained earnings	6,926	6,926	1,358
Net profit for the period	822	818	160
Total shareholders' equity	23,404	23,458	4,601
Minority interests	1,197	1,197	235
Long-term interest-bearing liabilities	20,185	20,185	3,959
Total capitalization	44,786	44,840	8,795

(1) Translated solely for convenience at an exchange rate of U.S.\$1.00 = FIM 5.0984, the Bank of Finland Middle Rate on September 30, 1998.

See "Dividends" for information relating to Fortum's distributable funds.

FORTUM GROUP

General

Fortum is an international energy group based in Finland, with substantial operations in the Nordic countries. Fortum's operations include oil and gas exploration and production, refining and sales of petroleum products, transmission, sale and distribution of natural gas, generation, sale and distribution of power and heat, operation and maintenance of power and heating plants, design, planning and construction of power and heat plants and related consulting services, engineering of transmission and distribution systems and other power-related facilities, manufacturing and sale of energy-measurement devices and related services, and production and sale of chemicals.

Fortum's operations are principally located in Finland and Sweden, but it also has ownership interests in oil exploration and production projects, power and heating plants, tanker vessels, terminals, gasoline and diesel fuel retail outlets, chemical plants, and other interests in its operating areas in Europe, the Middle East, Africa, Asia and North America. During the nine months ended September 30, 1998, the average number of employees of Fortum was 18,981, with 78 percent based in the Nordic countries. On a pro forma basis, Fortum had total net sales of FIM 60,044 million (U.S.\$11,777 million) in 1997, resulting in pro forma operating profit of FIM 4,407 million (U.S.\$864 million). For the nine months ended September 30, 1998, Fortum had total net sales of FIM 38,044 million (U.S.\$7,462 million) and operating profit of FIM 2,390 million (U.S.\$469 million) on a pro forma basis. As of September 30, 1998, Fortum had total assets of FIM 67,241 million (U.S.\$13,189 million) on a pro forma basis.

Formation of Fortum

Fortum is an international energy group formed through the combination of the IVO Group and the Neste Group, two Finnish industrial groups with extensive operations in the energy sector in the Nordic countries and certain other countries throughout the world. Prior to the Combination, IVO had been 95.60 percent owned by the Finnish State, while Neste had been a publicly quoted company, the shares of which were 83.17 percent owned by the Finnish State. Ownership of IVO and Neste was consolidated in the Company through a series of transactions beginning in April 1998, resulting in the formation of a leading European energy group that provides a full range of energy-related services in its home market of Northern Europe and participate in other markets on a selective basis. See "Formation of Fortum — Combination of IVO and Neste."

As a result of the Combination, IVO and Neste are wholly-owned subsidiaries of the Company, 97.5 percent of the share capital of the Company is currently held by the Finnish State and the remaining 2.5 percent of the share capital of the Company is held by the SII. The Finnish State now seeks the partial privatization of the Company through the offerings of Shares to the public in Finland and, through the Global Offering, to Finnish and international institutional investors.

Key Strengths

Fortum's objective is to be one of the leading energy groups in Europe, at the forefront of innovation in each of the markets in which it operates. Management seeks to achieve this objective by building on Fortum's existing key strengths:

- *One of the Leading Energy Companies in the Nordic Countries.* Fortum's operations are focused in the Nordic countries, particularly Finland and Sweden, where it is one of the largest energy companies. Fortum's high-quality asset base includes a diversified portfolio of power generation facilities and two refineries. Fortum's power plants include hydroelectric and nuclear power facilities, which are characterized by low production costs, and plants utilizing thermal and other power generation means, allowing Fortum to adjust its generation to take advantage of price variations in both electricity and fuels. The advanced technologies used in Fortum's refineries allows it to adjust quickly the mix of its product output to correspond to changing market conditions and to maximize the share of higher value-added products.
- *Integrated Operations at Each Stage of the Energy Chain.* Fortum's operations encompass all stages of the energy production and delivery process, from oil and gas exploration and production through refining, transport and sales of petroleum products, and from power and heat generation and design, construction and operation of power and heating plants through sale and distribution of electricity and heat.
- *Experience in the Deregulated Energy Markets of the Nordic Countries.* Fortum has long operated in a competitive environment and, in recent years, the advanced state of deregulation of the energy markets in

the Nordic countries has further increased competition in its home markets. This experience has positioned Fortum to take advantage of opportunities arising as deregulation of the energy sector proceeds elsewhere in Europe. Deregulation in the Nordic countries is expected to continue to force smaller electricity companies to consolidate in order to realize efficiencies and economies of scale. Fortum is experienced in the acquisition and integration of distribution companies in Finland and Sweden, and is well-placed to take advantage of new acquisition opportunities as they arise.

- *Customer-Focused Business.* Fortum is a leader in the development of new energy marketing concepts designed to offer both electricity companies and industrial and retail customers a broader range of options and increased flexibility, thereby better meeting their energy needs.
- *Environmentally-Responsible Operations and Products.* Fortum has a history of innovation in the implementation of environmentally-responsible operating methods and the development of environmentally-responsible fuels and other energy products. Today, Fortum is a leader in the area of CHP generation, which is recognized for its high efficiency and lower environmental impact, and has expertise in nuclear, hydroelectric and renewable energy power generation techniques. Fortum is also a market leader in the development of advanced traffic fuels, reformulated to have reduced environmental impact.
- *Well-Positioned to Pursue Future Opportunities in Russia and Central Europe.* Fortum's location provides it with an advantage in accessing the energy resources and markets of Russia and Central Europe. Even before the recent opening of these markets, Fortum had purchased crude oil, natural gas and electricity from Russia and the former Soviet Union. In addition, the Group has its own operations in Russia and Central Europe, though on a small scale to date. This experience provides Fortum with the basis upon which to evaluate selectively the opportunities in this region that may arise in the future when market conditions are appropriate.

Business Strategy

Fortum's business strategy, which is being implemented under the direction of its new centralized corporate management with the goal of continuously increasing shareholder value, consists of three principal components: restructuring and focusing on core operations, improving efficiency of current operations, and growing through investments and acquisitions in core business areas.

Restructuring and Focusing on Core Operations

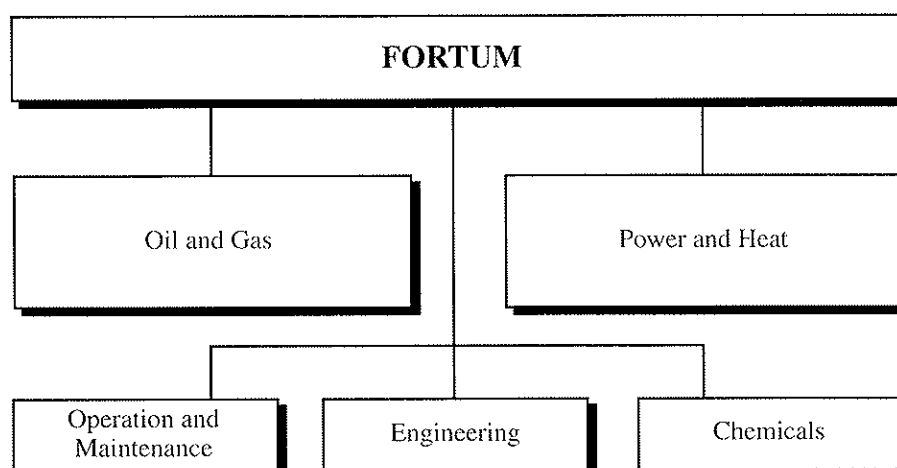
The Group combines two of the Nordic countries' leading energy groups, the IVO Group and the Neste Group. Fortum has begun the process of integrating these two organizations in order to realize the benefits of efficiencies that may be derived through the elimination of overlapping organizations and operations. The implementation of this restructuring is currently under way and management has established a number of working groups to coordinate this process, with efforts focused on activities including marketing, business opportunities, shared services, research and development and corporate-level functions.

Management intends to focus the operations of Fortum on its core business area, energy. Management is actively exploring alternatives in respect of certain operations and assets that are not directly related to Fortum's core businesses. These operations and assets will be divested or other steps taken on a timely basis following management's review of these alternatives. In this regard, management is actively considering options with respect to Fortum's operations in the chemicals business and the manufacture of energy measurement devices.

Fortum is currently divided into eight business divisions, which correspond to the principal divisions through which the IVO Group and the Neste Group conducted their operations prior to the formation of Fortum, will be consolidated into two principal divisions, the Oil and Gas Division and the Power and Heat Division, and two smaller divisions, the Operation and Maintenance Division and the Engineering Division. The Chemicals Division will be incorporated as a separate subsidiary of the Company, and will, for the time being, continue its existing strategy as a non-core business within Fortum.

Fortum's new divisional structure is to be effected as of January 1, 1999, and the business planning and budgeting process undertaken in the summer and autumn of 1998 has been based on the new divisional structure.

The diagram set forth below shows the new divisional structure of Fortum following consolidation of Fortum's existing eight divisions as from January 1, 1999.



Oil and Gas Division. The Oil and Gas Division will integrate the upstream activities of the existing Exploration and Production Division with the downstream operations of the existing Oil Division, and will also include the gas-related businesses of the current Gas Division, including Fortum's interest in Gasum and the division's LPG operations.

Power and Heat Division. The Power and Heat Division will combine the operations of the existing Power and Heat Division (power and heat generation, sales and distribution) and the heat operations of the existing Gas Division. In addition, Eurotrem, the energy measurement services associated company in the current Energy Measurement Division, and the Neste Advanced Power Systems ("NAPS") business unit in the current Gas Division, will be integrated into the Power and Heat Division.

Operation and Maintenance Division. The Operation and Maintenance Division will consist of the operations of the existing Operation and Maintenance Division, which focuses on power and heating facilities. Cooperation between the maintenance of Fortum's existing oil refineries and the Operation and Maintenance Division will also be increased.

Engineering Division. The Engineering Division will combine the existing Engineering Division, which focuses on power and heating facilities and transmission systems, with the oil and gas engineering unit. The Engineering Division will focus on energy-related planning, project design and construction, and consulting services.

Chemicals Division. The Chemicals Division will be incorporated as a separate Group subsidiary, and will continue to operate under its existing strategy as a non-core business within Fortum, pending a decision with regard to the future of the chemicals business in relation to Fortum.

In addition to the five business divisions, Fortum holds interests in certain other businesses, such as the Enermet Group, which manufactures energy measurement equipment and systems, pending a decision with respect to the future of these businesses within Fortum.

Concurrent with the restructuring of the current eight divisions, corporate functions are being coordinated within Fortum. Corporate-level functions include finance, corporate planning, communications, legal affairs, human resources and environmental, health and product safety issues. Fortum has also decided to establish a corporate-level unit to explore, develop and coordinate major new international projects and business concepts within the Group's core businesses. Fortum's research and development activities and the development of its information technology systems will also be coordinated under its centralized corporate management. In addition, a corporate-level unit will coordinate marketing and customer service programs relating to energy.

Fortum's management has decided to rebrand all of its core operations under the Fortum name. This process will begin in 1999. However, the name "IVO" is well-established within the energy markets and the name "Neste" within the retail petroleum markets in which Fortum operates. Management believes that these consumer brand names represent important assets of Fortum and intends to continue to utilize these and certain other consumer brand names for marketing purposes for the foreseeable future.

Improving Efficiency of Current Operations

In tandem with the process of integrating Fortum's operations at all stages of the energy production and distribution process, management intends to implement a program to improve efficiency in business operations and capital deployment with respect to Fortum's current operations. Fortum's goal is to achieve a return on equity after taxes and a return on capital employed before taxes of 12 percent to 15 percent following the restructuring of the Group's operations, selected investments and acquisitions in its core business areas and the divestment of non-core assets.

Among the benefits expected to be achieved through the integration of the IVO Group and the Neste Group are cost savings resulting from the combination of head office and administrative functions and rationalization of duplicative and overlapping operations in the areas of research and development, engineering and operation and maintenance. Management estimates that these restructuring measures will result in annualized cost savings of approximately FIM 100 million beginning in 2000.

With respect to business operations, management is continuing to pursue a number of specific steps which it expects to result in significant annual cost savings. These steps include general cost reduction measures at, and improvements in the efficiency of the operation and maintenance of, the Naantali oil refinery; integration of Fortum's Kesoil-branded retail outlets into its Neste-branded retail outlets in Finland and streamlining the network of retail outlets, including the closure of unprofitable retail outlets; taking from active operation two of the four generating units at the Inkoo power plant in Finland (representing production capacity of 500 MW) due to the current over-capacity in power generation in the Nordic countries; improving coordination between Fortum's Finnish and Swedish power plants to take better advantage of its diversified portfolio of fuels allowing for flexible utilization depending on market conditions; and integrating the engineering operations of the IVO Group and the Neste Group as part of the new Engineering Division of Fortum. Savings from some of these measures have already begun to be realized, while others are expected to result in total annual cost savings of approximately FIM 200 million commencing at various times in the next two to three years. Other than the non-recurring costs of approximately FIM 70 million expected to be incurred in connection with the integration of the Neste and Kesoil brands and the closure of unprofitable retail outlets, management is currently not in a position to estimate the amount of non-recurring costs to be incurred in connection with these cost-savings measures. However, these costs are not expected to be significant in relation to the cost savings to be realized. In addition to such non-recurring costs, Fortum is expected to incur merger-related non-recurring costs of approximately FIM 550 million in 1998, of which the Company has paid FIM 517 million with respect to asset transfer taxes in connection with the transfer to the Company of the IVO shares and the Neste shares.

To improve efficiency in Fortum's deployment of capital, management intends to reduce working capital and the amount of assets employed. Measures to be taken to decrease working capital are expected to include the reduction of Fortum's average stocks of crude oil and other feedstocks by an amount corresponding to up to FIM 500 million and the reduction of Fortum's coal stocks by an amount corresponding to up to FIM 100 million, each in 1999. In addition, management is considering the reduction of assets employed through sale and leaseback transactions relating to the Oil Division's shipping fleet, expected to release from FIM 500 million to FIM 1 billion by 2000 if such transactions can be completed on competitive terms.

Growing through Investments and Acquisitions in Core Areas

Management is considering significant investments and intends to pursue acquisitions in its core business areas within its home market of Northern Europe. In addition, the Group's experience of operating in Russia and Central Europe provides Fortum with the basis upon which to evaluate selectively investment opportunities in this region that may arise in the future when market conditions are appropriate.

Principal acquisitions and investments currently being considered by management in the area of power generation and distribution include acquisitions of electricity generation, sales and distribution companies in the Nordic countries, construction of new CHP plants in Finland and Sweden, and participation in selected generation projects in Europe and certain countries in Southeast Asia.

In the last two years, Fortum has purchased controlling interests in Länsivoima, a major electricity distribution and supply company in Finland, and Gullspång, one of the leading electricity generation, sales and distribution companies in Sweden. Birka Energi, which was formed by the combination of Gullspång and Stockholm Energi, is the largest energy company in Sweden by total number of customers, and the third-largest energy company in Sweden by generating capacity. Management intends to pursue other acquisitions and strategic alliances in order to take advantage of further opportunities presented by the deregulation of electricity markets in Northern Europe and the resulting industry consolidation, in particular in the area of electricity distribution. Acquisition of electricity companies would expand Fortum's customer base and could result in substantial cost savings through efficiencies in supply management, generation, electricity procurement, administration, marketing and information technology.

Fortum will consider investing in new CHP capacity in Finland and Sweden in response to anticipated increases in demand for heat and power by municipalities and industrial companies. Such investments will only be made if electricity prices and the demand for heat rise sufficiently to make such projects commercially viable. New CHP capacity would be built subject to continued availability and competitive pricing of natural gas or the availability of other fuels.

Management expects that Fortum's investment in international power and heating plant projects will continue in Northern and Central Europe, the United Kingdom and Ireland, and in certain countries in Southeast Asia, and will be made following careful review of risks and anticipated return.

Management does not anticipate the need for a significant amount of additional base-load capacity in its home markets before 2005 at the earliest and would not proceed with any significant new capacity additions before the commercial viability of any new project is established. Fortum has made environmental impact studies for coal-fired and gas-fired power plants in Inkoo and for a coal-fired power plant at Naantali and is currently conducting such a study with respect to the possible construction of a new nuclear power plant in Loviisa, Finland, while a similar study is being conducted by TVO, another Finnish energy producer in which Fortum has a 26.6 percent shareholding, with respect to the possibility of constructing such a power plant in Olkiluoto, Finland. Environmental assessments of this nature are normally performed in advance of consideration of construction of any power plant, regardless of type, and management would only proceed with the design and construction of a nuclear power plant if it is deemed commercially viable in comparison with other types of power plants and if the Finnish Parliament and the Council of State are in favor of the project following Finland's parliamentary elections in 1999. It is estimated that the design and construction of a new nuclear power plant and obtaining the required licenses would take at least ten years.

In the area of oil refining and petroleum product distribution, major strategic initiatives relate to further upgrading of the Porvoo refinery to increase Fortum's production of advanced traffic fuels and their components, continuing to construct new retail outlets in the developing markets of the Baltic Rim area in order to expand further Fortum's presence in this area of growing fuel demand, pursuing opportunities to purchase interests in additional oil refining and marketing operations in the Baltic Rim area and developing an oil pipeline from Russia to Finland and, in the longer term, natural gas pipeline networks in Northern Europe.

Investment in the Porvoo refinery to increase output of advanced traffic fuels is already underway, and is scheduled to be completed within the next two years. Management expects that the resulting increase in output of these fuels will increase Fortum's average refining margin. Fortum's plans for new gasoline stations in the Baltic Rim area call for construction of approximately 20 new retail outlets annually for the next five years. Fortum is also considering making a tender to purchase a controlling interest in certain oil refining and marketing operations in Poland, which are expected to be privatized by the Polish government in the near future.

Management is also actively studying longer-term investments in two Northern European gas infrastructure projects: the Nordic gas grid project, which would consist of extension of the Finnish natural gas grid to the western part of the country and into Sweden; and the North Transgas project, which would develop a natural gas delivery system connecting northern Russia and Continental Europe through Finland and possibly Sweden.

Management

The implementation of Fortum's business strategy is being supervised by the Board of Directors of the Company and is the responsibility of the President and Chief Executive Officer of the Company, with the assistance of its Corporate Executive Committee. As of January 1, 1999, the Corporate Executive Committee will be joined by the new heads of Fortum's business divisions, who will report to the President and Chief Executive Officer of the Company. See "Management."

Recent Developments

Formation of Birka Energi

As a result of a series of transactions effected on September 14, 1998, Stockholm Energi and Gullspång were combined under the ownership of Birka Energi. Birka Energi, which is 50 percent owned by each of Fortum and the City of Stockholm, owns and operates power and heating plants and electricity distribution networks, as well as district heating and cooling networks, in the greater Stockholm area and central Sweden. As a result of the combination, Birka Energi has become the largest power and heat company in Sweden by number of customers and the third-largest power and heat company in Sweden by generating capacity.

Prior to the transfer of shares in Gullspång to Birka Energi, Gullspång paid a dividend of approximately SEK 1.5 billion (approximately FIM 1 billion) to IVO Energi.

Divestment of Borealis

In August 1998, Fortum disposed of its 50 percent interest in Borealis, as part of a strategy of focusing the operations of the Chemicals Division in its core areas. Borealis was classified as an associated company within the Group's other operations.

History

IVO

IVO was established by the Finnish State in 1932. Early operations focused on constructing and operating hydroelectric power plants and power transmission systems in Finland, and IVO became one of the first companies in the world to build a 400 kV transmission system. Throughout the 1960s, IVO further expanded its operations, constructing what was then the largest coal-fired power plant in the Nordic countries, and building a power transmission link between Finland and the former Soviet Union and between Finland and Sweden. IVO began electrifying the Finnish railway system in 1965. In the 1970s, IVO began nuclear power generation with the commencement of commercial operation of the Loviisa nuclear power plant as well as acquisition of an interest in the Olkiluoto nuclear power plant. IVO began selling district heat in 1982 and, during the 1980s, developed its expertise in CHP generation and expanded its engineering operations into various countries worldwide. In the early 1990s, IVO commenced operation and maintenance services. Also, as liberalization continued in the Swedish electricity market, IVO has expanded its operations in Sweden with a series of acquisitions that began in 1996.

Neste

Neste was established in 1948 as a state-owned oil company for the purpose of securing Finland's oil supply. Initially, Neste focused on importing refined petroleum products into Finland, developing an infrastructure for storage of petroleum products and establishing marine shipment operations. Neste's first tanker was acquired in 1948. In the late 1950s, Neste expanded its operations to include refining, after receiving government approval to build the first refinery in Finland, at Naantali. Neste's second refinery was constructed in Porvoo in the mid-1960s. Neste also diversified its activities to include petrochemical development, production and marketing in the 1960s. Neste began oil exploration and production activities in the early 1970s. Over the years, Neste acquired interests in upstream projects in various parts of the world. Imports of natural gas into Finland from the former Soviet Union began in 1974. Neste began oil trading operations in 1981. During the 1980s, Neste acquired three Finnish petroleum marketing companies and has in the 1990s expanded its retail network into Russia, the Baltic states, Poland and Germany.

Selected Financial Information

The financial statements set forth on the following pages present: (i) selected pro forma consolidated financial information for Fortum; (ii) selected historical financial information for IVO; and (iii) selected historical financial information for Neste.

SELECTED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR FORTUM

The pro forma financial information shown below and on the following page is presented to illustrate the consolidated results of Fortum on a pro forma basis, as if the Combination had taken place as of January 1, 1995. See "Formation of Fortum" and "Financial and Certain Other Information." The underlying financial information for each of the years in the three years ended December 31, 1997, has been derived from audited consolidated financial statements of IVO and Neste. See the selected consolidated financial information for IVO and Neste set forth on the following pages. The information included herein should be read in conjunction with, and is qualified in its entirety by reference to, the Pro Forma Consolidated Financial Statements and the other information included elsewhere in this Offering Memorandum. The interim pro forma financial information shown below is based upon the consolidated interim reports of IVO and Neste and is unaudited but reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Pro forma information for Fortum essentially represents the sum of figures derived from the audited consolidated financial statements and unaudited Interim Consolidated Financial Statements, as the case may be, of IVO and Neste after intra-group eliminations and certain other adjustments. The pro forma information has not been adjusted for the potential benefits or savings that may result from the Combination, nor does it reflect the potential costs to Fortum of effecting the Combination. However, the pro forma financial information reflects the payment by the Company of an asset transfer tax of FIM 517 million. Fortum's financial statements are prepared in accordance with Finnish GAAP, which differs in certain significant respects from U.S. GAAP. However, the consolidated financial position and results of operations of IVO and Neste as presented in the summary and selected financial information of IVO and Neste included elsewhere in this Offering Memorandum and the audited consolidated financial statements and unaudited interim consolidated financial statements of IVO and Neste from which such summary and selected financial information have been derived comply, in all material respects, with IAS, except for the accounting of the asset transfer tax, which under IAS would be charged to the income statement and not directly to equity. For a narrative discussion of the principal differences between Finnish GAAP as currently in effect and U.S. GAAP, see "Annex A: Summary of Major Differences between Finnish GAAP and U.S. GAAP." See also "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Selected Historical Consolidated Financial Information for IVO" and "Selected Historical Consolidated Financial Information for Neste." Financial information shown below is not adjusted to reflect the disposition by Fortum of 50 percent of the share capital of Gasum, which is scheduled to take place by June 3, 1999, or, other than as to balance sheet information as of September 30, 1998, the formation of Birka Energi. See "Business of Fortum — Description of Operations by Division — Gas Division" and "Business of Fortum — Description of Operations by Division — Power and Heat Division — Formation of Birka Energi." See also "Accounting Policies and Principles" included in the Pro Forma Consolidated Financial Statements elsewhere in this Offering Memorandum for a discussion of the accounting policies and principles applied in the preparation of the pro forma financial information shown below.

The pro forma financial information set forth below has been prepared on the basis set forth above. The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of Fortum's financial condition or results of operations on a pro forma basis as if the Combination had actually occurred as of January 1, 1995.

	Year ended December 31,				Nine months ended September 30,		
	1995	1996	1997	1997	1997	1998	1998
	(FIM)	(FIM)	(FIM)	(U.S.\$)(1)	(FIM)	(FIM)	(U.S.\$)(1)
	(pro forma; unaudited)						
	(millions)						
INCOME STATEMENT DATA							
Net sales(2)							
Continuing operations	50,882	52,588	54,134	10,618	38,864	34,149	6,698
Acquired operations	0	2,378	5,355	1,050	3,593	4,558	894
Discontinued operations	1,740	1,786	1,096	215	1,031	—	—
Eliminations	(773)	(684)	(541)	(106)	(481)	(663)	(130)
Total	51,849	56,068	60,044	11,777	43,007	38,044	7,462
Share of profits of associated companies	452	67	444	87	284	224	44
Other operating income	663	488	628	123	360	319	63
Operating expenses(2)(3)	(47,224)	(50,902)	(53,946)	(10,581)	(38,435)	(33,905)	(6,650)
Depreciation(3)	(2,222)	(2,456)	(2,763)	(542)	(2,047)	(2,292)	(450)
Operating profit							
Continuing operations	2,641	2,176	2,658	521	2,018	1,564	307
Acquired operations	(1)	493	1,163	228	776	846	166
Discontinued operations	886	603	595	117	385	—	—
Eliminations	(8)	(7)	(9)	(2)	(10)	(20)	(4)
Total	3,518	3,265	4,407	864	3,169	2,390	469
Financial income and expenses(3)(4)	(1,024)	(963)	(1,451)	(284)	(1,086)	(921)	(181)
Profit before extraordinary items and taxes	2,494	2,302	2,956	580	2,083	1,469	288
Extraordinary items	24	207	1,939	380	2,726	(24)	(5)
Profit before taxes	2,518	2,509	4,895	960	4,809	1,445	283
Income taxes	(1,082)	(773)	(547)	(107)	(444)	(499)	(98)
Minority interests	(61)	(165)	(308)	(61)	(214)	(124)	(24)
Net profit for the period	1,375	1,571	4,040	792	4,151	822	161

Footnotes on the following page.

	Year ended and as at December 31				Nine months ended and as at September 30,		
	1995	1996	1997	1997	1997	1998	1998
	(FIM)	(FIM)	(FIM)	(U.S.\$)(1)	(FIM)	(FIM)	(U.S.\$)(1)
				(pro forma; unaudited)			
				(millions)			
CASH FLOW DATA							
Net cash from operating activities	3,610	4,077	4,337	851	N/A	N/A	N/A
Cash flow from investing activities(3)	(1,821)	(5,638)	(3,371)	(662)	N/A	N/A	N/A
Cash flow from financing activities(3)	(1,486)	(1,396)	217	43	N/A	N/A	N/A
Net increase (decrease) in cash and marketable securities	303	(2,957)	1,183	232	N/A	N/A	N/A
BALANCE SHEET DATA(5)							
Total assets	N/A	62,373	69,389	13,610	N/A	67,241	13,189
Fixed assets and other long-term investments(3)	N/A	47,603	52,440	10,286	N/A	51,969	10,193
Current assets(4)	N/A	14,770	16,949	3,324	N/A	15,272	2,996
Shareholders' equity(6)	N/A	19,712	23,374	4,584	N/A	23,404	4,590
Minority interests	N/A	2,767	1,744	342	N/A	1,197	235
Provisions for liabilities and charges	N/A	82	219	43	N/A	290	57
Interest-bearing debt(3)	N/A	24,468	26,611	5,220	N/A	27,099	5,315
Deferred tax liabilities(6)	N/A	4,720	4,252	834	N/A	4,664	915
Other interest-free liabilities	N/A	10,624	13,189	2,587	N/A	10,587	2,077

- (1) Translated solely for convenience at an exchange rate of US\$1.00 = FIM 5.0984, the Bank of Finland Middle Rate on September 30, 1998.
- (2) Neste's credit losses, freight and other delivery expenses, which have previously been entered under sales adjustments in the financial statements of Neste, have been entered under other operating expenses.
- (3) Properties acquired through finance leasing agreements have been recognized as assets, and related debt has been recognized as liabilities, on the balance sheet of Fortum. Consequently, depreciation on the fixed assets under lease and interest expenses on the related debt has been entered in the income statement of Fortum instead of rental expenses.
- (4) In 1998, unrealized exchange rate gains on long-term loans, currency deposits and loans receivable have been entered in the income statement. As a result, a total of FIM 50 million of exchange rate gains has been recognized as income.
- (5) In September 1998, Fortum exchanged its Gullspång shares for 50 percent ownership of Birka Energi. Birka Energi's balance sheet was consolidated with the Group according to the proportionate method of consolidation as of September 30, 1998. Until September 30, 1998, Gullspång's results have been consolidated as a subsidiary of the Company.
- (6) Since January 1, 1998, deferred tax assets on loss carry-forwards have been recognized in deferred tax liabilities. As a result of this change, a total of FIM 112 million for deferred tax assets for previous periods has been entered directly in shareholders' equity in the pro forma financial statements of Fortum.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION FOR IVO

The following selected consolidated financial information for IVO should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements of IVO. The selected consolidated financial information for each of the years in the five-year period ended December 31, 1997, has been derived from audited financial statements of IVO. The interim financial information included in these financial statements is based upon the unaudited consolidated interim reports of IVO and is unaudited but reflects all adjustments that are, in the opinion of the management, necessary for a fair presentation of the results for the interim periods presented. The consolidated financial statements of IVO have been prepared in accordance with Finnish GAAP. Finnish GAAP differs in certain significant respects from U.S. GAAP. However, the consolidated financial position and results of operations of IVO as presented below and the audited consolidated financial statements and unaudited interim consolidated financial statements of IVO from which such information has been derived comply, in all material respects, with IAS. For a discussion of the principal differences between Finnish GAAP and U.S. GAAP, see "Annex A: Summary of Major Differences Between Finnish GAAP and U.S. GAAP."

	Year ended December 31,						Nine months ended September 30,		
	1993	1994	1995	1996	1997	1997	1997	1998	1998
	(FIM)	(FIM)	(FIM)	(FIM)	(FIM)	(U.S.\$)(1)	(FIM)	(FIM)	(U.S.\$)(1)
			(audited)		(millions)		(unaudited)	(unaudited)	
INCOME STATEMENT DATA									
Net sales	6,744	7,602	8,055	11,937	13,775	2,702	9,843	9,518	1,867
Share of profits of associated companies ..	(19)	7	33	85	83	16	44	88	17
Other operating income	36	43	141	202	502	98	259	237	46
Operating expenses(2)	(5,069)	(6,134)	(6,097)	(9,200)	(10,572)	(2,073)	(7,370)	(7,432)	(1,458)
Depreciation(2)	(769)	(781)	(795)	(982)	(1,197)	(235)	(911)	(1,029)	(201)
Operating profit	923	737	1,337	2,042	2,591	508	1,865	1,382	271
Financial income and expenses(2)(3)	(640)	(390)	(208)	(306)	(618)	(121)	(610)	(385)	(76)
Profit before extraordinary items and income taxes	283	347	1,129	1,736	1,973	387	1,255	997	195
Extraordinary items	118	334	51	28	2,936	575	3,503	48	9
Profit before taxes	401	681	1,180	1,764	4,909	962	4,758	1,045	204
Income taxes	(134)	(118)	(458)	(568)	(812)	(159)	(731)	(268)	(52)
Minority interests	2	(3)	(8)	(115)	(252)	(49)	(172)	(71)	(14)
Net profit for the period	269	560	714	1,081	3,845	754	3,855	706	138
CASH FLOW DATA									
Net cash from operating activities	1,556	840	1,573	2,369	1,697	333	574	810	159
Cash flow from investing activities	(1,378)	(56)	(308)	(4,293)	(1,188)	(233)	(627)	(1,122)	(220)
Cash flow from financing activities	(303)	(986)	(656)	1,013	563	110	1,052	221	43
Adjustment items	14	(6)	(3)	(2)	13	3	19	17	3
Net increase (decrease) in cash and marketable securities	(111)	(208)	606	(913)	1,085	213	1,018	(74)	(15)
BALANCE SHEET DATA(4)									
Total assets	16,046	15,702	16,167	28,175	33,963	6,661	36,577	39,952	7,836
Fixed assets and other long-term investments(2)	12,192	11,817	11,485	23,237	27,365	5,367	27,963	33,140	6,500
Current assets	3,854	3,885	4,682	4,938	6,598	1,294	8,614	6,812	1,336
Shareholders' equity	6,343	6,777	7,402	8,362	12,037	2,361	12,080	11,600	2,275
Minority interest	51	50	82	2,394	1,328	260	2,700	764	150
Provision for liabilities and charges	1	21	14	24	44	9	21	22	4
Interest-bearing debt(2)	6,147	5,060	4,634	10,840	11,909	2,336	14,133	18,549	3,638
Deferred tax liabilities	1,699	1,669	1,761	2,725	2,638	517	2,497	2,977	584
Non-interest-bearing liabilities(2)(3)(5) ..	1,805	2,125	2,274	3,830	6,007	1,178	5,146	6,040	1,185

(1) Translated solely for convenience at an exchange rate of US\$1.00 = FIM 5.0984, the Bank of Finland Middle Rate on September 30, 1998.

(2) Beginning in 1998, properties acquired through finance leasing agreements have been recognized as assets, and related debt has been recognized as liabilities, on the balance sheet of IVO. Depreciation on the fixed assets under lease and interest expenses on the related debt have been entered in the income statement of IVO instead of rental expenses. The impact of the changes has been accounted for in respect of the comparable period in 1997.

(3) In 1998, unrealized exchange rate gains on long-term loans, currency deposits and loan receivables have been entered in the income statement. As a result, a total of FIM 50 million of exchange gains has been recognized as income.

(4) In September 1998, IVO exchanged its Gullspång shares for 50 percent ownership of Birka Energi. Birka Energi's balance sheet was consolidated with the Group according to the proportionate method of consolidation as of September 30, 1998. Until September 30, 1998, Gullspång's results have been consolidated as a subsidiary of the Company.

(5) Includes valuation items (exchange gains) and other non-interest-bearing liabilities.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION FOR NESTE

The following selected consolidated financial information for Neste should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements of Neste. The selected consolidated financial information for each of the years in the five-year period ended December 31, 1997, has been derived from audited financial statements of Neste. The interim financial information included in these financial statements is based upon the consolidated interim reports of Neste and is unaudited but reflects all adjustments that are, in the opinion of the management, necessary for a fair presentation of the results for the interim periods presented. The consolidated financial statements of Neste have been prepared in accordance with Finnish GAAP. Finnish GAAP differs in certain significant respects from U.S. GAAP. However, the consolidated financial position and results of operations of Neste as presented below and in the audited consolidated financial statements and unaudited interim consolidated financial statements of Neste from which such information has been derived comply, in all material respects, with IAS. For a discussion of the principal differences between Finnish GAAP and U.S. GAAP, see "Annex A: Summary of Major Differences Between Finnish GAAP and U.S. GAAP."

	Year ended December 31,						Nine months ended September 30,		
	1993	1994	1995	1996	1997	1997	1997	1998	1998
	(FIM)	(FIM)	(FIM)	(FIM)	(FIM)	(U.S.\$)(1)	(FIM)	(FIM)	(U.S.\$)(1)
			(audited)					(unaudited)	
					(millions)				
INCOME STATEMENT DATA									
Net sales(2)	63,089	49,201	43,335	43,375	45,660	8,956	33,355	28,695	5,628
Share of profits of associated companies(3)	81	171	419	(18)	361	71	240	136	27
Other operating income	307	507	525	286	126	25	101	82	16
Operating expenses(2)	(60,767)	(46,194)	(40,746)	(41,131)	(43,016)	(8,438)	(31,256)	(26,622)	(5,221)
Depreciation(4)	(2,170)	(1,442)	(1,391)	(1,434)	(1,514)	(297)	(1,136)	(1,263)	(248)
Operating profit	540	2,243	2,142	1,078	1,617	317	1,304	1,028	202
Financial income and expenses(4)	(2,061)	(1,012)	(778)	(512)	(634)	(124)	(476)	(532)	(105)
Profit before extraordinary items and taxes	(1,521)	1,231	1,364	566	983	193	828	496	97
Extraordinary items	92	(56)	(26)	179	(997)	(196)	(777)	(72)	(14)
Profit before reserves and taxes	(1,429)	1,175	1,338	745	(14)	(3)	51	424	83
Change in untaxed reserves	2,636	533	—	—	—	—	—	—	—
Income taxes	(110)	(349)	(624)	(205)	265	52	287	(238)	(47)
Minority interests	23	(6)	(53)	(51)	(56)	(11)	(42)	(53)	(10)
Net profit for the period	1,120	1,353	661	489	195	38	296	133	26
CASH FLOW DATA									
Net cash from operating activities	1,893	1,889	2,000	1,649	2,580	506	N/A	N/A	N/A
Cash flow from investing activities(4)	(4,020)	(315)	(821)	(1,325)	(2,152)	(422)	N/A	N/A	N/A
Cash flow from financing activities(4)	1,179	(1,037)	(1,467)	(2,374)	(312)	(61)	N/A	N/A	N/A
Net increase (decrease) in cash and marketable securities	(948)	537	(288)	(2,050)	116	23	N/A	N/A	N/A
BALANCE SHEET DATA									
Total assets	45,342	35,700	33,423	31,606	32,812	3,436	N/A	27,763	5,445
Fixed assets and other long-term investments(4)	28,566	22,833	22,033	21,755	22,448	4,403	N/A	18,825	3,692
Current assets	16,776	12,867	11,390	9,851	10,364	2,033	N/A	8,938	1,753
Shareholders' equity(5)(6)	3,268	4,658	11,816	12,025	12,012	2,356	N/A	11,496	2,255
Minority interests	68	342	362	373	416	82	N/A	433	85
Untaxed reserves(5)	8,117	7,530	—	—	—	—	N/A	—	—
Provision for liabilities and charges	110	222	112	58	175	34	N/A	268	53
Interest-bearing debt(4)	22,835	16,172	12,943	10,847	11,915	2,337	N/A	8,410	1,649
Deferred tax liabilities(5)(6)	—	—	2,347	2,211	1,833	360	N/A	1,687	331
Other interest-free liabilities	10,944	6,776	5,843	6,092	6,461	1,267	N/A	5,469	1,072

- (1) Translated solely for convenience at an exchange rate of US\$1.00 = FIM 5.0984, the Bank of Finland Middle Rate on September 30, 1998.
- (2) Since January 1, 1998, credit losses, freight and other delivery expenses, which have previously been entered under sales adjustments in the financial statements of Neste, have been entered under operating expenses. The impact of this change has been accounted for in respect of the comparable period in 1997.
- (3) In 1995, the depreciation plan of goodwill on consolidation of Borealis was changed. As a result, annual depreciation entered in the share of profits of associated companies increased by FIM 330 million in 1995, 1996 and 1997.
- (4) Beginning in 1998, properties acquired through finance leasing agreements have been recognized as assets, and related debt has been recognized as liabilities, on the balance sheet of Neste. Depreciation of the fixed assets and interest expenses on the debt have been entered in the income statement of Neste instead of rental expenses. The impact of these changes has been accounted for in respect of the comparable period in 1997.
- (5) Beginning in 1995, untaxed reserves and accumulated depreciation above plan have been divided into shareholders' equity and deferred tax liabilities.
- (6) Since January 1, 1998, deferred tax assets on loss carry-forwards have been recognized in deferred tax liabilities. As a result of this change, a total of FIM 112 million of deferred tax assets for previous periods has been entered directly in shareholders' equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the selected financial information and with the Pro Forma Consolidated Financial Statements and the Pro Forma Interim Financial Statements and the notes thereto included elsewhere in this Offering Memorandum. The pro forma financial statements have been prepared in accordance with Finnish GAAP, which varies in certain significant respects from U.S. GAAP. However, the consolidated financial position and results of operations of IVO and Neste as presented in the summary and selected financial information of IVO and Neste included elsewhere in this Offering Memorandum and the audited consolidated financial statements and unaudited interim consolidated financial statements of IVO and Neste from which such summary and selected financial information has been derived comply, in all material respects, with IAS, except for the accounting of a FIM 517 million asset transfer tax relating to the formation of Fortum, which under IAS would be charged to the income statement and not directly to equity. For a narrative description of major differences between Finnish GAAP and U.S. GAAP, see "Annex A: Summary of Major Differences between Finnish GAAP and U.S. GAAP."

Economic Environment

Finland

Finland's economy has undergone major changes since experiencing a severe recession in the early 1990s. The recession began when Finland's exports declined substantially due to a recession in Finland's key Western European export markets and the collapse of Finland's exports to the former Soviet Union. Since 1993, however, the Finnish economy has staged a strong recovery. An important feature of this recovery has been a strict fiscal policy that has stabilized public indebtedness and brought Finnish interest rates down substantially.

Finland posted GDP growth of 5.1 percent in 1995, 3.6 percent in 1996 and 6.0 percent in 1997. In 1997, Finland's export performance improved sharply from the lower levels of 1996.

Finland joined the EU in 1995, and in October 1996 the Finnish markka became part of the EU's Exchange Rate Mechanism. By that time the Finnish markka had recovered most of the value it had lost from 1990 to 1993. Since joining the ERM, the Finnish markka has remained stable and has moderately appreciated against the German mark. The Finnish markka's central parity against the German mark was set at FIM 3.04. The stability of the Finnish markka has been maintained by low inflation and a current account surplus.

Finland has met the Maastricht convergence criteria of domestic inflation, interest rates and public sector deficit and debt, and has been approved as one of the 11 countries to participate in Stage Three of the EMU from its commencement date. See "Exchange Rates."

Despite a strengthening economy, unemployment in Finland has declined only gradually. Since 1994, unemployment has declined on average by approximately one percentage point per year. Finland's unemployment rate as of October, 1998, was reported by Statistics Finland, a Finnish governmental statistical service, to be 10.0 percent.

The following table sets forth year-on-year percentage changes in certain key economic indicators for Finland.

	Year ended December 31,				
	1993	1994	1995	1996	1997
GDP	(1.2)	4.5	5.1	3.6	6.0
Private Consumption	(2.9)	1.9	4.6	3.5	3.3
Investment	(19.2)	0.2	11.3	7.8	12.2
Exports	16.7	13.3	8.2	6.2	12.8
Imports	0.8	12.8	6.9	4.6	10.5

Source: Statistics Finland, a Finnish governmental statistical service.

The following table sets forth the listed economic indicators for the periods indicated.

	Year ended December 31,				
	1993	1994	1995	1996	1997
Inflation (percent)(1)(2)	2.2	1.1	1.0	0.6	1.2
Unemployment, average for the period (percent)(1)	16.3	16.6	15.4	14.6	12.6
Industrial Production (percent)(1)	5.3	12.5	9.5	2.9	10.2
Trade balance, FIM billions(1)	30.9	33.6	47.5	44.3	51.6
Current account, FIM billions(3)	(6.3)	6.6	22.5	22.0	31.6

(1) Source: Statistics Finland, a Finnish governmental statistical service.

(2) Measured by Consumer Price Index.

(3) Source: Bank of Finland.

Sweden

In the early 1990s, Sweden entered into its deepest recession since the Second World War. From 1991 to 1993, Sweden's GDP declined by approximately five percent. The effect of the international recession on the Swedish economy was particularly severe. Changes in economic policy also had substantial effect on these developments. Most important was the focus on reducing inflation. Several policies contributed to this, among them the hard currency policy implemented in May 1991 when the Swedish krona was coupled with the ECU. However, in November 1992, the Swedish government abandoned its fixed exchange rate policy and replaced it with a floating exchange rate. Thereafter, the stated objective of monetary policy was to achieve price stability.

The following table sets forth certain statistical information relating to the Swedish economy for the years 1992 through 1997(1):

	Year ended December 31,				
	1993	1994	1995	1996	1997
GDP	(2.2)	3.3	3.9	1.3	1.8
Private consumption	(3.1)	1.8	0.8	1.3	2.0
Inflation, % (2)	4.7	2.4	2.8	0.8	0.9
Unemployment, % (yearly average)	8.2	8.0	7.7	8.1	8.0
Industrial production	1.2	14.0	12.5	2.1	5.4

Source: Konjunkturinstitutet, November 1998.

(1) Expressed as a percentage change except where expressly indicated.

(2) Measured by Consumer Price Index.

The recession in Sweden lasted until 1993, when the economy began to recover. During 1994 and 1995, GDP increased by more than three percent annually, primarily as a result of increased exports. In 1996, GDP growth was more than one percent. Interest rates continued to fall throughout 1997. In 1997, industrial production increased by 5.4 percent and, consequently, GDP increased by 1.8 percent over 1996 levels. In spite of the recovery, the level of unemployment in Sweden has remained high by historic standards.

Basis of Discussion of Results of Operations

Fortum is the result of the combination of the IVO Group and the Neste Group. Fortum is currently comprised of eight divisions, corresponding to the principal divisions through which IVO and Neste conducted their operations prior to the formation of the Fortum Group. Thereafter, Fortum has commenced the process of restructuring that will result in the creation of two principal divisions, the Oil and Gas Division and the Power and Heat Division, and two smaller divisions, the Operation and Maintenance Division and the Engineering Division. Finally, the Chemicals Division will be incorporated as a separate Group subsidiary, and will continue to pursue its existing strategy pending a decision with respect to the future of the chemicals business within Fortum. See "Formation of Fortum—Combination of IVO and Neste" and "Fortum Group—Business Strategy."

The following discussion is based on the historical results of the current eight divisions as well as, where indicated, the pro forma results of Fortum. Pro forma information relating to Fortum essentially represents the sum of figures derived from the consolidated financial statements of IVO and Neste after intra-group eliminations and certain other adjustments. The pro forma information has not been adjusted for the potential benefits or savings that may result from the Combination, nor does it reflect the potential costs to Fortum of effecting the Combination. See "Financial and Certain Other Information."

Results of Operations

Introduction

The net sales and operating profit amounts shown below for the three years ended December 31, 1997 are derived from audited consolidated financial statements of IVO and Neste, and amounts shown below for the nine months ended September 30, 1997 and 1998 are derived from unaudited interim consolidated financial statements of IVO and Neste. Certain amounts have been restated to conform to Fortum's accounting policies.

Net Sales

The following table sets forth the net sales for each division for the three years ended December 31, 1997 and the nine months ended September 30, 1997 and 1998.

	Year ended December 31,			Nine months ended September 30,	
	1995	1996	1997	1997	1998
	<i>(FIM in millions) (pro forma; unaudited)</i>				
Exploration and Production	822	1,229	1,244	904	714
Oil(1)	35,789	36,577	37,882	27,322	21,790
Gas	2,841	3,283	3,655	2,447	2,801
Power and Heat					
Continuing operations	5,952	6,578	5,838	4,203	4,046
Acquired operations	—	2,378	5,141	3,593	3,798
Eliminations	—	(19)	(83)	(36)	(549)
Total	5,952	8,937	10,896	7,760	7,295
Operation and Maintenance	740	930	1,371	896	1,007
Engineering	1,405	1,974	2,179	1,527	1,391
Energy Measurement	330	386	413	293	399
Chemicals					
Continuing operations	4,703	4,198	4,557	3,373	3,471
Acquired operations	—	—	214	—	760
Discontinued operations	686	582	425	361	—
Eliminations	(92)	(77)	(67)	(62)	(1)
Total	5,297	4,703	5,129	3,672	4,230
Other Operations	822	943	887	608	680
Grid Services(2)	1,001	1,101	671	670	—
Internal invoicing					
Continuing operations	(2,469)	(3,407)	(3,892)	(2,709)	(2,150)
Other	(681)	(588)	(391)	(383)	(113)
Total	(3,150)	(3,995)	(4,283)	(3,092)	(2,263)
Group Total	51,849	56,068	60,044	43,007	38,044

(1) Net sales for the Oil Division includes wet cargo trading sales and the net results of derivative contracts as well as taxes levied on retail and direct sales of petroleum products in Finland and elsewhere.

(2) Discontinued as a division as of September 1, 1997, when the grid assets were sold to Finnish Power Grid Plc, a newly-formed company incorporated in Finland in which Fortum has a 25 percent shareholding. See "Business of Fortum — Description of Operations by Division — Other Operations — Grid Services."

Operating Profit

The following table sets forth the operating profit for each division for the three years ended December 31, 1997 and the nine months ended September 30, 1997 and 1998.

	Year ended December 31,			Nine months ended September 30,	
	1995	1996	1997	1997	1998
	<i>(FIM in millions) (pro forma; unaudited)</i>				
Exploration and Production	176	459	532	363	73
Oil(1)	1,014	282	544	519	739
Gas	332	362	372	272	260
Power and Heat					
Continuing operations	787	907	932	688	664
Acquired operations	(1)	493	1,134	776	767
Total	786	1,400	2,066	1,464	1,431
Operation and Maintenance	49	92	92	48	22
Engineering	13	29	80	12	(10)
Energy Measurement	22	34	32	23	48
Chemicals					
Continuing operations	607	296	148	167	89
Acquired operations	—	—	5	—	37
Discontinued operations	(26)	35	20	21	—
Total	581	331	173	188	126
Other operations and associated companies					
Other operations(2)	(399)	(214)	(160)	(218)	(376)
Associated companies(3)	379	(80)	349	179	120
Total	(20)	(294)	189	(39)	(256)
Grid Services(4)	590	610	347	346	—
Eliminations					
Continuing operations	(17)	(33)	(11)	(17)	(23)
Discontinued operations	(8)	(7)	(9)	(10)	(20)
Total	(25)	(40)	(20)	(27)	(43)
Group Total	3,518	3,265	4,407	3,169	2,390

(1) Prior to January 1, 1998, costs relating to a planned refinery maintenance and upgrade shutdown were recognized entirely in the year in which the shutdown occurred. Effective January 1, 1998, costs are accrued over four-year periods. Operating profit for the nine months ended September 30, 1998 reflects an accrual of FIM 57 million for future shutdowns. See “— Oil Division” below.

(2) Consists primarily of corporate-level functions, including finance, corporate planning, communications, legal affairs, human resources, information technology and environmental, health and safety issues as well as corporate level research and development and certain other functions.

(3) Consists primarily of Fortum’s share of profit from Asko Oyj, Borealis A/S and Finnish Power Grid Plc.

(4) Discontinued as a division as of September 1, 1997, when the grid assets were sold to Finnish Power Grid Plc, a newly-formed company in which Fortum has a 25 percent shareholding. See “Business of Fortum — Description of Operations by Division — Other Operations — Grid Services.”

Current Outlook

The low crude oil price together with the abundant supply of hydroelectric power and the resulting low market price for electricity will also be reflected in Fortum’s business during the last quarter of the year. Consequently, the Group’s profit before extraordinary items is expected to be correspondingly weaker than the result for the previous year.

Fortum Pro Forma

General

Operating profit of Fortum’s individual divisions discussed below include contributions to operating profit by Fortum’s associated companies operating in the business areas of the respective divisions, with the exception of three of Fortum’s larger associated companies. Results of these three associated companies, Borealis A/S (“Borealis”), Asko Oyj (“Asko”) and Finnish Power Grid Plc (“Fingrid”), are included together with other associated companies in the pro forma consolidated income statement in the line item “share of profits of associated companies,” and are discussed below under “— Other Operations — Certain Associated Companies.”

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Net Sales

Fortum's pro forma net sales for the nine months ended September 30, 1998 were FIM 38,044 million, compared to FIM 43,007 million for the corresponding period of 1997, a decrease of FIM 4,963 million or 11.5 percent. The decrease in pro forma net sales primarily resulted from a planned reduction of the Oil Division's trading activities, which accounted for FIM 4,040 million of the decrease in pro forma net sales, as well as lower crude oil and petroleum product prices, which significantly reduced net sales of the Oil Division and Exploration and Production Division, and, to a lesser extent, lower electricity prices due to higher levels of precipitation, which affected net sales of the Power and Heat Division. In addition, due to the sale of IVO's grid assets to Fingrid as of September 1, 1997, Fortum had no net sales from grid services during the nine months ended September 30, 1998, compared to FIM 670 million during the nine months ended September 30, 1997. Lower net sales in the Oil Division, the Exploration and Production Division and the Power and Heat Division together more than offset increased net sales in the Chemicals Division, the Gas Division, and the Operation and Maintenance Division. Higher net sales in the Chemicals Division resulted primarily from inclusion of the acquisitions in October 1997 of Krems Chemie AG, a manufacturer of adhesive resins and other chemical products ("Krems"), and the acquisition in November 1997 of the synthetic resins business of Condea Chemie GmbH, known as Meerbeck ("Meerbeck"). Higher net sales in the Gas Division resulted primarily from a higher volume of natural gas deliveries, and higher net sales in the Operation and Maintenance Division resulted from net sales under new maintenance contracts and increased net sales of Birka Service Group ("Birka Service"), a Swedish operation and maintenance company and a subsidiary of Birka Energi that was 50 percent owned by each of IVO and Stockholm Energi prior to the formation of Birka Energi.

Operating Profit

Fortum's pro forma operating profit for the nine months ended September 30, 1998 was FIM 2,390 million, compared to FIM 3,169 million for the corresponding period of 1997, a decrease of FIM 779 million or 24.6 percent. Approximately half of the decrease in pro forma operating profit resulted from the sale of IVO's grid assets as of September 1, 1997. Operating profit was also impacted by the effect of lower crude oil prices on the Exploration and Production Division and, to a lesser extent, a decreased share of profits from associated companies.

Other Fortum divisions that experienced decreased results in the first nine months of 1998 as compared to the corresponding period of 1997 were: the Chemicals Division, reflecting the fact that the division's operating profit in the first nine months of 1997 included a gain on sales of and reversals of write-offs on Asko shares; the Power and Heat Division, resulting from higher depreciation, which was offset by an increase in the profits on the disposal of fixed assets; the Operation and Maintenance Division, resulting from increased business development expenses; the Engineering Division, which posted an operating loss as a result of lower sales and decreased margins; and the Gas Division, where operating profit decreased somewhat as a result of higher costs relating to projects under development. However, these decreased results were more than offset by the increased operating profit of the Oil Division, which resulted from improved efficiency across its range of businesses, and of the Energy Measurement Division, as a result of improved net sales.

Fortum's share of profit from associated companies on a pro forma basis decreased from FIM 284 million for the first nine months of 1997 to FIM 224 million for the first nine months of 1998, primarily as a result of the decrease in Fortum's shareholding in Asko and, to a lesser extent, the sale of Fortum's shares in Borealis in August 1998.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Net Sales

Fortum's pro forma net sales for the year ended December 31, 1997 were FIM 60,044 million, compared to FIM 56,068 million for the year ended December 31, 1996, an increase of FIM 3,976 million or 7.1 percent. The increase in pro forma net sales resulted from higher net sales by all of Fortum's divisions, particularly the Power and Heat Division, where net sales increased primarily as a result of the inclusion of Gullspång in the division's results for a full year and the inclusion of Länsivoima as a subsidiary; the Oil Division, where net sales rose primarily as a result of a higher volume of petroleum products bulk sales in Finland; the Chemicals Division, where net sales rose primarily as a result of the acquisition of Krems and Meerbeck; and the Gas Division, where higher net sales resulted primarily from a higher sales volume of LPG.

Operating Profit

Fortum's pro forma operating profit for the year ended December 31, 1997 was FIM 4,407 million, compared to FIM 3,265 million for the year ended December 31, 1996, an increase of FIM 1,142 million or 35.0 percent. The increase in pro forma operating profit principally resulted from higher operating profit in the Power and Heat Division, primarily as a result of inclusion of the full-year results of Gullspång and Länsivoima, and higher operating profit in the Oil Division, primarily as a result of improved results from trading operations, which together more than offset lower operating profit in the Chemicals Division resulting primarily from decreased margins.

Fortum's share of profit from associated companies increased from FIM 67 million for the year ended December 31, 1996 to FIM 444 million for the year ended December 31, 1997 as a result of improved results of both Borealis and Asko.

Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995

Net Sales

Fortum's pro forma net sales for the year ended December 31, 1996 were FIM 56,068 million, compared to FIM 51,849 million for the year ended December 31, 1995, an increase of FIM 4,219 million or 8.1 percent. The increase in pro forma net sales primarily resulted from higher net sales in the Power and Heat Division, resulting primarily from the inclusion of Gullspång from April 1, 1996 and an exceptionally high level of sales through Nord Pool, the Nordic electricity exchange; higher net sales in the Oil Division, resulting primarily from higher crude oil and petroleum products prices; higher net sales in the Engineering Division, resulting primarily from a higher level of exports and overseas operations; higher net sales in the Gas Division, resulting primarily from higher prices for natural gas and an increase in natural gas demand in Finland; and higher net sales in the Exploration and Production Division, resulting primarily from higher prices for crude oil. These factors together more than offset a decrease in net sales in the Chemicals Division resulting primarily from lower prices for the division's products.

Operating Profit

Fortum's pro forma operating profit for the year ended December 31, 1996 was FIM 3,265 million, compared to FIM 3,518 million for the year ended December 31, 1995, a decrease of FIM 253 million or 7.2 percent. The decrease in pro forma operating profit primarily resulted from lower operating profit in the Oil Division, resulting primarily from losses sustained in crude oil trading, and lower operating profit in the Chemicals Division, resulting primarily from lower net sales. These factors more than offset higher operating profit in each of the other divisions, particularly the Power and Heat Division and the Exploration and Production Division.

Fortum's share of profit from associated companies for the year ended December 31, 1996 was FIM 67 million, compared to FIM 452 million for the year ended December 31, 1995. The decrease was primarily due to the decreased contribution of Borealis, which more than offset the improved results of Asko.

Exploration and Production Division

General

Net sales and operating profit of the Exploration and Production Division are heavily influenced by fluctuations in the international market price for crude oil. The Exploration and Production Division may hedge against adverse movements in crude oil prices by selling up to one-half of its production forward for up to six months.

The heavy fall in crude oil prices that began in fall 1997 continued until March 1998, when the decline came to a halt and the price level remained between U.S.\$13-15 per barrel during the spring. High inventory levels caused crude oil prices to decline again at the beginning of summer 1998 until a decision by oil producing countries to reduce production levels raised prices in July from U.S.\$12 to U.S.\$14 per barrel. At the end of September 1998, crude oil prices increased and reached close to U.S.\$15 per barrel before falling in October to U.S.\$11-12 per barrel. For a graphical representation of fluctuations in crude oil prices in recent years, see "The Nordic Energy Markets — Oil."

Sales of oil and gas produced by the exploration and production entities in which the Exploration and Production Division participates are made in U.S. dollars. As a result, reported net sales and operating profit of the division are influenced by variations in the exchange rate between the U.S. dollar and the Finnish markka. See "— Interest Rate and Exchange Rate Risk — The Neste Group — Exchange Rate Risk Management" below.

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Net Sales

Net sales of the Exploration and Production Division for the nine months ended September 30, 1998, were FIM 714 million, compared to FIM 904 million for the corresponding period in 1997, a decrease of FIM 190 million or 21.0 percent. The decrease in net sales resulted from lower crude oil prices, with Brent crude oil averaging approximately 30 percent less than in the first nine months of 1997. The negative effects of lower crude oil prices more than offset the positive effect of inclusion in net sales for the first nine months of 1998 of a large amount of crude oil that had been produced prior to year-end 1997 but sold in early 1998, the result of which was to inflate net sales by approximately six percent. Lower crude oil prices also offset the positive effect of a slight increase in oil and gas production resulting from higher production at the Suneinah Concession in Oman. Total production for the first nine months of 1998 corresponded to an annual rate of approximately 1.7 million tons, or approximately 33,000 oil-equivalent barrels per day.

The exchange rate variations for the first nine months of 1998 had a negative effect of FIM 60 million compared to the corresponding period in 1997.

Operating Profit

Operating profit for the Exploration and Production Division for the nine months ended September 30, 1998 was FIM 73 million, compared to FIM 363 million for the corresponding period of 1997, a decrease of FIM 290 million or 79.9 percent. The decrease resulted from lower average crude oil prices and the resulting lower margins.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Net Sales

Net sales of the Exploration and Production Division for the year ended December 31, 1997 were FIM 1,244 million, compared to FIM 1,229 million for the year ended December 31, 1996, an increase of FIM 15 million or 1.2 percent. In 1997, crude oil prices fell from 1996 levels, with prices falling particularly in the second half of the year. Prices for Brent crude oil averaged 7.7 percent lower for 1997 than for 1996. However, the effect of lower crude oil prices on net sales was more than offset by the positive impact of forward sales of crude oil and by the impact of the strengthening of the U.S. dollar against the Finnish markka. Oil and gas production in 1997 totaled approximately 1.67 million tons, approximately the same as in 1996, corresponding to approximately 32,550 oil-equivalent barrels per day.

Operating Profit

Operating profit for the Exploration and Production Division for the year ended December 31, 1997 was FIM 532 million, compared to FIM 459 million for the year ended December 31, 1996, an increase of FIM 73 million or 15.9 percent. This increase resulted primarily from the results of forward sales of crude oil and higher crude oil prices generally as expressed in Finnish markka.

Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995

Net Sales

Net sales of the Exploration and Production Division for the year ended December 31, 1996 were FIM 1,229 million, compared to FIM 822 million for the year ended December 31, 1995, an increase of FIM 407 million or 49.5 percent. This increase resulted primarily from higher crude oil prices, with the average price for Brent crude oil rising by 21.8 percent. Higher oil and gas production in 1996, which increased by 9.6 percent over 1995, also contributed to higher net sales. Higher production principally resulted from the Heidrun-field in Norway being in production for the full year in 1996 after having commenced production in 1995. Production for 1996 totaled approximately 1.65 million tons, or approximately 32,100 oil-equivalent barrels per day, compared to approximately 29,400 oil-equivalent barrels per day for 1995.

The effect of exchange rate variations for 1996 as compared to 1995 was not significant.

Operating Profit

Operating profit for the Exploration and Production Division for the year ended December 31, 1996 was FIM 459 million, compared to FIM 176 million for the year ended December 31, 1995, an increase of FIM 283 million. This increase resulted from higher net sales, which reflected both higher prices for crude oil, and the resulting higher margins, as well as an increased production volume.

Oil Division

General

Given the effects of trading and derivative contracts on net sales, as well as the inclusion of petroleum taxes, net sales of the division may not be reflected directly in operating profit. The Oil Division's net sales include wet cargo trading sales and the net results of derivatives contracts. Net sales resulting from trading activities represented between 25 percent and 50 percent of the Division's net sales during the three years ended December 31, 1997 and the nine months ended September 30, 1998.

Net sales of the Oil Division include taxes levied on retail and direct sales of petroleum products in the various countries in which the Oil Division sells its products. During the periods reviewed herein, these ranged from ten to 12 percent of net sales of the Oil Division.

The Oil Division's operating profits from its refining and bulk sales activities reflect the refining margin (essentially the difference between the cost of crude oil and other feedstocks and the wholesale price of refined products), which is not necessarily influenced directly by changes in the market price for crude oil. The industry's annual average refining margin, as represented by the relevant industry benchmarks, remained relatively stable during the three years ended December 31, 1997 and the nine months ended September 30, 1998. The division's refining margin outperformed these benchmarks and was also stable during the period.

As part of its business operations and in accordance with Finnish law, the Oil Division maintains inventories of crude oil and other feedstocks, which are affected by fluctuations in market prices. Therefore, the division is directly exposed to variations in the prices for crude oil and other feedstocks in respect of the unhedged base inventory stocks which it may carry at any given time. All crude oil and other feedstocks are accounted for on a first in, first out ("FIFO") basis and valued at the lower of cost and market at the end of each accounting period.

Operations of the Oil Division involve the purchases of crude oil and other feedstocks, denominated in U.S. dollars, whereas bulk sales as well as retail and direct sales of refined products are made in a number of currencies. As a result, net sales and operating profit of the Oil Division are influenced by variations in the exchange rate between the U.S. dollar and certain other currencies against the Finnish markka. However, the division's bulk sales of petroleum products are generally made pursuant to contractual arrangements under which fluctuations in currency exchange rates are reflected in wholesale prices. Currency fluctuations are generally also reflected in retail prices; however, competition and other factors may delay or limit the extent to which changes in costs resulting from currency fluctuations are passed on to customers.

Fortum's accounting policy relating to planned maintenance and upgrade shutdowns of refineries, which take place every four years, was changed effective January 1, 1998. Previously, costs of a planned maintenance and upgrade shutdown were recognized entirely in the year in which the shutdown occurred. Under the new policy, estimated costs are accrued. Foregone sales margin resulting from a shutdown continues to be reflected entirely in the operating profit of the year in which the shutdown takes place.

Market Conditions in Finland during the Periods under Review

Finland is the principal market for the Oil Division, and represented 73 percent of net sales, excluding trading operations, for the year ended December 31, 1997.

First Nine Months of 1998 Compared to First Nine Months of 1997. The market for petroleum products in Finland grew by 7.1 percent in the first nine months of 1998 compared to the first nine months of 1997. The growth resulted primarily from colder weather conditions in the first nine months of 1998 compared to the first nine months of 1997, which resulted in increased consumption of heating oil. Gasoline consumption in Finland for the first nine months of 1998 decreased by 1.2 percent compared to the first nine months of 1997, as a result of an increase in the gasoline tax at the beginning of 1998. Consumption of diesel fuel continued to grow together with general economic activity in Finland.

Full-Year 1997 Compared to Full-Year 1996 The market for petroleum products in Finland declined by 2.2 percent in 1997 compared to 1996, to 8.8 million tons. The reduced market in Finland was caused primarily by mild weather conditions at the beginning of 1997, which resulted in lower consumption of fuel oils for heating purposes. Gasoline consumption increased in 1997, partially as a result of economic growth as well as stockpiling caused by anticipated tax increases.

Full-Year 1996 Compared to Full-Year 1995 The market for petroleum products in Finland in 1996 increased by 3.4 percent compared to 1995, to nine million tons. Consumption of diesel fuel was higher, reflecting economic growth as well as a recovery in the freight hauling industry, while demand for fuel oils

increased as a result of cold weather conditions in 1996. These increases more than offset lower consumption of gasoline, in part, as a result of tax increases introduced at the beginning of 1996.

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Net Sales

Net sales for the Oil Division for the nine months ended September 30, 1998, were FIM 21,790 million, compared to FIM 27,322 million for the corresponding period in 1997, a decrease of FIM 5,532 million or 20.2 percent. Lower net sales resulted primarily from a lower volume of trading activity as well as lower crude oil prices, which resulted in lower prices for refined products.

Excluding trading operations, exports and operations outside of Finland accounted for 30 percent of the Oil Division's net sales for the first nine months of 1998, the same level as for the first nine months of 1997. For the first nine months of 1998, as compared to the first nine months of 1997, the effect of exchange rate variations was not significant.

Refining. Total production of the Porvoo and Naantali refineries for the first nine months of 1998 was higher than compared to the corresponding period in 1997 due to the planned maintenance and upgrade shutdown undertaken at the Porvoo refinery in fall 1997. The capacity utilization of Porvoo was lower than normal due to follow up work relating to new equipment installed during the shutdown. Conversion capacity utilization of the Porvoo refinery for the first nine months of 1998 was 88.1 percent compared to 82.6 percent for the first nine months of 1997, while capacity utilization at Naantali for the first nine months of 1998 was 92.0 percent, compared to 91.5 percent for the first nine months of 1997.

Bulk Sales. Net sales contributed from bulk sales operations for the first nine months of 1998 were lower than for the first nine months of 1997, as a result of lower prices for refined products.

Oil trading operations, which are conducted as part of the bulk sales business, contributed FIM 5,712 million to net sales for the first nine months of 1998, a decrease of 38 percent from the first nine months of 1997. This decrease resulted from lower oil trading volume, reduced in accordance with management's plan to decrease the Oil Division's trading activities, as well as the effect of lower crude oil and oil product prices.

Retail and Direct Sales. Net sales derived from retail and direct operations for the first nine months of 1998 were approximately the same as for the first nine months of 1997.

Operating Profit

Operating profit for the Oil Division for the nine months ended September 30, 1998 was FIM 739 million, an increase of FIM 220 million or 42.4 percent compared to the corresponding period of 1997, reflecting improvements in results across the range of businesses in the Oil Division. These improvements more than offset the impact of an accrual of FIM 57 million for the first nine months of 1998, resulting from a change in the accounting policies relating to shutdowns of Fortum's refineries effective from the beginning of 1998. Lower stock loss (which includes the difference between the replacement cost and the historical cost according to the FIFO principle and the loss on mark-to-market valuation of inventories) for the first nine months of 1998 compared to the first nine months of 1997 contributed FIM 36 million to the increase in operating profit. For the first nine months of 1998, the total amount of the stock loss was approximately FIM 120 million. See "— General" above.

Average refining margins decreased slightly in the first nine months of 1998 compared to the first nine months of 1997, and remained at a low level compared to historic averages.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Net Sales

Net sales for the Oil Division for the year ended December 31, 1997 were FIM 37,882 million, compared to FIM 36,577 million for the year ended December 31, 1996, an increase of FIM 1,305 million or 3.6 percent. This increase resulted primarily from increased bulk sales of petroleum products in Finland, exchange rate movements resulting in higher prices for petroleum products when expressed in Finnish markka, and a higher volume of retail and direct sales in Sweden and the Baltic Rim area.

Excluding trading operations, exports and operations outside of Finland accounted for 28 percent of the Oil Division's net sales for 1997, compared to 27 percent for 1996.

Refining. The Porvoo and Naantali refineries produced a total of 10.8 million tons of petroleum products in 1997, a reduction of 1.0 million tons or 9.3 percent compared to 1996. Production was reduced due to a five-week planned maintenance and upgrade shutdown of Fortum's larger refinery at Porvoo. As a result of this shutdown, conversion capacity utilization of the Porvoo refinery was 82.2 percent or 11.5 percentage points lower than for 1996. Lower capacity utilization at Porvoo was partially offset by an increase in capacity utilization at the Naantali refinery of 7.0 percentage points, to 90.9 percent, compared to 1996. Capacity utilization at Naantali in 1996 had been reduced because of a planned maintenance and upgrade shutdown.

Bulk Sales. Net sales derived from bulk sales operations increased in 1997 compared to 1996. The volume of the division's bulk sales in Finland increased by 12.0 percent partially as a result of stockpiling in anticipation of an increase in the fuel taxes in Finland effective in January 1998, despite a contraction in the overall market in Finland for petroleum products. Net sales derived from exports of petroleum products decreased 15.6 percent from 1996 as a result of lower production caused by the five-week scheduled shutdown of the Porvoo refinery and a higher proportion of production being allocated to domestic sales.

Oil trading operations contributed FIM 12,591 million to net sales for 1997, a decrease of 11.5 percent from 1996. This decrease resulted from a 20 percent decrease in oil trading volumes.

Retail and Direct Sales. Net sales derived from retail and direct operations in 1997 increased compared to 1996, as a result of higher price levels. Despite aggressive price competition from new market entrants, which resulted in a harsher competitive environment in the Finnish fuel retailing sector, the division's volume of retail and direct sales of refined products in Finland was largely unchanged at 3.2 million tons in 1997. Retail and direct sales in northwestern Russia, the Baltic states and Poland as well as sales of diesel fuel in Sweden continued to increase.

Operating Profit

Operating profit for the Oil Division for the year ended December 31, 1997 was FIM 544 million, compared to FIM 282 million for the year ended December 31, 1996, an increase of FIM 262 million. This increase resulted from improvements across the range of businesses of the Oil Division, especially in the results of crude oil trading operations, compared to the significant loss from such operations in 1996. This more than offset the impact of the higher stock loss in 1997 compared to 1996 and the impact of the planned maintenance and upgrade shutdown of the Porvoo refinery, which cost approximately FIM 200 million and was recognized entirely in 1997, compared to approximately FIM 70 million recognized in 1996 as the total cost for the planned maintenance and upgrade shutdown of the Naantali refinery. The improvement in the results from crude oil trading operations occurred in spite of a reduction of approximately twenty percent in oil trading volume, and reflected implementation of stricter risk management controls. See "— Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995 — Operating Profit" below.

Average refining margins increased slightly in 1997 compared to 1996 although they remained at a low level compared to historic averages. The Oil Division's refining margin rose slightly in 1997 in line with the benchmark international refining margin, which averaged approximately \$1.60 per barrel in 1997, compared to approximately \$1.50 per barrel in 1996. The planned maintenance and upgrade shutdown of the Porvoo refinery reduced operating profit by approximately FIM 350 million, as a result of both costs relating to the maintenance and upgrading of the facility and foregone margin for the period when the refinery was out of service, during which customers were supplied with refined products purchased on the market.

Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995

Net Sales

Net sales for the Oil Division for the year ended December 31, 1996 were FIM 36,577 million, compared to FIM 35,789 million for the year ended December 31, 1995, an increase of FIM 788 million or 2.2 percent. Higher crude oil prices throughout 1996 positively affected net sales of all principal business operations of the Oil Division.

Excluding trading operations, exports and operations outside of Finland accounted for 27 percent of the Oil Division's net sales for 1996, compared to 29 percent for 1995. The effect of exchange rate variations was not significant in 1996 as compared to 1995.

Refining. The Porvoo and Naantali refineries produced a total of 11.8 million tons of petroleum products in 1996, compared to 11.1 million tons in 1995. Refining output in 1996 was reduced somewhat by a five-week planned maintenance and upgrade shutdown of the Naantali refinery in April and May. As a result of this

shutdown, conversion capacity utilization of the Naantali refinery was lower than for 1995. However, the effect of lower output by the Naantali refinery was offset by an increase in conversion capacity utilization at the Porvoo refinery.

Bulk Sales. Net sales derived from bulk sales operations increased in 1996 compared to 1995, reflecting higher average price level for crude oil. The volume of bulk sales in Finland amounted to 7.5 million tons for 1996, an increase of 1.5 percent over 1995 and the resulting higher product prices. The bulk sales market in Finland grew by approximately 3.4 percent in 1996. The volume of exports of petroleum products increased by 12.5 percent over 1995.

Oil trading operations contributed FIM 14,232 million to net sales for 1996, 16.6 percent lower than in 1995.

Retail and Direct Sales. Net sales derived from retail and direct sales increased in 1996 compared to 1995 primarily as a result of higher prices. The volume of retail and direct sales of refined products in Finland was substantially unchanged. The volume of retail and direct sales of refined products in northwestern Russia, the Baltic states and Poland continued to increase.

Operating Profit

Operating profit for the Oil Division for the year ended December 31, 1996 was FIM 282 million, compared to FIM 1,014 million for the year ended December 31, 1995, a decrease of FIM 732 million. This decrease primarily resulted from significant losses sustained in crude oil trading operations, but was also caused by lower other operating income compared to 1995, resulting from lower gains from sales of fixed assets.

In 1996, certain contracts from earlier years relating to the division's crude oil trading operations resulted in an operating loss of FIM 560 million calculated at the sales margin level, in addition to generally poor results of trading operations in 1996. These crude oil trading losses resulted principally from the fact that the risk analysis under which certain trading operations were conducted had been based on too narrow a price range for crude oil. During the latter part of 1996, measures were undertaken to improve risk management and the supervision of trading operations, to integrate these operations more closely with the other operations of the Oil Division and to reduce the scope of these operations and thereby the costs to be covered from the results of such operations.

Refining margins remained low, although average margins did increase compared to 1995. The benchmark international refining margin averaged approximately \$1.50 per barrel for 1996, compared to slightly more than \$1 per barrel for 1995. The Oil Division's refining margin increased slightly more than the benchmark refining margin.

Gas Division

General

During the periods under review, net sales and operating profit of the Gas Division were derived primarily through the division's shareholding in the Gasum Group, a Group subsidiary 75 percent owned by Fortum. In connection with the Combination, Fortum has undertaken to reduce its shareholding in Gasum to 25 percent. See "Business of Fortum — Description of Operations by Division — Gas Division — Gasum."

The effect of exchange rate variations on the division's net sales and operating profit was not significant from 1995 through 1997 or during the first nine months of 1998.

Net sales of the Gas Division include typically sales taxes and other taxes and duties levied on sales of natural gas and LPG. In the case of Gasum, these taxes have, from 1995 through 1997 or during the first nine months of 1998, amounted to less than ten percent of net sales.

Market Conditions in Finland during the Periods under Review

First Nine Months of 1998 Compared to First Nine Months of 1997. Demand for natural gas in Finland was higher in the first nine months of 1998 compared to the first nine months of 1997, primarily as a result of the commencement of operation of five new gas-fired power plants in the fall of 1997, including the Power and Heat Division's new Kirkniemi CHP plant and a plant at the Oil Division's Porvoo refinery. Increased demand resulting from the commencement of operation of these plants more than offset the negative effects of a large supply of hydroelectric power caused by high precipitation, which resulted in decreased utilization of condensing power capacity based on natural gas during the first nine months of 1998 compared to the first nine months of 1997.

Full Year 1997 Compared to Full Year 1996. In 1997, demand for natural gas in Finland was adversely affected by the introduction of a new energy tax scheme at the beginning of the year, which reduced the competitiveness of natural gas by increasing its price by approximately two percent, and by oversupply in the short-term electricity supply market, which resulted mainly from higher precipitation compared to 1996 increasing the generation output of hydroelectric power plants. However, the effects of these negative factors were partially offset by increased demand resulting from the completion of five new gas-fired power plants near the end of the year. Overall, natural gas consumption in Finland was 33.8 TWh, or approximately 2.4 percent lower than consumption in 1996.

Full-Year 1996 Compared to Full-Year 1995 Natural gas consumption increased in 1996 as a result of a long, cold winter, together with higher electricity prices resulting from the decreased availability of hydroelectric power in the Nordic market due to the lower level of precipitation in 1996. Natural gas consumption was 34.6 TWh, or an increase of 4.5 percent over 1995.

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Net Sales

Net sales of the Gas Division for the nine months ended September 30, 1998, were FIM 2,801 million, compared to FIM 2,447 million for the corresponding period in 1997, an increase of FIM 354 million or 14.5 percent. This increase resulted primarily from higher net sales by Gasum arising from an increase of 21.9 percent in the volume of natural gas delivered by Gasum as compared to the first nine months of 1997. Gasum contributed FIM 1,824 million to net sales of the division for the first nine months of 1998, an increase of 21.8 percent compared to the first nine months of 1997.

Also contributing to the increase in net sales were higher net sales of steam and heat sold through the Gas Division's Neste Lämpö Oy ("Neste Lämpö") subsidiary and higher net sales of LPG in Finland, which together more than offset the negative impact of lower international sales of LPG by the division. The total volume of steam and heat deliveries by Neste Lämpö for the first nine months of 1998 increased by approximately 45 percent, principally as a result of new heat deliveries in the municipality of Nokia in Finland, following the commencement of operation of a new heating plant to serve that area. For LPG, both sales to industry and sales of bottled gas in Finland for the first nine months of 1998 increased compared to the first nine months of 1997.

International net sales of LPG decreased for the first nine months of 1998, with both the volume of deliveries and price level below those of the first nine months of 1997. Lower net sales resulted from a decline in the price for LPG in the international market, which had begun in late 1997. Lower crude oil prices also contributed to low LPG prices in the first nine months of 1998.

Operating Profit

Operating profit of the Gas Division for the nine months ended September 30, 1998, was FIM 260 million, compared to FIM 272 million for the corresponding period in 1997, a decrease of FIM 12 million or 4.4 percent. Contributing to lower operating profit in the first nine months of 1998 were costs relating to projects under development by the Gas Division, including the proposed Nordic gas grid and the North Transgas project.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Net Sales

Net sales of the Gas Division for the year ended December 31, 1997 were FIM 3,655 million, compared to FIM 3,283 million for the year ended December 31, 1996, an increase of FIM 372 million or 11.3 percent. Net sales were higher in most business areas of the division, including particularly international LPG sales. Gasum contributed FIM 2,229 million to net sales of the division for 1997, substantially unchanged from 1996. The slight increase in net sales by Gasum resulted from higher natural gas prices, which more than offset a decrease of 2.3 percent in the volume of natural gas deliveries by Gasum.

Net sales derived from the sale of steam and heat by Neste Lämpö during 1997 increased by approximately seven percent over 1996, primarily as a result of contracted sales from two newly-opened CHP plants.

Net sales of LPG in Finland during 1997 increased by 13.9 percent. This increase resulted primarily from a higher volume of bulk sales to Finnish industrial customers. International sales of LPG increased as a result of higher average prices in 1997 compared to 1996 and increased sales and trading volumes.

Operating Profit

Operating profit for the Gas Division for the year ended December 31, 1997 was FIM 372 million, compared to FIM 362 million for the year ended December 31, 1996, an increase of FIM 10 million or 2.8 percent. This increase resulted from higher net sales partially reduced by the impact of stock losses.

Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995

Net Sales

Net sales of the Gas Division for the year ended December 31, 1996 were FIM 3,283 million, compared to FIM 2,841 million for the year ended December 31, 1995, an increase of FIM 442 million or 15.6 percent. This increase resulted primarily from increased deliveries by Gasum and increased international sales of LPG, although all business units showed higher net sales. Gasum contributed FIM 2,201 million to net sales of the division for 1996, an increase of 12.1 percent over 1995. The volume of natural gas delivered by Gasum was up by 4.5 percent compared to 1995. In 1996, natural gas sales benefited from cold weather conditions and lower availability of hydroelectric power due to low level of precipitation, and the fact that Finland's nuclear plants underwent maintenance shutdowns in the spring and summer, which together resulted in increased use of natural gas for electricity generation.

Operating Profit

Operating profit for the Gas Division for the year ended December 31, 1996 was FIM 362 million, compared to FIM 332 million for the year ended December 31, 1995, an increase of FIM 30 million or 9.0 percent. This increase resulted from increased net sales due to cold winter and high peak demand.

Power and Heat Division

General

Production Taxes and Distribution Fees

Prior to January 1, 1997, a production-based tax was applied to electricity generated in Finland and to electricity imported into Finland. For 1995 and 1996, net sales in Finland of the Power and Heat Division include an amount representing this production tax, which was approximately five percent for these years.

The results of the Power and Heat Division included in this Offering Memorandum for 1996 and for the first six months of 1997 are adjusted to reflect removal from net sales of distribution fees payable to owners of distribution networks in Finland.

Acquisitions

During the periods under review, the Power and Heat Division made two significant acquisitions, obtaining controlling interests in Gullspång and Länsivoima. Net sales and operating profit of the Power and Heat Division have been affected significantly as a result of these transactions.

In September 1998, Gullspång's shares were transferred to Birka Energi, resulting in Birka Energi becoming an associated company of the Power and Heat Division. Gullspång was consolidated with the division as a subsidiary from April 1, 1996 until September 30, 1998. On September 30, 1998, Birka Energi's balance sheet was consolidated with the division using the proportionate method of consolidation corresponding to the division's 50 percent ownership of Birka Energi. Between March 31, 1996 and December 31, 1996, Länsivoima was consolidated as an associated company under the equity method of consolidation and, from January 1, 1997, as a subsidiary.

Unless otherwise indicated, operating profit amounts given below for Gullspång and Länsivoima reflect deduction for depreciation of goodwill arising from the purchase by Fortum of interests in these companies.

As a result of the acquisition of Gullspång, the Power and Heat Division's principal markets are both Finland and Sweden. Through the formation of Birka Energi, the Power and Heat Division's operations in Sweden will be expanded. See "Business of Fortum — Power and Heat Division — Birka Energi."

Electricity Trading and Currency Hedging

In addition to Finland, the Power and Heat Division conducts power and heat generation, sales and distribution activities in Sweden, and other activities relating to power generation in various parts of the world. As a result, reported net sales and operating profit of the division are influenced by variations in the exchange rates between the Swedish krona and various other currencies against the Finnish markka. The Power and Heat Division engages in hedging operations with respect to currency exposure.

The Power and Heat Division engages in trading activities in order to hedge its exposure to changes in electricity prices, including through the use of forward contracts, futures, swaps, bilateral arrangements, power “contracts for differences” and other instruments. Net sales and operating profit of the division reflect the results of such activities.

Fluctuations in Net Sales and Operating Profit Resulting from Changes in Precipitation Levels

Electricity prices are affected by a number of factors, of both a short-term and a long-term nature. See “Investment Considerations — Electricity Markets” and “The Nordic Energy Markets.” One significant short-term factor affecting electricity prices in the Nordic countries is the level of precipitation, which affects the generating potential of hydroelectric facilities. Fluctuations in electricity prices based on precipitation may have a significant effect on the net sales and operating profit of Fortum’s electricity business.

Volume of Electricity Generated; Spot Sales

The volume of electricity generated by the Power and Heat Division varies in accordance with prevailing electricity prices and other factors. In 1997, contracted sales, under which margins have generally been more stable, accounted for approximately 71 percent of Fortum’s electricity sales volume, although the portion of such sales has gradually been decreasing.

Excess electricity generated by the Power and Heat Division is often sold through spot sales, in connection with which margins are generally lower than under contractual arrangements. The proportion of annual production sold through spot sales varies in accordance with various factors.

Market Conditions in the Nordic Countries during the Periods under Review

First Nine Months of 1998 Compared to First Nine Months of 1997. A higher level of precipitation in the first nine months of 1998 compared to the first nine months of 1997 resulted in higher output of hydroelectric power in the Nordic countries, with a corresponding reduction in electricity prices on the spot market in the Nordic countries. Mild weather conditions in Finland and Sweden at the start of 1998 resulted in lower demand for electricity compared to the first nine months of 1997. In addition, the deregulation of the small customer electricity market in Finland in September 1998 has begun to exert downward pressure on electricity prices.

Full-Year 1997 Compared to Full-Year 1996. Electricity consumption in Finland increased by approximately five percent in 1997, as a result of improving economic conditions. However, the average price of electricity on the spot market in the Nordic countries decreased as a result of a higher level of precipitation for 1997 compared to the relatively low level of 1996, which increased the generating potential of hydroelectric power plants. Over-capacity in the Nordic countries also continued to exert downward pressure on electricity prices in the Nordic countries.

Full-Year 1996 Compared to Full-Year 1995. Low precipitation and a long winter in Sweden and Norway in 1996 resulted in high demand for electricity in these countries and exceptionally high electricity prices in the Nordic countries. A considerable amount of electricity was exported from Finland to help meet demand in Sweden and Norway.

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Net Sales

Net sales of the Power and Heat Division for the nine months ended September 30, 1998, were FIM 7,295 million, compared to FIM 7,760 million for the corresponding period of 1997, a decrease of FIM 465 million or 6.0 percent. The decrease resulted primarily from lower electricity prices and a lower sales volume of electricity. Lower prices resulted from over-capacity caused by high levels of precipitation, which increased the level of hydroelectric power generation in the Nordic countries, and from lower demand resulting from mild winter weather conditions at the start of 1998 in the first nine months of 1998 compared to the first nine months of 1997. Decreased production reflected a decision by management to reduce generation activities as a result of the lower price level.

Sales outside of Finland accounted for 38.1 percent of the Power and Heat Division’s net sales for the first nine months of 1998, with Gullspång accounting for substantially all of this amount, compared to 39.3 percent of the division’s net sales for the first nine months of 1997. Gullspång contributed FIM 2,610 million to net sales of the Power and Heat Division for the first nine months of 1998, a reduction of FIM 155 million or 5.6 percent compared to the first nine months of 1997. The reduction resulted from the warmer weather conditions at the start of 1998 compared to the start of 1997.

Net sales of electricity for the first nine months of 1998 were FIM 6,475 million, a decrease of 7.1 percent compared to the first nine months of 1997, with the volume of electricity sold decreasing by 6.9 percent to 32.3 TWh. Net sales in Finland accounted for 59.9 percent of total electricity net sales for the first nine months of 1998 while net sales in Sweden and Norway accounted for a total of 40.1 percent. Net sales in Finland decreased by 5.4 percent compared to the first nine months of 1997, with the volume of electricity sold decreasing by 6.7 percent. Market share in Finland decreased slightly compared to the first nine months of 1997. Net sales in Sweden and Norway decreased by 9.6 percent compared to the first nine months of 1997, with the volume of electricity sold decreasing by 7.3 percent.

The Power and Heat Division sold approximately 5.9 percent of its total electricity sales volume in the Nordic countries through spot sales in the first nine months of 1998, compared to approximately 5.5 percent in the first nine months of 1997.

Net sales of heat increased by 6.2 percent for the first nine months of 1998 to FIM 666 million, with the volume increasing by 1.4 percent. This increase was primarily due to the commencement of operation of a new heating plant in Finland, the effect of which was partially offset by the sale of another plant.

Operating Profit

Operating profit for the Power and Heat Division for the nine months ended September 30, 1998, was FIM 1,431 million, compared to FIM 1,464 million for the corresponding period of 1997, a decrease of FIM 33 million or 2.3 percent. The decrease in operating profit was primarily due to higher depreciation which was partly offset by gains from dispositions of fixed assets. Lower net sales and the stock losses of FIM 75 million on coal inventories were offset by a slight reduction in electricity procurement costs, resulting in the gross margin for the first nine months of 1998 remaining at the same level as for the first nine months of 1997. Dispositions contributed FIM 170 million to operating profit for the first nine months of 1998, compared to FIM 84 million for the first nine months of 1997. Profits on dispositions in the 1998 period comprised principally of the sale of the division's interest in a Finnish hydroelectric power company and in Powertek Berhad, a Malaysian power company.

The liability of the Power and Heat Division to the Finnish Nuclear Waste Management Fund is expected to increase in 1998 by FIM 173 million, but remain lower than nuclear waste management expenses recognized in 1997. In 1997, besides recognizing such ordinary expenses with respect to the fund, the division took an extraordinary provision of FIM 567 million which was intended to cover the division's estimated remaining liability to the fund with respect to the Loviisa nuclear power plant. However, a bill submitted to the Finnish Parliament at the end of October 1998, which proposes to change the method of calculation of interest on the balance of the fund, would result in an increase of the division's estimated remaining liability to the fund relating to the Loviisa plant by approximately FIM 120 million as a result of decreased interest income of the fund but would, on the other hand, result in a decrease in Fortum's interest expense on borrowings from the fund. As a result, a contingency expense of FIM 173 million will be taken for 1998, representing this amount as well as approximately FIM 50 million resulting from an estimated increase in the liability to the fund caused by the upgrading of the output of the Loviisa plant, higher real estate taxes, and other factors. Of the total contingency amount, FIM 130 million has been recognized in the nine months ended September 30, 1998.

Gullspång contributed FIM 580 million to operating profit of the Power and Heat Division for the first nine months of 1998, a reduction of FIM 85 million or 12.8 percent compared to the first nine months of 1997. Without accounting for depreciation of goodwill relating to the purchase of Gullspång, operating profit contributed by Gullspång was somewhat lower than in the first nine months of 1997. Lower operating profit contributed by Gullspång was partially offset by increased operating profit contributed by Länsivoima, which was FIM 77 million higher than the first nine months of 1997.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Net Sales

Net sales of the Power and Heat Division for the year ended December 31, 1997 were FIM 10,896 million, compared to FIM 8,937 million for the year ended December 31, 1996, an increase of FIM 1,959 million or 21.9 percent. This increase resulted primarily from the inclusion of Gullspång in the division's net sales for the entire year, compared to nine months in 1996, and the consolidation of Länsivoima as a subsidiary from January 1997. Net sales for 1996 had been exceptionally high as a result of a low level of precipitation in that year and the resulting decrease in hydroelectric capacity, which in turn caused average price levels to increase and demand for power generated by other means.

Gullspång contributed net sales of FIM 3,907 million for 1997, an increase of FIM 1,548 million or 65.6 percent compared to 1996, when it had been consolidated for only nine months. Länsivoima contributed net sales of FIM 1,152 million for 1997. Sales outside of Finland accounted for 39.7 percent of the Power and Heat Division's net sales for 1997, with Gullspång accounting for substantially all of this amount, compared to 39.0 percent of the division's net sales for 1996.

Net sales of electricity for 1997 were FIM 9,714 million, an increase of 22.4 percent compared to 1996, with the volume of electricity sold increasing by 17.0 percent to 48.1 TWh. These increases resulted primarily from the inclusion of Gullspång in the division's net sales for the entire year, and the consolidation of Länsivoima. Excluding Gullspång and Länsivoima, net sales derived from the sale of electricity in 1997 decreased by 14.0 percent compared to 1996, to FIM 4,937 million.

Net sales in Finland accounted for 58.5 percent of total net sales derived from the sale of electricity for 1997, at FIM 5,685 million, while net sales in Sweden and Norway accounted for a total of 41.5 percent, or FIM 4,029 million. Net sales in Finland increased by FIM 1,009 million or 21.6 percent over 1996, with the volume of electricity sold increasing by 14.6 percent. Market share in Finland decreased slightly in 1997 compared to 1996. Net sales in Sweden and Norway increased by 23.6 percent compared to 1996, with the volume of electricity sold increasing by 21.5 percent. Increased net sales in Sweden resulted primarily from the inclusion of Gullspång for the full year in 1997. Without accounting for the net sales of Gullspång, net sales derived from the export of electricity to Sweden and Norway decreased by approximately FIM 688 million, or 64.7 percent, compared to the exceptionally high level of electricity exports in 1996.

Spot electricity prices were lower in 1997 than in 1996. The Power and Heat Division sold approximately 5.8 percent of its total electricity sales volume in the Nordic countries through spot sales in 1997, compared to approximately 8.8 percent in 1996.

Net sales derived from the sale of heat increased by 11.5 percent for 1997 compared to 1996 to FIM 901 million, with the volume of heat sold increasing by 6.2 percent. Approximately half of this increase resulted from a change in the Finnish fuel tax, with the other half resulting from the commencement of operation of a CHP plant in Finland.

Operating Profit

Operating profit for the Power and Heat Division for the year ended December 31, 1997 was FIM 2,066 million, compared to FIM 1,400 million for the year ended December 31, 1996, an increase of FIM 666 million or 47.6 percent. This increase resulted primarily from the inclusion in the division's operating results for the entire year of Gullspång, which contributed FIM 950 million to operating profit for 1997, an increase of FIM 477 million over 1996, and the consolidation of Länsivoima as a subsidiary, which contributed FIM 180 million for 1997, in each case after depreciation for goodwill. Also contributing to the increase in operating profit was an increase in gross margins on electricity sales in Finland resulting from higher volume and lower procurement costs. The 1997 results were also improved because 1996 results had been reduced by a scheduled long-term maintenance shutdown of the Loviisa power plant, which occurs every two years and typically takes eight weeks. Also contributing to higher operating profit were somewhat lower nuclear waste disposal expenses resulting from the fact that 1996 results included the cost of waste shipments to Russia which ceased that year. These positive factors together more than offset reduced volumes and prices on exports of electricity. Dispositions contributed FIM 130 million to operating profit for 1997, compared to FIM 16 million for 1996.

Operating profit was reduced slightly by an increase in the provision taken to cover losses on a "contract for differences" relating to the Humber power plant project in the United Kingdom, under which Fortum is required to purchase electricity produced by the plant at a price that is currently higher than the current market price. The net provision for losses arising from the Humber contract for differences resulted in a net increase from FIM 34 million for 1996 to FIM 107 million for 1997. This increased provision covers expected losses for 1998, 1999 and 2000. The contract expires in 2012.

Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995

Net Sales

Net sales of the Power and Heat Division for the year ended December 31, 1996 were FIM 8,937 million, compared to FIM 5,952 million for the year ended December 31, 1995, an increase of FIM 2,985 million or 50.2 percent. This increase resulted primarily from the inclusion of Gullspång beginning April 1, 1996 and also from higher net sales from the export of electricity to Sweden and Norway as a result of lower precipitation in those countries, which together more than offset lower net sales derived from the sale of electricity in Finland.

Gullspång contributed net sales of FIM 2,359 million for 1996. Sales outside of Finland accounted for 39.0 percent of the Power and Heat Division's net sales for 1996, with Gullspång accounting for approximately two-thirds of this amount. Sales outside of Finland accounted for a negligible percentage of the division's net sales for 1995.

Net sales of electricity increased by 50.0 percent in 1996 to FIM 7,936 million, with the volume of electricity sold increasing 35.2 percent to 41.1 TWh. Excluding Gullspång, net sales of electricity in 1996 increased by approximately 8.5 percent compared to 1995.

Net sales of electricity in Finland accounted for 58.9 percent of total net sales of electricity in 1996, at FIM 4,676 million, while net sales electricity in Sweden and Norway accounted for 41.1 percent, or FIM 3,260 million. Net sales of electricity in Finland decreased by 11.0 percent compared to 1995 as a result of lower sales volume due to the loss of certain large customers, particularly in late 1995, due to competition from new market entrants. Net sales derived of electricity in Sweden and Norway increased from FIM 38 million in 1995 to FIM 3,260 million in 1996, with the volume of electricity sold increasing from 0.4 TWh to 14.4 TWh.

Increased demand and the resulting higher prices led to higher net sales of electricity on the spot market compared to 1995. The Power and Heat Division sold approximately 8.8 percent of its total electricity sales volume in the Nordic countries through spot sales in 1996, where market prices reached record high levels due to a reduction in available hydroelectric capacity caused by low precipitation.

Net sales of heat increased by 32.9 percent for 1996, to FIM 808 million. This increase resulted primarily from increased demand caused by particularly cold weather at the beginning of the year as well as from the inclusion of the heat sales business of Gullspång beginning in April. Inclusion of Gullspång accounted for approximately one-third of increased heat sales.

Operating Profit

Operating profit for the Power and Heat Division for the year ended December 31, 1996 was FIM 1,400 million, compared to FIM 786 million for the year ended December 31, 1995, an increase of FIM 614 million or 78.1 percent. This increase resulted primarily from the inclusion in the division's operating results of Gullspång, which contributed FIM 473 million after depreciation of goodwill, as well as an increase in margins on sales of electricity resulting from lower precipitation in Sweden and Norway in 1996 compared to 1995. Also contributing to higher operating profit was a reduction in nuclear waste disposal expense from the exceptionally high level of 1995, which included reimbursement to TVO of certain costs in relation to cooperation of IVO and TVO. These costs related to management of disposal of nuclear waste following termination of shipments to Russia. These positive factors more than offset a lower net profit derived from sale of fixed assets in 1996 compared to 1995. Dispositions contributed FIM 16 million to operating profit for 1996, compared to FIM 90 million for 1995.

Operation and Maintenance Division

General

A considerable amount of the business of the Operation and Maintenance Division consists of transactions with other Fortum divisions or consolidated subsidiaries of Fortum, referred to herein as "internal." Substantially all of the international transactions of the Operation and Maintenance Division are external transactions.

Operating profit of the Operation and Maintenance Division is increasingly affected by changes in the level of external sales, including those outside of Finland.

Fees payable to the Operation and Maintenance Division under a portion of its contracts are based on the output of the plants under management by the division. As a result, lower output of power and heating plants may affect the net sales and operating profit of the division.

As part of the formation of Birka Energi, effective September 30, 1998, the Birka Service Group was consolidated in the division's financial statements on a proportionate consolidation basis. Birka Service had previously been accounted for on an equity method basis. Net sales and operating profit amounts for 1997 set forth below have been restated to reflect the revised accounting policy.

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Net Sales

Net sales of the Operation and Maintenance Division for the nine months ended September 30, 1998, were FIM 1,007 million, compared to FIM 896 million for the corresponding period of 1997, an increase of FIM 111 million or 12.4 percent. Of net sales for the first nine months of 1998, 37.0 percent were derived from internal sales, compared to 44.8 percent for the same period in 1997. The increase in proportion of external net sales resulted primarily from an increase in the number of maintenance contracts with industrial customers in Finland and increased net sales by Birka Service.

Operating Profit

Operating profit for the Operation and Maintenance Division for the nine months ended September 30, 1998, was FIM 22 million, compared to FIM 48 million for the corresponding period of 1997, a decrease of FIM 26 million or 54.2 percent. This decrease resulted primarily from increased expenses in connection with development of business operations and start-up costs in connection with the establishment of new maintenance units, as well as lower profits under contracts in which fees are based on the output of the plant under management, which together more than offset the increase in net sales.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Net Sales

Net sales of the Operation and Maintenance Division for the year ended December 31, 1997 were FIM 1,371 million, compared to FIM 930 million for the year ended December 31, 1996, an increase of FIM 441 million or 47.4 percent. Approximately 46.0 percent of 1997 net sales of the Operation and Maintenance Division were derived from internal sales, compared to approximately 66 percent for 1996.

The increase in net sales to external parties in 1997 resulted primarily from the establishment of Birka Service and its consolidation in the division's results pursuant to a revised accounting policy (see "— Operation and Maintenance Division — General"), which resulted in an increase of FIM 279 million in net sales of the division's operations.

Operating Profit

Operating profit for the Operation and Maintenance Division for the year ended December 31, 1997 declined marginally compared to 1996. Lower operating profit resulted from downward price pressure, which resulted in a substantial reduction in revenue derived from operation and maintenance of Fortum's own power plants.

Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995

Net Sales

Net sales of the Operation and Maintenance Division for the year ended December 31, 1996 were FIM 930 million, compared to FIM 740 million for the year ended December 31, 1995, an increase of FIM 190 million or 25.7 percent. Approximately 66 percent of 1996 net sales of the Operation and Maintenance Division were derived from internal sales, compared to approximately 69 percent for 1995.

The increase in external net sales in 1996 resulted primarily from an increase of FIM 52 million in net sales from the division's maintenance operations, resulting from an expansion of the types of services provided under existing maintenance contracts, as well as from increased fees resulting from the higher level of activity in 1996 compared to 1995 at certain of the plants and facilities operated and maintained by the division.

Operating Profit

Operating profit for the Operation and Maintenance Division for the year ended December 31, 1996 was FIM 92 million, compared to FIM 49 million for the year ended December 31, 1995, an increase of FIM 43 million or 87.8 percent. This increase resulted from higher net sales resulting from increased power generation volumes, as well as increased profitability of overseas operations.

Engineering Division

General

A considerable amount of the business of the Engineering Division consists of internal transactions with other Fortum divisions or subsidiaries of Fortum. Substantially all of the international transactions of the Engineering Division are external transactions.

Services provided by the Engineering Division fall into two categories: turnkey contracts, under which the division acts as general contractor in the design and construction of a facility; and design and other task-based services. Under a turnkey contract, the division assumes the risk of timely completion of the facility.

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Net Sales

Net sales of the Engineering Division for the nine months ended September 30, 1998, were FIM 1,391 million, compared to FIM 1,527 million for the nine months ended September 30, 1997, a decrease of FIM 136 million or 8.9 percent. Approximately 18 percent of net sales in the first nine months of 1998 were derived from internal sales, compared to approximately 27 percent for the same period in 1997. Sales outside of Finland accounted for approximately 60 percent of the Engineering Division's net sales for the first nine months of 1998, compared to approximately 57 percent for the same period in 1997.

New orders received during the first nine months of 1998 amounted to FIM 2,057 million, an increase of FIM 1,026 million over the same period in 1997. The order backlog at the end of the first nine months of 1998 stood at approximately FIM 2,756 million, an increase of 28 percent over the same date in 1997.

Net sales for the first nine months of 1998 include FIM 25 million with respect to the Northwest power plant project in St. Petersburg which has been invoiced but remains unpaid. Fortum participates in this project as a member of a consortium. The consortium's share of the project is valued at approximately FIM 2 billion, of which the services provided and materials and equipment procured by Fortum accounts for approximately FIM 1 billion. As of September 30, 1998, Fortum's outstanding receivables from the project, denominated in Finnish markka and German marks, were FIM 105 million. The division has recognized net sales of FIM 589 million from the project, which represents approximately 60 percent of Fortum's share of the total contract value of the project. The actual completion rate of the project, as evaluated by an independent consultant, is 92 percent. Management is not currently in a position to assess whether, and if so when, the already completed but not yet invoiced portion of the project may be invoiced, or whether, and if so when, the remaining portion of the project not yet completed can be invoiced. However, a large majority of such invoicing would relate to purchases procured from other members of the consortium, and not to work performed or expenses incurred by Fortum.

Operating Loss

The Engineering Division had an operating loss of FIM 10 million for the nine months ended September 30, 1998, compared to an operating profit of FIM 12 million for the corresponding period of 1997. The operating loss primarily resulted from lower net sales and lower gross margins in certain significant projects.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Net Sales

Net sales of the Engineering Division for the year ended December 31, 1997 were FIM 2,179 million, compared to FIM 1,974 million for the year ended December 31, 1996, an increase of FIM 205 million or 10.4 percent. Approximately 26 percent of the net sales of the Engineering Division for 1997 were derived from internal sales, compared to approximately 25 percent for 1996. The increase in external net sales resulted primarily from a higher level of international operations in 1997 compared to 1996. Sales outside of Finland accounted for approximately 58 percent of the Engineering Division's net sales for 1997 compared to 56 percent in 1996.

New orders received during 1997 amounted to approximately FIM 1,700 million, an increase of approximately five percent over 1996. The order backlog at year-end stood at approximately FIM 2,100 million, a decrease of 12.5 percent from 1996, as a result of a lower level of new orders received in 1997.

Operating Profit

Operating profit for the Engineering Division for the year ended December 31, 1997 was FIM 80 million, compared to FIM 29 million for the corresponding period of 1996, an increase of FIM 51 million. This increase resulted from higher net sales, as well as a higher gross margin and lower fixed costs.

Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995

Net Sales

Net sales of the Engineering Division for the year ended December 31, 1996 were FIM 1,974 million, compared to FIM 1,405 million for the corresponding period of 1995, an increase of FIM 569 million or 40.5 percent. Approximately 25 percent of 1996 net sales of the Engineering Division were derived from internal sales, compared to approximately 20 percent for 1995. The increase in external net sales resulted primarily from higher sales outside of Finland in 1996 compared to 1995.

New orders received during 1996 amounted to approximately FIM 1,600 million, a decrease of approximately 20 percent from 1995. The order backlog at year-end stood at approximately FIM 2,400 million, a decrease of approximately 11 percent from 1995.

Operating Profit

Operating profit for the Engineering Division for the year ended December 31, 1996 was FIM 29 million, compared to FIM 13 million for the year ended December 31, 1995, an increase of FIM 16 million. This increase resulted from higher net sales, as well as improved operating profit of the power transmission engineering business.

Energy Measurement Division

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Net Sales

Net sales of the Energy Measurement Division for the nine months ended September 30, 1998, were FIM 399 million, compared to FIM 293 million for the corresponding period of 1997, an increase of FIM 106 million or 36.2 percent. This increase resulted from increased sales of metering systems in Sweden and increased demand for electronic electricity meters in Europe, as well as FIM 43 million from the consolidation of the Eurotrem Group in the division's results effective April 1, 1998. Sales outside of Finland accounted for 81.0 percent of the Energy Measurement Division's net sales in the first nine months of 1998, an increase of 36.9 percent over the same period in 1997.

Operating Profit

Operating profit for the Energy Measurement Division for the nine months ended September 30, 1998, was FIM 48 million, compared to FIM 23 million for the corresponding period of 1997, an increase of FIM 25 million. This increase resulted primarily from improved net sales. FIM 5 million of the increase was due to the consolidation of the Eurotrem Group.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Net Sales

Net sales of the Energy Measurement Division for the year ended December 31, 1997 were FIM 413 million, compared to FIM 386 million for the year ended December 31, 1996, an increase of FIM 27 million or 7.0 percent. This increase resulted primarily from increased sales of electronic electricity meters in Central Europe as well as increased sales of remote reading systems in the Nordic countries. Sales outside of Finland accounted for 81.4 percent of the Energy Measurement Division's net sales for 1997, unchanged from 1996.

Operating Profit

Operating profit for the Energy Measurement Division for the year ended December 31, 1997 was FIM 32 million, compared to FIM 34 million for the year ended December 31, 1996, a decrease of FIM 2 million or 5.9 percent. This decrease resulted from higher business development expenses.

Net Sales

Net sales of the Energy Measurement Division for the year ended December 31, 1996 were FIM 386 million, compared to FIM 330 million for the year ended December 31, 1995, an increase of FIM 56 million or 17.0 percent. This increase resulted primarily from increased sales in the Nordic countries and Central Europe. Sales outside of Finland accounted for 81.9 percent of the Energy Measurement Division's net sales for 1996, compared to 79.1 percent for 1995.

Operating Profit

Operating profit for the Energy Measurement Division for the year ended December 31, 1996 was FIM 34 million, compared to FIM 22 million for the year ended December 31, 1995, an increase of FIM 12 million or 54.5 percent. This increase resulted from higher net sales in Central Europe and the Nordic countries.

Chemicals Division

General

The Chemicals Division consists of a group of chemicals companies, each of which is owned wholly or in the majority by the division. Associated companies are accounted for at the Group level through the equity method; however, profits and losses on sales of shares and reversals of write-offs during earlier years in respect of shareholdings in associated companies (Asko in the periods under review) are included in operating profit of the division. In order to further focus its chemicals operations, Fortum completed the disposal of its shareholding in one of these associated companies, Borealis, in August 1998. Following the disposition of Borealis, Fortum's largest remaining associated company in the chemicals business is Asko. See "— Other Operations — Certain Associated Companies" below.

As from October 1997, Krems was consolidated with the division's results, and as from November 1, 1997 Meerbeck was consolidated with the division's results. The division's polystyrene business unit was divested in October 1, 1997. See "— Other Operations — Certain Associated Companies" below and "Business of Fortum — Description of Operations by Division — Chemicals Division — General."

The Chemicals Division conducts manufacturing operations and sells its products in various parts of the world. Sales in Finland generally account for only a small proportion of the division's net sales and operating profit. As a result, net sales and operating profit of the Chemicals Division are influenced by variations in exchange rates between the U.S. dollar and various other currencies and the Finnish markka. During the periods under review, the effect of exchange rate variations was not significant.

Market Conditions during the Periods under Review

First Nine Months of 1998 Compared to First Nine Months of 1997. Demand for resins products continued to be active during the first nine months of 1998. However, difficult market conditions for oxo products also continued, primarily resulting from economic conditions in Southeast Asia and increases in production capacity in Asia, which also affected European markets.

Full-Year 1997 Compared to Full-Year 1996. Over-capacity developed in 1997 in the European resins market. Sales of oxo were not significantly impacted by the volatility in the Asian market; however, demand fell at the end of the year.

Full-Year 1996 Compared to Full-Year 1995. Conditions in the market for adhesive resins were good in North and South America during 1996, in contrast to conditions in Europe. Market conditions varied in oxo markets, but were generally good, and were exceptionally strong in 1995.

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Net Sales

Net sales of the Chemicals Division for the nine months ended September 30, 1998, were FIM 4,230 million, compared to FIM 3,672 million for the corresponding period of 1997, an increase of FIM 558 million or 15.2 percent. This increase resulted primarily from inclusion for the first nine months of 1998 of Krems and Meerbeck, which together more than offset a reduction in net sales of the rest of the division for the first nine

months of 1998, as compared to the first nine months of 1997, primarily resulting from the divestment of the polystyrene business unit. Krems and Meerbeck together contributed FIM 914 million to net sales for the first nine months of 1998.

Operating Profit

Operating profit for the Chemicals Division for the nine months ended September 30, 1998 was FIM 126 million, compared to FIM 188 million for the corresponding period of 1997, a decrease of FIM 62 million or 33.0 percent. Operating profit for the first nine months of 1997 had been increased by approximately FIM 60 million as a result of higher positive net impact of profit on sales of shares in associated companies and reversals of write-offs on shares in associated companies than for the first nine months of 1998. Operating profit from the sale of oxo products was lower as a result of lower margins. The growth in operating profit from the sales of adhesive resin products, which was mainly due to the acquisition of Krems and Meerbeck, more than offset the impact of the divestment in 1997 of the division's polystyrene business.

Operating profit for the first nine months of 1998 includes a reservation for restructuring costs related to the centralization in the Netherlands of the production of adhesive resins.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Net Sales

Net sales of the Chemicals Division for the year ended December 31, 1997 were FIM 5,129 million, compared to FIM 4,703 million for the year ended December 31, 1996, an increase of FIM 426 million or 9.1 percent. This increase resulted primarily from higher net sales of resins products, resulting primarily from the inclusion for two months in 1997 of Krems and Meerbeck. Inclusion of Krems and Meerbeck more than offset the reduction of net sales resulting from the divestment of the polystyrene business unit. Krems and Meerbeck together contributed FIM 240 million to 1997 net sales of the Chemicals Division.

Operating Profit

Operating profit for the Chemicals Division for the year ended December 31, 1997 was FIM 173 million, compared to FIM 331 million for the year ended December 31, 1996, a decrease of FIM 158 million or 47.7 percent. Decreased operating profit in 1997 reflected in part a reduction of approximately FIM 40 million in the contribution to operating profit from sales of shares in associated companies and reversals of write-offs on shares in associated companies. Lower operating profit occurred despite higher net sales for the year, and resulted primarily from lower margins on oxo products caused by increased raw material costs and increased competition, particularly toward the end of the year.

Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995

Net Sales

Net sales of the Chemicals Division for the year ended December 31, 1996 were FIM 4,703 million, compared to FIM 5,297 million for the year ended December 31, 1995, a decrease of FIM 594 million or 11.2 percent. The decrease in net sales resulted primarily from a decrease in prices in the oxo and resins markets from the exceptionally high levels of 1995, as well as the divestment in 1996 of subsidiaries operating in the composites business, which had contributed FIM 260 million to net sales in 1995.

Operating Profit

Operating profit for the Chemicals Division for the year ended December 31, 1996 was FIM 331 million, compared to FIM 581 million for the year ended December 31, 1995, a decrease of FIM 250 million or 43.0 percent. Decreased operating profit in 1996 reflected, in part, a reduction of approximately FIM 40 million in the contribution to operating profit from sales of shares in associated companies and reversals of write-offs on shares in associated companies. Lower operating profit resulted from lower sales compared to 1995, as well as lower margins resulting from reduced price levels in the oxo and resins markets. A decrease in the value of the Finnish markka compared to other currencies in which the Chemicals Division conducts operations also contributed to lower operating profit for 1996 compared to 1995.

Other Operations

Other Operations

In addition to the eight principal divisions, the divisional breakdown of Fortum's net sales and operating profit includes Fortum's other operations. Other operations are comprised of corporate functions of Fortum, IVO and Neste, corporate-level research and development activities of the Fortum Group and the engineering unit of Neste. Other operations also include certain major associated companies, which are not included in the results of the eight principal divisions. The most significant of such associated companies in the periods under review were Asko, Borealis (included until the beginning of August 1998) and Fingrid (included from the beginning of September 1997). The corporate functions included as part of other operations include finance, corporate planning, communications, legal affairs, human resources, information technology and environmental affairs and health and safety operations.

Net sales derived from other operations amounted to FIM 887 million in 1997, compared to FIM 943 million in 1996 and FIM 822 million in 1995. For the nine months ended September 30, 1998, net sales from other operations amounted to FIM 680 million compared to FIM 608 million for the comparable period in 1997. For each of these periods, net sales from other operations were primarily derived from internal sales of corporate-level services to divisions and both internal and external sales by the engineering unit of Neste.

Other operations resulted in a profit of FIM 189 million in 1997 compared to a loss of FIM 294 million in 1996 and a loss of FIM 20 million in 1995. After excluding the contribution of certain associated companies, operating losses were FIM 160 million, FIM 214 million and FIM 399 for the years 1997, 1996 and 1995, respectively. The changes between periods resulted primarily from the variation in gains on sales of shares and fixed assets. In 1996, a 75 percent share of Telia Finland Oy was sold. In 1997, sales of shares included the sale by Fortum of shares in UPM-Kymmene Corporation and its remaining shareholding in Telia Finland Oy, and sales of shares by UVCC Parellel Fund, in which Fortum had an interest, for a total gain of FIM 314 million. In addition, the result of other operations in 1997 was affected by a FIM 50 million charge in respect of certain early retirement benefits to Neste employees.

Other operations resulted in an operating loss of FIM 256 million for the nine months ended September 30, 1998 compared to an operating loss of FIM 39 million for the same period in 1997. After excluding the contribution of certain associated companies, the operating loss for these periods was FIM 376 million and FIM 218 million, respectively.

Certain Associated Companies

Borealis and Asko

Fortum held a 50 percent shareholding in Borealis until August 1998, when Fortum disposed of its shareholding in order to further focus its chemicals operations. See "Business of Fortum — Description of Operations by Division — Chemicals Division — General." Fortum has a 24.8 percent interest in Asko.

Borealis and Asko together contributed FIM 77 million to Fortum's pro forma operating profit for the nine months ended September 30, 1998, compared to FIM 184 million for the corresponding period in 1997. The lower contribution resulted primarily from a reduction in Fortum's shareholding in Asko.

Borealis and Asko together contributed FIM 324 million to Fortum's pro forma operating profit for the year ended December 31, 1997, compared to a net loss of FIM 80 million for the year ended December 31, 1996, an increase of FIM 404 million. The higher contribution resulted primarily from higher net profit for Borealis, arising from increased margins in the polyolefins industry in 1997 compared to 1996. Asko's contribution to operating profit was also higher in 1997 compared to 1996, although Fortum's shareholding in Asko was slightly reduced.

Fortum's shareholding in Borealis and Asko resulted in a net loss of FIM 80 million to Fortum against pro forma operating profit for the year ended December 31, 1996, compared to an operating profit of FIM 379 million for the corresponding period in 1995, a decrease of FIM 459 million. In 1996, Borealis' net profit was lower due to the effect of narrower margins in the polyolefins industry on Borealis. The lower contribution of Borealis more than offset a slightly higher contribution in 1996 from Asko, resulting from higher net profit compared to 1995 and an increase in Fortum's shareholding in Asko.

Fingrid

Fingrid contributed FIM 42 million to Fortum's pro forma operating profit for the nine months ended September 30, 1998, compared to FIM 0.4 million for the month ended September 30, 1997, when Fingrid received Fortum's grid assets and commenced operations on September 1, 1997.

As a result of scheduled reductions in the power transmission tariff charged by Fingrid, Fingrid's net income and therefore Fingrid's contribution to Fortum's operating profit is expected to decrease. The transmission tariff was decreased by 10 percent effective November 1, 1998, and is scheduled to decrease by an additional five percent effective 2001. This decrease is expected to have a direct impact on Fingrid's profitability, as Fingrid is not expected to have corresponding cost savings.

Fingrid began operations in September 1997, and contributed FIM 24 million to Fortum's pro forma operating profit for that year.

Grid Services

Prior to September 1, 1997, the grid assets sold by IVO to Fingrid comprised the grid services division of the IVO Group. As a result of the sale of these assets, net sales derived from grid services are only included in Fortum's net sales and operating profit for the first eight months of 1997.

For the eight months ended August 31, 1997, net sales from grid services were FIM 670 million. For the years ended December 31, 1995 and 1996, net sales from grid services amounted to FIM 1,001 million and FIM 1,101 million, respectively.

For the eight months ended August 31, 1997, the operating profit derived from grid services was FIM 346 million. For the years ended December 31, 1995 and 1996, operating profit derived from grid services amounted to FIM 590 million and FIM 610 million, respectively.

Financial Items

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Fortum's pro forma financial items amounted to a net expense of FIM 921 million for the nine months ended September 30, 1998, compared to a net expense of FIM 1,086 million for the corresponding period of 1997, a decrease in net expense of FIM 165 million or 15.2 percent. The decrease in net financial expense was primarily the result of FIM 93 million gained on currency exchange in the first nine months of 1998, compared to a loss of FIM 46 million in the first nine months of 1997. This gain resulted primarily from the conversion of certain foreign-currency loans to loans denominated in Swedish krona by the IVO Group.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Fortum's pro forma financial items amounted to a net expense of FIM 1,451 million for the year ended December 31, 1997, compared to a net expense of FIM 963 million for the year ended December 31, 1996, an increase in net expense of FIM 488 million or 50.7 percent. The increase in net financial expense primarily resulted from higher interest expense, resulting from the strengthening of the U.S. dollar against the Finnish markka, several large investments during the year by the IVO Group, including purchases of shares of Gullspång, Skandinaviska Elverk and Länsivoima. Exchange rate losses compared to exchange rate gains in 1996, also contributed to higher net financial expense for 1997.

Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995

Fortum's pro forma financial items amounted to a net expense of FIM 963 million for the year ended December 31, 1996, compared to a net expense of FIM 1,024 million for the year ended December 31, 1995, a decrease in net expense of FIM 61 million or 6.0 percent. A reduction in interest expense resulting from lower interest-bearing debt by the Neste Group more than offset increased interest expense in the IVO Group. The increase in net financial expense in the IVO Group primarily resulted from increased interest expense arising from investments by the IVO Group in the purchase of Gullspång, and Gullspång's purchase of Skandinaviska Elverk.

Extraordinary Items

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Fortum's pro forma extraordinary items for the nine months ended September 30, 1998 amounted to a net expense of FIM 24 million, compared to net extraordinary income of FIM 2,726 million for the corresponding period of 1997. Extraordinary items for 1997 consisted primarily of gains from the sale of the IVO Group's electricity transmission grid. In 1998, extraordinary expenses of FIM 91 million related primarily to write-offs on certain shares, which more than offset extraordinary income of FIM 67 million on sales of certain assets.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Fortum's pro forma extraordinary items for the year ended December 31, 1997 amounted to net income of FIM 1,939 million, compared to a net extraordinary income of FIM 207 million for the year ended December 31, 1996. Net extraordinary income for 1997 consisted primarily of extraordinary income from the sale of the IVO Group's electricity transmission grid, which amounted to FIM 3,485 million. Extraordinary income from this sale more than offset write-offs and sales losses in the Neste Group of FIM 1,098 million, which primarily consisted of a write-off of shares in Borealis based on the expected sale price, and extraordinary expense in the IVO Group of FIM 567 million resulting from a provision covering expected payments to the Finnish Nuclear Waste Management Fund for 1998 and 1999 with respect to the Loviisa nuclear power plant.

Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995

Fortum's pro forma extraordinary items for the year ended December 31, 1996 amounted to net income of FIM 207 million, compared to net extraordinary income of FIM 24 million for the year ended December 31, 1995. Net extraordinary income for 1996 resulted primarily from a gain on the sale of shares held by the Neste Group.

Income Taxes

General

In April 1998, the Finnish National Tax Board granted IVO and certain of its subsidiaries an exemption from the restriction on utilization of tax surpluses that pre-date a change in ownership of the taxpayer entity, with respect to the transfer of IVO shares by the Finnish State to the Company. IVO had accumulated tax surpluses from 1989 to 1997 of FIM 1,654 million. This amount will decrease by FIM 194 million pursuant to a resolution of an extraordinary shareholders' meeting of IVO to declare a dividend to be paid to the Company. See "Dividends." The exemption allows IVO to distribute dividends to the Company without paying the supplementary tax that would otherwise be payable. A corresponding tax credit is available to the Company in connection with any dividend distribution in the amount of 7/18 of the dividend paid.

In April 1998, the Finnish National Board of Taxes and the Tax Office for Major Corporations granted Neste and certain of its subsidiaries an exemption from the restriction on utilization of tax surpluses, imputation credits and loss carry-forwards that pre-date a change in ownership of the taxpayer entity, with respect to the transfer of Neste shares by the Finnish State to the Company. At the end of 1997, Neste and its subsidiaries had accumulated tax surpluses of FIM 311 million, accumulated imputation credits of FIM 79 million and loss carry-forwards of FIM 461 million. As a result of dividends paid in respect of the year 1997 and the payment of the dividend declared in September 1998, Neste has utilized substantially all of its tax surpluses and accumulated imputation credits. See "Dividends."

Fortum operates through subsidiaries in a number of tax jurisdictions, with its principal operations being based in Finland and in Sweden. Currently, the corporate income tax rate is 28 percent in both Finland and Sweden. The Group has certain tax loss carry-forwards available for utilization in future years in Finland and in some other countries. The Exploration and Production Division's earnings in Norway are not subject to taxation until approximately 2002, depending on future oil prices. On the basis of these various factors, management expects the Group's effective corporate income tax rate in the foreseeable future to be somewhat below the currently prevailing corporate income tax rates in Finland and in Sweden. In addition, the effective corporate income tax rate of Fortum is also affected by its proportionate share of income derived from associated companies and dividend income received from outside of Finland.

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Fortum's pro forma income taxes for the nine months ended September 30, 1998 were FIM 499 million, compared to FIM 444 million for the corresponding period in 1997, an increase of FIM 55 million or 12.4 percent, due to taxes on inter-group dividends.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Fortum's pro forma income taxes for the year ended December 31, 1997 were FIM 547 million, compared to FIM 773 million for the year ended December 31, 1996, a decrease of FIM 226 million or 29.2 percent. Lower income taxes for 1997 resulted from the release of voluntary reserves in Neste in 1997, which resulted in a reduction of FIM 420 million in deferred tax liability, and the related write-down in the value of Borealis shares based upon the expected sale price of such shares. These factors more than offset an increase in income taxes resulting from gains on the disposal of the IVO Group's power transmission grid. A tax concession resulted in taxes payable upon disposal of the grid being approximately half what they would otherwise have been.

Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995

Fortum's pro forma direct income taxes for the year ended December 31, 1996 were FIM 773 million, compared to FIM 1,082 million for the year ended December 31, 1995, a decrease of FIM 309 million or 28.6 percent. The decrease resulted from an increase in Finland's company tax effective January 1996, which resulted in an increase in deferred tax liabilities totaling over FIM 400 million. The increased deferred tax liabilities were entered into the income statement for 1995. Reversal of tax credits of FIM 96 million taken during prior years in relation to write-offs on shares in associated companies resulted in taxes payable in this amount in 1996.

Minority Interests

Nine Months Ended September 30, 1998, Compared to Nine Months Ended September 30, 1997

Fortum's pro forma minority interests for the nine months ended September 30, 1998 were FIM 124 million, compared to FIM 214 million for the corresponding period of 1997, a decrease of FIM 90 million or 42.1 percent. Lower minority interests for the first nine months of 1998 resulted primarily from a reduction in minority interests of IVO, resulting from the purchase by IVO of the remaining shares in Gullspång.

Twelve Months Ended December 31, 1997, Compared to Twelve Months Ended December 31, 1996

Fortum's pro forma minority interests for the year ended December 31, 1997 were FIM 308 million, compared to FIM 165 million for the corresponding period of 1996, an increase of FIM 143 million or 86.7 percent. Higher minority interests for 1997 resulted primarily from the inclusion of Gullspång for the entire year and the consolidation of Länsivoima from January 1997.

Twelve Months Ended December 31, 1996, Compared to Twelve Months Ended December 31, 1995

Fortum's pro forma minority interests for the year ended December 31, 1996 were FIM 165 million, compared to FIM 61 million for the corresponding period of 1995, an increase of FIM 104 million. Higher minority interests for 1996 resulted primarily from an increase in minority interests of IVO, which principally arose from the acquisition of shares in Gullspång.

Liquidity and Capital Resources

Fortum's principal source of liquidity is cash generated from operations. Fortum's net cash flow provided by operations on a pro forma basis amounted to FIM 3,610 million, FIM 4,077 million and FIM 4,337 million for the years ended December 31, 1995, 1996 and 1997, respectively. Its principal liquidity requirements have been for capital requirements and debt service and, from time to time, working capital.

Fortum's cash and cash equivalents amounted to FIM 2,523 million and FIM 3,809 million as of December 31, 1996 and 1997, respectively. Fortum's interest-bearing debt amounted to FIM 24,468 million and FIM 26,611 million at December 31, 1996 and 1997, respectively. At December 31, 1997, Fortum's net interest-bearing debt (interest-bearing liabilities less cash and marketable securities) on a pro forma basis amounted to FIM 22,802 million. As of September 30, 1998, Fortum's net interest-bearing debt on a pro forma basis amounted to FIM 22,937 million.

Investments by Fortum on a pro forma basis amounted to FIM 10,683 million in 1997, compared to FIM 13,486 million in 1996 and FIM 3,503 million in 1995. These investments included interest-bearing net

debt of acquired subsidiaries as of the relevant acquisition date amounting to FIM 643 million and FIM 6,863 million for the years 1997 and 1996, respectively.

In 1997, Fortum's primary investments were the purchase of shares in Gullspång for a purchase price of FIM 3.5 billion and in Kemijoki Oy for a purchase price of FIM 1.6 billion. In addition, the Chemicals Division acquired a majority holding in Krems in 1997. In 1996, the primary investment by Fortum was the acquisition of 44.1 percent of the share capital of Gullspång for a total consideration of FIM 5.5 billion, which included interest-bearing net debt of Gullspång of FIM 490 million and assets recognized through finance leasing agreements of FIM 2.2 billion. The other major investment in 1996 was the acquisition of the share capital of Skandinaviska Elverket for FIM 4.1 billion. The most important investment projects underway from 1995 through 1997 were the development of the Åsgard oil and gas fields in Norway by the Exploration and Production Division and construction of the Kirkniemi and Vuosaari B plants by the Power and Heat Division.

Investments by Fortum on a pro forma basis for the nine months ended September 30, 1998 amounted to FIM 8,182 million, including FIM 4,280 million in interest-bearing net debt related to the formation of Birka Energi, FIM 545 million representing the purchase price of additional Gullspång shares, FIM 275 million used to purchase shares in Tuusulanjärvi Energy Ltd ("Tuusulanjärvi Energy"), and FIM 223 million for the purchase of shares in Karlskoga Energi och Miljö AB. The most significant ongoing capital expenditures included the development of the Åsgard oil and gas fields in Norway.

A modernization program was recently begun at the Loviisa facility to extend the plant's operating life and upgrade its reactors. Work is scheduled to be completed in 2000, of a total estimated cost of FIM 200 million.

Fortum's proceeds from the sales of fixed assets amounted to FIM 1,680 million, FIM 982 million and FIM 6,637 million for the years 1995, 1996 and 1997, respectively. The largest single disposal was the sale of the Finnish electricity grid assets to Fingrid for FIM 5.4 billion in 1997.

At the beginning of August 1998, Fortum disposed of its 50 percent shareholding in Borealis. Further disposals will include the sale of a 50 percent interest in Gasum by June 3, 1999.

Currently, each of IVO and Neste has available a long-term revolving credit facility with an international bank syndicate. These facilities represent the principal sources of available long-term financing for IVO and Neste. Neste's facility is for a total amount of U.S.\$800 million (FIM 4.1 billion) and IVO's facility is for a total amount of 760 million German marks (FIM 2.3 billion). As of September 30, 1998, FIM 3.6 billion of the total amount of FIM 6.4 billion under these facilities was available to be borrowed. To cover short-term financing needs, Neste also has domestic and euro-commercial paper programs and IVO has a domestic commercial paper program. As of September 30, 1998, the total maximum amount to be drawn under these programs was FIM 3.2 billion, and as of such date FIM 0.3 billion had been drawn. In addition, both IVO and Neste have other sources of short-term and long-term financing available to them. In the future, Fortum's financing activities will be centralized under its corporate management.

Although the actual amount of Fortum's capital expenditures and investments in the future will depend on various factors that cannot presently be foreseen, management of Fortum currently expects that Fortum's total capital expenditures over the three years from 1999 through 2001 will be between FIM 20 billion and FIM 25 billion. Included in this amount is FIM 6-8 billion expected to be invested in maintenance of existing facilities. Management expects that future capital expenditures and other financing requirements of the Group will be covered by cash generated by operations, by disposing of certain non-core and other assets and by additional borrowings and other financing transactions in international and domestic financial markets.

Interest Rate and Exchange Rate Risk

Both IVO and Neste have adopted risk management policies and controls relating to their operations that are designed to limit their exposure to interest rate, exchange rate and other risks arising from these operations. Under its new centralized corporate management, Fortum is currently in the process of developing a single set of guidelines to be applied throughout the Fortum Group under centralized coordination and supervision. Pending the implementation of such centralized risk management guidelines, both the IVO Group and the Neste Group continue to observe their existing risk management policies which are set forth below. See Note 19 to the Pro Forma Consolidated Financial Statements for the contract or notional amounts and fair values of derivatives used in interest rate and exchange rate risk management at year-end 1997.

The discussion set forth below does not cover trading of oil, electricity rights or other commodity or commodity-related trading activities. See “Business of Fortum — Description of Operations by Division — Oil Division — Trading and Hedging Activities,” “Business of Fortum — Description of Operations by Division — Power and Heat Division — Sales of Electricity and Heat — Trading,” and “Investment Considerations — Risks Relating to Trading and Hedging Activities.”

The IVO Group

The IVO Group’s financial risks result primarily from cash flows denominated in foreign currencies, from exchange rate and interest rate risks in respect of loans and liquid funds, and from equity investments made in non-Finnish subsidiaries and associated companies. The risks in respect of cash flows denominated in foreign currencies are covered primarily with forward contracts. If deemed necessary, the difference between loans and liquid funds denominated in currencies other than the Finnish markka is hedged with forward and option contracts, in the event the business operations do not form natural hedging. The interest rate risk of liquid funds and loans is managed with both fixed- and floating-rate instruments. If deemed necessary, loans and liquid funds are also hedged with forward rate agreements and bond forward contracts. Equity investments denominated in currencies other than the Finnish markka are partially hedged with loans in such other currencies. Counterparty risks are reduced by having only leading Finnish and foreign banks and financial institutions accepted as counterparties.

The Neste Group

Financial risk management of the Neste Group is based on a risk management policy approved by the Board of Directors of Neste, which sets the framework for hedging operations and enables Neste to take exchange rate and interest rate positions within specified risk limits.

Interest Rate Risk Management

Neste’s long-term objective for managing the Neste Group’s exposure to interest rate risks is to minimize financing expenses within specified risk limits. Neste’s exposure to interest rate risks arises primarily from the Group’s liabilities, investments and cash flows from operating activities. The currencies that currently are the most sensitive in this respect are the U.S. dollar and the Finnish markka.

In hedging interest rate exposure, Neste’s aim is to maintain the risk as close to the position deemed neutral as possible. Exposure is thus minimized because a change in the Neste Group’s interest expenses resulting from movements in the general level of interest rates, can be expected to be eliminated by a simultaneous change in the opposite direction in the Neste Group’s business performance. A neutral interest rate risk position and the Neste Group’s target in interest rate risk management are determined by using benchmark interest rates calculated for the currencies that the Neste Group uses. Sensitivity analysis is used to measure and analyze exposure to interest rates in order to describe the effect of a change in the interest level on the market value of an interest position. In respect of the financial risk relating to cash flow, the average interest period is used to describe the effect of a change in the interest level on the Neste Group’s interest expenses. In respect of the market risk, interest risk limits have been determined using a measure based on modified duration.

Neste’s exposure to interest rate risks is managed with both cash instruments and derivative contracts. The derivatives used are interest rate and currency swaps, forward rate agreements and bond futures, and interest rate options.

Exchange Rate Risk Management

The purpose of exchange rate risk management is to limit the effects of movements in exchange rates on the Neste Group’s cash flow and shareholders’ equity. Neste’s foreign exchange exposure arises from the Neste

Group's foreign currency denominated or otherwise foreign currency impacted cash flows, receivables, and liabilities. In addition, foreign exchange exposure arises from investments in the shareholders' equity of foreign subsidiaries and associated companies.

Movements in the U.S. dollar against the Finnish markka are the most material to Neste's business, because both raw materials and end products in Neste's core business areas are priced and/or invoiced mainly in U.S. dollars. Other significant currencies are the German mark, the Swedish krona, and the British pound.

In respect of the financial risk relating to balance sheet positions associated with investments in foreign subsidiaries and associated companies, the most significant currencies are the Swedish krona, the Dutch guilder, the Belgian franc, and the U.S. dollar.

Exposure to exchange rate risks arising from business operations is monitored against several base currencies on the basis of the net exposure. The risk involved in any open position is hedged with foreign currency forward agreements, currency options, and currency swaps. The maturities of the external contracts used to hedge cash flows from operating activities are generally no longer than 12 months.

Neste seeks to hedge all material exchange rate risks in accordance with its risk management policy. However, extensive hedging against movements in exchange rates is not possible nor even practicable in countries whose currencies lack advanced financial markets. Such countries include Russia, the Baltic states and Poland.

Credit Risk

Credit risk in financing arises from cash investments and from the credit risk involved in derivative contracts. The credit risk associated with derivatives arises from the potential failure of the counterparty to meet its contractual obligations and, thus, the amount of risk depends on the creditworthiness of the counterparty. Neste seeks to minimize credit risk by entering into derivative contracts with leading financial institutions and brokers only, keeping within the approved credit limits.

Year 2000 and Euro Conversion

Fortum utilizes computerized systems to perform a variety of functions relating to its business, including operation of refineries, power and heating plants and other facilities, transmission and distribution of energy, navigation and communication, and financial and other operations.

Steps are being taken by Fortum to evaluate the likely impact of the Year 2000 changeover on its networks and systems. A considerable amount of work has already been undertaken to plan and test for Year 2000 compliance of existing core business systems. In addition, some of Fortum's units have already upgraded or replaced (or are in the process of replacing) core systems for other business reasons, and have incorporated Year 2000 compliance criteria within specifications for these replacements and upgrades. Based upon the results of these activities, management believes that all reasonable steps are being taken to ensure that the key systems within Fortum's direct control will be made Year 2000 compliant on a timely basis.

In addition, management is evaluating the extent to which systems that are material to Fortum's business operations and provided by third-party suppliers are Year 2000 compliant and, if not, when and if such compliance will be achieved. However, Fortum has less or no control over the compliance of these systems, and failure of these systems to meet Year 2000 compliance criteria may have a material adverse effect on Fortum's operations immediately before and after December 31, 1999.

There are currently more than 200 employees involved in Fortum's Year 2000 project in Finland. Direct costs relating to the project of no more than FIM 150 million are expected for 1998. Costs related to full implementation of Year 2000 compliance during 1999 are expected to be less than Year 2000-related costs in 1998.

Fortum is also in the process of preparing relevant information technology systems for the conversion of the Finnish markka to the euro. Principal areas affected by the conversion include accounting, financing, compensation administration, risk management and cash management. See "Exchange Rates."

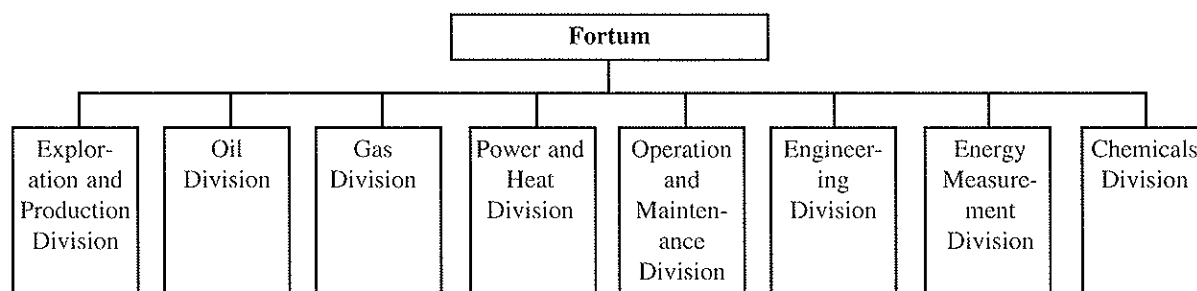
Inflation

Inflation in Finland as measured by the consumer price index during 1995, 1996 and 1997 was 1.0 percent, 0.6 percent and 1.2 percent, respectively. Inflation in Finland did not have a significant impact on Fortum's operating results. However, a significant portion of Fortum's operations, sales and production is performed in countries with rates of inflation higher or lower than that of Finland. Changes in rates of exchange may or may not reflect differences in rates of inflation. It is therefore not possible to quantify the individual or combined effects of these factors on reported income.

BUSINESS OF FORTUM

Organizational Structure

Fortum's business operations will be reorganized as from January 1, 1999. Until that time, Fortum will continue to be comprised of eight divisions, corresponding to the principal divisions through which the IVO Group and the Neste Group conducted their operations prior to the Combination. As part of the process of integrating the operations of the IVO Group and the Neste Group, certain of Fortum's operations are to be consolidated or discontinued, and certain divisions are to be combined into five new divisions. See "Fortum Group — Business Strategy." Fortum's Power and Heat, Operation and Maintenance, Engineering and Energy Measurement Divisions were previously part of the IVO Group, while Fortum's Exploration and Production, Oil, Gas and Chemicals Divisions were previously part of the Neste Group.



Sales by Geographic Area

The following table sets forth Fortum's pro forma total net sales by geographic area for the three years ended December 31, 1997.

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM in millions) (pro forma; unaudited)</i>		
Finland	21,075	22,714	25,347
Other Nordic countries	2,808	6,338	7,303
Baltic Rim area	1,825	2,121	3,012
Other European countries	4,915	6,511	7,285
U.S. and Canada	3,882	5,054	6,013
Other countries	17,344	13,330	11,084
Total net sales	<u>51,849</u>	<u>56,068</u>	<u>60,044</u>

Description of Operations by Division

EXPLORATION AND PRODUCTION DIVISION

General

The following table sets forth certain financial and statistical data relating to the Exploration and Production Division for the three years ended December 31, 1997 and the nine months ended September 30, 1997 and 1998.

	Year ended December 31,			Nine months ended September 30,	
	1995	1996	1997	1997	1998
	<i>(FIM in millions, except personnel data)</i>				
Net sales	822	1,229	1,244	904	714
Operating profit	176	459	532	363	73
Identifiable assets	N/A	3,413	4,302	N/A	4,614
Investments	530	396	852	570	1,021
Average number of employees	82	79	81	81	280(1)

(1) Increase due to the transfer of TOPKO Service Company, a subsidiary of the Oil Division located in California, by the Oil Division to the Exploration and Production Division.

The Exploration and Production Division has interests in three oil and gas fields currently in production, two located in Norway and one in Oman. In addition, the division has interests in oil and gas fields and discoveries in Norway, Russia and Algeria that are under development or appraisal. In 1997, oil and gas field interests held by the division produced an average of 32,550 barrels of oil-equivalent barrels per day, or approximately 1.67 million tons for the year, of which approximately three percent was natural gas. All of the oil and gas obtained by the division is sold in international markets.

The Exploration and Production Division participates in exploration and production projects as a partner, rather than a field operator. As is common in the oil and gas exploration industry, several partners, including other oil and gas companies, state oil companies and government entities, are generally involved in these projects. The division focuses primarily on projects with “found” reserves of oil and gas, for which there is little or no exploration risk. The division’s first production of oil came on-stream in Oman in 1991, and then in Norway in 1993.

As of December 31, 1997, the Exploration and Production Division’s net interest in proven reserves of crude oil and natural gas totaled 177 million barrels of oil-equivalent, and combined proven and probable reserves totaled 258 million barrels of oil-equivalent, of which crude oil represented approximately 62 percent and natural gas represented approximately 38 percent. Approximately 40 percent of the division’s total proven and probable reserves is located in fields that were in commercial production at December 31, 1997, and approximately 60 percent in fields that are expected to be in production by 2000.

Management intends for the Exploration and Production Division to continue to develop its existing oil, gas and condensate reserves in the Brage, Heidrun and Åsgard fields located in Norway and the Suneinah Concession in Oman, and to continue to participate in new exploration taking place on the Norwegian continental shelf and in Oman. In addition, management intends for the division to continue participating in onshore and offshore field development activities in Russia with joint venture partners.

Projects by Region

Norway

The majority of the Exploration and Production Division’s current proven and probable oil and gas reserves is on the Norwegian continental shelf, with interests in two fields in production and one field area in development.

Production from the Brage field, in which the division has a 12.3 percent interest, commenced in September 1993. Production volume net to the division from Brage in 1997 was approximately 13,000 barrels of oil-equivalent per day. Brage is a relatively small oil field, which surpassed peak production in 1996. Current reserve estimates indicate that production at Brage should continue, in declining amounts, until 2011. Associated gas from the Brage field is transported by a dedicated pipeline to onshore facilities. The division’s partners in the Brage field project are Norsk Hydro, Statoil, Esso, Elf, Saga, Mobil, Total and the Norwegian government. Norsk Hydro is the operator.

Production from the Heidrun field, in which the Exploration and Production Division has a five-percent interest, commenced in October 1995. Production volume net to the division from Heidrun in 1997 was approximately 12,000 barrels of oil-equivalent per day. Reserve estimates indicate that the Heidrun field is approximately three times as large as Brage; however, the division’s share of production from Heidrun is less than half that of Brage. Estimates are that peak production at Heidrun occurred in 1997, and that production at this maximum level will continue for four to five years and then gradually decline until 2020. As with Brage, associated gas from Heidrun is transported by a dedicated pipeline. Gas from Heidrun is converted to methanol, of which the division’s share is five percent, translating to over 40,000 tons annually. The division has long-term supply contracts for methanol from Heidrun. The division’s partners in the Heidrun project are Statoil, Conoco and the Norwegian government. Statoil is the operator.

The Exploration and Production Division also holds a seven-percent interest in the Åsgard development project, which includes three oil and gas fields, of which developmental work is in the final stages. Production of oil at Åsgard is scheduled to commence in the first half of 1999, and production of gas, which is expected to comprise approximately half of total output, in 2000. The division’s share of the combined annual crude oil and gas output of the Åsgard fields is estimated to reach an annual average of eleven million barrels of oil-equivalent, or 30,000 barrels of oil-equivalent per day, by 2002. Production is also expected to peak that year, with production continuing in gradually declining amounts until 2024. Gas from Åsgard is to be fed directly into a

pipeline connecting to the North Sea gas grid. The Exploration and Production Division already has long-term supply contracts in place for its share of gas output from Åsgard.

Since its inception, the Åsgard project has grown in scope and scale with the discovery of new reserves. As a result, project partners have increased their investments to cover additional development work, and have increased expenditures in order to deal with technical difficulties arising from the added complexity of the project. As of September 30, 1998, the Exploration and Production Division had invested FIM 1,750 million in the Åsgard project, and an additional investment of approximately FIM 1.5 billion is scheduled over the next several years, for a total expected investment of approximately FIM 3.3 billion. The division's partners in the Åsgard project are Statoil, Norsk Agip, Total, Mobil, Saga, Norsk Hydro and the Norwegian government. Statoil is the operator of the Åsgard development project.

Under Norwegian law, the Ministry of Petroleum and Energy has authority to set conditions in agreements among partner companies in oil and gas exploration and production projects.

Oman

The Exploration and Production Division holds a 35 percent working interest, and a revenue interest of up to 18.2 percent, in the Suneinah Concession, an area encompassing several oil fields in Oman. In light of the division's planned expenditures on the project, the division expects its revenue interest to remain at or near 18.2 percent. In 1997, production net to the division from the Suneinah fields averaged 7,600 barrels of oil per day. Oil production has increased considerably in the area due to a continuing stream of commercial discoveries, and drilling of additional development wells has taken place throughout 1998. Production at Suneinah is expected to peak in 2000, with production continuing in gradually declining amounts until 2015. The division's partner in the Suneinah Concession is Occidental Oman, which is also the field operator.

Algeria

In Algeria, the Exploration and Production Division has a one-third interest in the El Ouar license area. In 1997, the drilling of a second exploration well led to a gas-rich discovery which, as estimated from initial tests, has the potential to produce 14,000 barrels of oil-equivalent per day. The division is currently considering the sale of its interest in Algeria in accordance with Fortum's strategy of focusing exploration and production activities on Norway, the Middle East and Russia.

Russia

The Exploration and Production Division has been actively involved in evaluation projects in northwestern Russia since 1989, and currently holds interests in licenses for the onshore Yuzhno-Shapkinskoye field and offshore areas in the Pechora and Barents Seas.

The Yuzhno-Shapkinskoye onshore field is managed by SeverTEK, a joint venture of which the Exploration and Production Division currently owns 50 percent. The division had originally owned a 20 percent interest, but recently acquired the 30 percent interest of Elf Aquitaine following its withdrawal from SeverTEK. KomiTEK is the other joint venture partner, and the division and KomiTEK are presently seeking an additional shareholder. Field studies began in 1996 and seismic studies and production tests were conducted in 1997. Actual production is not expected to begin until at least 2000.

Together with RAO Gazprom, Norsk Hydro, Conoco and Total, the Exploration and Production Division is also continuing economic feasibility studies in the Shtokmanovskoye gas and condensate field located in the Russian Barents Sea. Production at Shtokmanovskoye is not expected to begin until at least 2010. The division's investment in the project will largely depend upon the level of development of European gas markets and Russian gas infrastructures. The division and the other partner companies each have an equal minority interest in the Shtokmanovskoye project study group.

Reserves

The table below sets forth by geographic area the Exploration and Production Division's net proven and total proven and probable developed and undeveloped crude oil, condensate and natural gas reserves.

Proven and Probable Crude Oil, Condensate and Natural Gas Reserves(1)

	Proven Reserves	Proven and Probable Reserves
<i>At December 31, 1995</i>	<i>(millions of boe)</i>	
Norway	173	244
Oman	20	24
Total	193	268
<i>At December 31, 1996</i>		
Norway	172	247
Oman	16	21
Total	188	268
<i>At December 31, 1997</i>		
Norway	163	238
Oman	14	20
Total	177	258

- (1) Figures for all fields are estimated. There are numerous uncertainties inherent in estimating quantities of reserves and in projecting the timing of development, including many factors beyond the control of the producer. The reserve data set forth in this Offering Memorandum represent only estimates by management. Reservoir engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers often vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimates so that reserve estimates at a specific time are often different from the quantities of oil and gas that are ultimately recovered.

The Exploration and Production Division built up its reserve base mainly through acquisitions of interests made in 1990 and 1991. Since then, the projects in which the division participates have maintained high annual production replacement rates. Excluding further swaps and disposals to upgrade the division's portfolio, projects in which the division participates have achieved a 223 percent oil and gas replacement ratio in the period from 1991 through 1997. This ratio was achieved as a result of revisions of previous reserve estimates due to new oil discoveries in Oman and extensions of existing discoveries in Norway. Management expects the reserves of the Åsgard fields to be revised upward in future years.

The Exploration and Production Division focuses on projects with long-term production potential. The slower production decline rate of long-term reserves allows the division to make reserve replacement investments less frequently, and only when economically advantageous. Also, the market value of long-term reserves is higher and more stable than reserves with lower production potential, and larger projects are more likely to lead to additional reserves and new discoveries. Finally, technological developments during the longer production life of long-term reserves projects may allow economical access to hard-to-reach hydrocarbon deposits in and adjacent to reserve fields.

The Exploration and Production Division has interests in 19 exploration licenses in Norway, Russia, Oman and Algeria. During 1997, the division participated in eight exploration and appraisal drillings, of which four resulted in discoveries in satellite fields of oil and gas fields already in production.

Production

The Exploration and Production Division's net production represented approximately five percent of its total proven and probable reserves in 1997. As of the end of 1997, the division's ratio of reserves to production was twenty-two to one.

The following table sets forth the oil and gas fields in which the Exploration and Production Division has interests and the operator of each field as of December 31, 1997.

Oil and Gas Field Interests

<u>Field</u>	<u>Interests</u> (%)	<u>Operator</u>
Norway		
Brage	12.3	Norsk Hydro
Heidrun	5.0	Statoil
Åsgard(1)	7.0	Statoil
Oman		
Suneinah	35.0	Occidental
Others	35.0	Occidental

(1) Scheduled to begin oil production in the first half of 1999, and gas production in 2000.

The following table shows the Exploration and Production Division's average daily net production of crude oil and natural gas by field for the three years ended December 31, 1997, and the nine months ended September 30, 1997 and 1998.

Average Daily Production by Field

	<u>Year ended December 31,</u>			<u>Nine months ended</u>	
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>September 30,</u>	<u>1998</u>
<i>Crude Oil and Condensates (barrels of oil equivalent)</i>					
Norway					
Brage	13,502	13,811	12,655	13,030	12,917
Heidrun	912	10,475	11,600	11,494	9,953
Total	14,414	24,286	24,255	24,524	22,870
Oman					
Suneinah	7,232	7,267	7,570	7,253	8,947
Total crude oil	21,646	31,553	31,825	31,777	31,817
<i>Natural Gas (millions of cubic meters)</i>					
Norway					
Brage	0.10	0.08	0.05	0.06	0.07
Heidrun	—	—	0.06	0.04	0.11
Total	0.10	0.08	0.11	0.10	0.18
Oman					
Suneinah	—	—	—	—	—
Total natural gas	0.10	0.08	0.11	0.10	0.18

OIL DIVISION

General

The following table sets forth certain financial and statistical data relating to the Oil Division for the three years ended December 31, 1997 and the nine months ended September 30, 1997 and 1998.

	Year ended December 31,			Nine months ended September 30,	
	1995	1996	1997	1997	1998
	<i>(FIM in millions, except personnel data)</i>				
Net sales(1)(2)	35,789	36,577	37,882	27,322	21,790
Operating profit(3)	1,014	282	544	519	739
Identifiable assets	N/A	10,641	10,487	N/A	9,516
Investments	1,820	842	1,090	818	414
Average number of employees	4,400	4,456	4,337	4,438	4,126(4)

(1) Net sales for the Oil Division include taxes levied on retail and direct sales of petroleum products in Finland and elsewhere.

(2) Net sales for the Oil Division include the gross value of trading volumes, which amounted to FIM 17,064 million in 1995, FIM 14,232 million in 1996 and FIM 12,591 million in 1997.

(3) Prior to January 1, 1998, costs relating to a planned refinery maintenance and upgrade shutdown, which typically occurs every four years for each refinery, were recognized entirely in the year in which the shutdown occurred. Effective January 1, 1998, a provision for such costs will be taken annually. Operating profit for the nine months ended September 30, 1998 reflects a provision of FIM 57 million for future shutdowns. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Oil Division."

(4) Reduction due to the transfer of TOPKO Service Company, a subsidiary of the Oil Division located in California, to the Exploration and Production Division.

The Oil Division conducts downstream oil operations, consisting of refining, marketing and sales of refined petroleum products, international trading and logistics. The division's extensive product range includes gasolines, diesel fuels, light and heavy fuel oils, aviation fuels, traffic fuel components, base oils, lubricants, bitumens, solvents and specialty fuel products, as well as LPG.

The Oil Division focuses on the development, production and marketing of refined petroleum products with reduced environmental impact. The division emphasizes the utilization of the capabilities and capacity of its refining assets to produce such reformulated products, and seeks to benefit from the strategic location of its refineries relative to its export markets, especially in the Baltic Rim area. Outside of the Baltic Rim area, the division also focuses on products with reduced environmental impact, principally advanced fuel and lubricant components. In 1997, refined petroleum products with reduced environmental impact accounted for over half of the total output of the division's refineries.

Sales by Geographic Area

The following table sets forth the Oil Division's sales volumes by geographic area for the three years ended December 31, 1997.

	Year ended December 31,		
	1995	1996	1997
	<i>(thousands of tons)</i>		
Finland	7,454	7,514	8,457
Other Nordic countries	1,768	1,650	1,478
Baltic Rim area	1,428	1,357	1,734
Other European countries	499	857	950
U.S. and Canada	1,029	1,396	901
Other countries	678	482	422
Total	<u>12,856</u>	<u>13,256</u>	<u>13,942</u>

Products

The Oil Division produces and markets reformulated gasolines and low-sulfur, low-aromatic diesel fuels ("City Diesel") that meet existing and, for the most part, anticipated environmental standards in Europe and the United States. These products already exceed the quality criteria for gasolines and diesel fuels set forth by the EU Council of Ministers and the European Parliament in June 1998, which will become compulsory in EU member states in 2000, and most of the division's traffic fuels already meet the criteria scheduled to take effect

in 2005. Management expects that only minor investments will be needed in order to bring all of the division's traffic fuels into compliance with these EU requirements.

The Oil Division is able to benefit from tax incentives granted with respect to petroleum products with reduced environmental impact in the Oil Division's principal markets, Finland and Sweden, as well as in the United Kingdom, where lower taxes are imposed on products that meet certain environmental standards. In Finland, reformulated gasoline and City Diesel benefit from tax reductions ranging from FIM 0.05 per liter to FIM 0.15 per liter compared to normal grades, while in Sweden tax reduction benefits range from SEK 0.06 per liter to SEK 0.45 per liter compared to normal grades. In the United Kingdom, City Diesel benefits from a tax reduction of GBP 0.02 per liter compared to normal grades.

The Oil Division produces traffic fuel components for use in its own reformulated gasolines as well as for sale to other oil companies. The fuel component MTBE, and the more recently developed component TAME, are oxygenates that significantly improve gasoline combustion and reduce harmful emissions. In 1997, the division sold approximately 750,000 tons of MTBE worldwide, representing five percent of the global MTBE market, mainly to oil companies in Europe and in the United States. Management expects that further implementation of certain provisions of the U.S. Clean Air Act of 1990 providing for the use of oxygenates in reformulated gasoline sold in the United States, and increasingly stringent criteria in Europe, will lead to continued increases in demand for MTBE and TAME, although no assurance can be given that Fortum will benefit from such developments.

The Oil Division also produces and markets synthetic industrial and automotive lubricants with reduced environmental impact. Demand for such lubricants continues to increase as use of traditional mineral oils decreases in both Finland and the international markets. The division produces base oils for synthetic lubricants. Polyalphaolefin ("PAO") is the main component of synthetic lubricants, and the division currently has approximately a 30 percent share of the European PAO market. At the end of 1997, the division started production of very high viscosity index ("VHVI") base oil at the Porvoo refinery. VHVI is used in the production of Fortum's own lubricants and is marketed to other lubricant manufacturers in Finland and internationally. The division also sells approximately 40,000 tons of motor and industrial lubricants annually.

The Oil Division also produces and supplies bitumen, solvents and specialty fuel products. The division is the market leader in Finland for both road and industrial bitumens, with sales in 1997 of approximately 330,000 tons, and owns 50 percent of AB Nynäs Petroleum, a Swedish company that specializes in producing bitumen and naphthenics. The division is also one of the leading producers of solvents and specialty fuels with reduced environmental impact in the Nordic countries. Solvents produced by the division are sulfur-free and benzene-free, with certain varieties also being aromatic-free. Specialty fuel products include aviation fuels, small engine fuels and a specialty light fuel oil with zero-sulfur emissions.

Refining

The Oil Division is a market leader in the Baltic Rim area in the production of high-quality refined petroleum products with reduced environmental impact, and was one of the first oil producers in Europe to upgrade its refineries in order to produce reformulated gasolines and City Diesel. The Oil Division's refineries refine crude oil and other feedstocks into LPG, gasolines, diesel fuels, aviation fuels, light fuel oil, heavy fuel oil, bitumen and solvents, VHVI base oil and specialty fuels. Management believes that the location of the division's refineries in Finland provides it with a strategic advantage in accessing its focus markets in the Baltic Rim area, particularly the developing markets of the Baltic states, Poland and northwestern Russia.

Management believes that the Oil Division is currently one of the few European producers with the production capacity to produce gasolines and diesel fuels with reduced environmental impact, enabling it to take advantage of this growing market. In addition, the Oil Division owns and operates one of the few refining facilities outside the State of California that is able to produce traffic fuels meeting California's strict environmental requirements.

Facilities

The Oil Division owns and operates the only two oil refineries in Finland, located at Naantali and Porvoo. The Naantali refinery is located on the southwestern coast of Finland, and began operation in the late 1950s. An on-going investment program at the Naantali refinery has focused on increasing the production of specialty oil products. The Porvoo refinery, located on the southern coast of Finland, has been in operation since the mid-1960s and is the Oil Division's principal refinery. The Porvoo refinery is one of the most efficient refining facilities in Europe.

The Porvoo refinery has an annual capacity of approximately eleven million tons (220,000 bpd), while the Naantali refinery has an annual capacity of approximately three million tons (60,000 bpd). Total production from both refineries was 10.8 million tons (216,000 bpd) in 1997, with production decreased somewhat due to a planned five-week shutdown of the Porvoo refinery for maintenance and upgrading.

The Porvoo and Naantali refineries have benefited from continuous modernization and improvement. From 1995 through 1997, total investments in the two refineries amounted to approximately FIM 1.2 billion. The principal aim of these investments has been to increase the share of higher value-added products in the refineries' product yield while reducing the share of lower value-added products, such as heavy fuel oil. Principal projects at the Porvoo refinery have included construction of a unit for the manufacture of TAME, with an annual production capacity of 110,000 tons, as well as a state-of-the-art facility for the production of VHVI base oil, the first of its kind in Europe, for a total investment of FIM 210 million. In addition, a combined-cycle gas turbine (CCGT) power plant, for a total investment of FIM 250 million, was added to provide the refinery with its own source of steam and power, with any surplus generation of electricity to be sold on the Finnish electricity network. An additional investment of FIM 170 million is to be made in the Porvoo refinery in order to increase City Diesel production substantially, with the additional production capacity scheduled to become available in December 1999. Recent investments at the Naantali refinery include construction of a jet fuel production facility and a railway terminal for handling crude oil delivered from Russia.

The Porvoo and Naantali refineries are supported by advanced logistics infrastructures. Both refineries are located adjacent to harbors, and have direct railway links to the Russian railway network. The railway links allow for cost-efficient importation of Russian crude oil and feedstocks. The Porvoo refinery also employs extensive above-ground and underground storage facilities. See "— Logistics — Harbor and Terminal Operations" below.

The Porvoo refinery is one of the most complex refineries in Europe, with an ability to produce a wide range of refined petroleum products. International benchmarking studies have cited Porvoo as one of the most cost-efficient refineries in Europe when compared to other complex refineries, resulting from its relatively low operating costs and high conversion rates, and ability to convert crude oil and other feedstocks into high-value-added oil products with yields exceeding the European average.

The Oil Division produces MTBE at the Porvoo refinery and at three other facilities outside of Finland. Most of the division's MTBE production takes place at the division's Sines, Portugal plant and at joint venture facilities in Al Jubail, Saudi Arabia and Edmonton, Canada. In anticipation of increased demand for traffic fuel components, the capacity of the Edmonton MTBE facility was upgraded in 1997, and the division is exploring the feasibility of building another MTBE plant in Saudi Arabia.

Crude Oil and Feedstocks

In 1997, the Oil Division's refineries used approximately 9.4 million tons of crude oil and approximately 2.6 million tons of other feedstocks and components. In order to optimize refining operations, the division has diversified the types of feedstocks and components supplied to the refineries, with materials such as naphtha, condensates, vacuum gas oil and atmospheric residual fuels supplied in increasing volumes. The table below sets forth the origins of crude oil and feedstock procurement by the refineries in 1995, 1996 and 1997.

	Year ended December 31,		
	1995	1996	1997
	<i>(millions of tons)</i>		
Crude oil			
Russia	1,762	2,519	4,535
Norway	2,919	2,433	2,430
U.K.	3,491	3,491	1,305
Other countries	901	1,278	1,095
Total	<u>9,073</u>	<u>9,721</u>	<u>9,365</u>
Feedstocks and other components(1)	<u>2,443</u>	<u>2,857</u>	<u>2,555</u>

(1) Feedstocks and other components are procured from various countries.

Production

The Porvoo and Naantali refineries produce a wide range of petroleum products. The following table sets forth the throughputs and production yields of both refineries for the years indicated.

Refinery Throughputs and Production Yields

	Naantali			Porvoo			Total(1)		
	1995	1996	1997	1995	1996	1997	1995	1996	1997
	<i>(thousands of tons)</i>								
Crude oil and feedstocks throughput	2,221	2,320	2,666	9,488	10,375	9,045	11,709	12,695	11,454
Production yields									
LPG	38	35	35	246	374	311	284	409	346
Gasolines	668	600	699	3,816	3,918	3,354	4,484	4,518	4,053
Aviation fuels	27	26	22	797	722	594	824	748	616
Gasoids	948	995	1,206	3,192	3,860	3,416	4,140	4,629	4,365
Heavy fuel oil	210	222	216	470	672	544	680	894	760
Other(2)	196	305	353	465	314	344	661	619	697
Total	<u>2,087</u>	<u>2,183</u>	<u>2,531</u>	<u>8,986</u>	<u>9,860</u>	<u>8,563</u>	<u>11,073</u>	<u>11,817</u>	<u>10,837</u>

(1) After elimination of internal transfers between refineries.

(2) Includes solvents, bitumen and residual products.

Capacity utilization at the Porvoo refinery was 93.7 and 82.2 percent in 1996 and 1997, respectively, and at the Naantali refinery, 83.9 and 90.9 percent, respectively. Capacity utilization was reduced in 1997 at the Porvoo refinery, and in 1996 at the Naantali refinery, by planned maintenance and upgrade shutdowns.

Refining Margin

Profitability of oil refining correlates directly to the benchmark refining margin for northwestern Europe. The international refining margin has been relatively small in recent years. However, the Oil Division's refineries have generally outperformed the international refining margin, as a result of the refineries' high conversion capacity, relatively high output of premium products, and ability to utilize crude oil and feedstocks obtained from the former Soviet Union.

From 1994 to 1998, the division's average refining margin has been between U.S.\$3.00 and U.S.\$4.00 per barrel. Based upon available statistics, the northwestern European refining margin over the same period has been between U.S.\$1.00 and U.S.\$1.70 per barrel. High complexity and conversion rates, combined with ready access to harbors, storage facilities and flexible raw materials blending systems, enable the Oil Division's refineries to take advantage of movements in price differentials among various raw materials to maximize refining margins.

Bulk Sales

General

The Oil Division conducts wholesale distribution of refined petroleum products in Finland and internationally.

The following table sets forth the Oil Division's bulk sales of refined petroleum products by geographic area for the three years ended December 31, 1997.

	Year ended December 31,		
	1995	1996	1997
	<i>(thousands of tons)</i>		
Finland	7,413	7,476	8,418
Other Nordic countries	1,723	1,583	1,434
Baltic Rim area	873	1,089	1,179
Other European countries	327	722	735
U.S. and Canada	584	1,009	467
Asia	318	137	—
Total exports	<u>3,825</u>	<u>4,540</u>	<u>3,815</u>

Finland

In Finland, the Oil Division has a share of approximately 80 percent of the wholesale market for refined petroleum products. Principal products sold to wholesale customers include reformulated gasolines, City Diesel and low-sulfur light fuel oil. Wholesale customers include all major oil companies operating in Finland, and supply agreements are typically fixed-term contracts for one year. In 1997, domestic wholesale deliveries amounted to approximately 8.4 million tons, compared to 7.5 million tons in 1996.

Export Sales

Products exported by the Oil Division consist primarily of gasoline, aviation fuels, diesel fuels and other middle distillates, bitumen and solvents, destined principally for Sweden, the Baltic Rim area, the United Kingdom, other countries in northwestern Europe and North America. Sweden is the division's most significant export market, accounting for 37 percent of exports in 1997. Wholesale customers include major oil companies, with sales made on a spot basis as well as pursuant to fixed-term contracts that are typically for one year.

Retail and Direct Sales

General

The Oil Division engages in the retail and direct sales and marketing of refined petroleum products in Finland and the Baltic Rim area. In 1997, the division's retail and direct sales totaled FIM 11,795 million. Direct sales consist primarily of sales of fuels to commercial and heating customers.

In 1997, combining retail and direct sales, the Oil Division sold approximately 3.2 million tons of refined petroleum products through its retail and direct sales network in Finland, and 1.6 million tons in other markets in the Baltic Rim area. Nearly all petroleum products marketed in Finland through the division's retail and direct sales network are produced by the division; outside of Finland, the division also offers certain fuels and heating oils purchased from local refineries. The division's retail outlets in Finland and in the Baltic Rim area also offer a growing variety of non-fuel products and services to motorists.

The Oil Division's retail network is the largest in Finland by number of locations and market share. As of September 30, 1998, the division had 1,053 locations in Finland and 85 locations in the Baltic Rim area. Retail outlets in the Baltic Rim area are located in northwestern Russia (in the St. Petersburg area), the Baltic states and Poland, and are also located in Sweden.

As of September 30, 1998, the Oil Division's 1,053 retail outlets in Finland included 80 large service stations with restaurants, convenience stores or car washes, as well as 407 other service stations, 370 unmanned diesel stations for trucks and other heavy vehicles and 196 unmanned gasoline stations. Nearly all of the division's large service stations and unmanned service stations in Finland are owned by the division, with operations and non-fuel services of the large service stations typically contracted out to outside parties. The majority of other service stations in Finland are both owned and operated by outside parties under contractual arrangements.

Most of the Oil Division's retail outlets outside of Finland are manned service stations owned by the division. The division's service stations in the Baltic states are generally operated by independent dealers, while service stations in Russia and Poland are operated by the division.

The following table sets forth the location and number of the Oil Division's retail outlets as of September 30, 1998.

	Number of Retail Outlets as of September 30, 1998
Finland	1,053
Sweden	2
Northwestern Russia	18
Baltic states	48
Poland	17
Total	<u>1,138</u>

The Oil Division primarily sells light fuel oil, heavy fuel oil and marine and aviation fuels directly to commercial and heating customers, with reformulated gasolines and diesel oils sold through retail outlets. The most important customer groups for direct sales are industry, transportation companies, agricultural and heating customers, with the Oil Division currently the market leader in Finland in each of these market segments.

Finland

The Oil Division is the market leader in Finland in retail and direct sales of refined petroleum products, with a retail customer base of approximately 350,000 regular customers and a direct sales customer base of approximately 300,000 customers. In 1997, retail and direct sales in Finland totaled FIM 9,048 million, of which direct sales accounted for approximately 54 percent.

For the nine months ended September 30, 1998, combining retail and direct sales, the Oil Division's branded gasoline had a domestic market share of 32.4 percent, and its branded diesel fuels had a domestic market share of 43.8 percent. The market shares for light and heavy fuels were 40.7 percent and 46.8 percent, respectively.

The Oil Division is currently focusing on increasing the number of its gasoline stations offering non-fuel products and services, such as its "Quick Shop" convenience stores and "Motorest" restaurants, as well as car washes and other non-fuel services, rather than opening new gasoline stations. The division is also working to improve the efficiency of its retail operations. Since 1996, approximately 90 unprofitable retail outlets have been closed in Finland and management intends to dispose of or close approximately 50 retail outlets over the next two years.

The division has recently completed re-branding its Kesoil retail outlets to become Neste stations. The division is currently branding its unmanned stations in Finland to a specific Neste sub-brand.

Baltic Rim Area and Sweden

The Oil Division conducts retail and direct sales operations in the Baltic states, northwestern Russia, Poland and Sweden. In these countries, the Oil Division's retail outlets are generally located in cities and high-traffic locations. The division's retail and direct sales operations have been active in the Baltic states since the early 1990s. The division has conducted retail and direct sales operations in the St. Petersburg area since 1991, several years before any other Western oil company entered this area.

Management expects that growth of the Oil Division's retail and direct sales in the Baltic states and Russia will depend to a considerable degree on the pace of general economic development and political stability in these areas. The division is increasing the number of service stations in the St. Petersburg area and intends to have all such stations offer non-fuel products and services. The division also plans to expand its retail network in the Baltic states and Poland. Management believes that the quality of the division's products and services and the strategic location of its refineries to its export markets, particularly in the Baltic states, provides it with a competitive advantage in these markets.

In accordance with Fortum's strategy of focusing its retail sales of traffic fuels in the Baltic Rim area, the Oil Division recently sold its eight retail outlets in Germany. As Fortum has no direct logistics connection to these locations, the fuel sold at these outlets had been procured from local sources and, as a result, there was no basis for developing the business further.

Trading and Hedging Activities

The Oil Division's trading objective is to support the Oil Division in maximizing profits through management of its stocks of crude oil, feedstock and refined petroleum products and to exploit variations in seasonal and regional price spreads. The division also aims to take advantage of specific market opportunities, such as those presented by trading activities in the former Soviet Union and in the reformulated gasoline market of the United States. All trading activities are subject to risk-management policies and centralized coordination and control. Since 1996, when trading resulted in significant losses, the volume of trading activities has been reduced and trading has been focused on management of risks relating to price fluctuations.

Trading functions are integrated on a worldwide, 24-hour basis from offices in Espoo (Finland), London, Houston and Singapore, supported by regional trading centers in Moscow, Toronto and Calgary. In 1997, 34 percent of the Oil Division's net sales was related to its trading activities.

In connection with its management of supplies of raw materials and refined products, the Oil Division actively participates in the international markets for such products and seeks to control its overall exposure to market price swings through hedging transactions. Position-taking in connection with trading activities is conducted according to trading and risk management policies within established position limits. The Oil Division also engages in hedging transactions as required to protect against risks arising in respect of Fortum's exploration and production activities, its refining margins and its oil inventories. The Oil Division uses a variety of futures, options, swaps and other derivatives in connection with its trading activities.

Logistics

The Oil Division provides logistic services for the supply of raw materials to the Oil Division's refineries, and for the transport of refined products from the refineries to destinations in Finland, throughout the Baltic Rim area and internationally. Logistic operations comprise marine transport, ship management, terminal and harbor operations and inland transportation services. The Oil Division also provides marine transportation services to other Fortum divisions and to outside parties. Services provided to outside parties accounted for approximately half of the Oil Division's shipping operations in 1997.

Shipping

The Oil Division relies primarily on its own fleet to handle marine transport of raw materials and products. The division's shipping services specialize in the maritime transport of crude oil and petroleum product in the Baltic and North Seas and in Arctic waters. Measured by tonnage of vessels under the Finnish flag, the Oil Division is the largest maritime shipping company in Finland.

As of September 30, 1998, the Oil Division's shipping fleet included 24 crude oil, petroleum product, chemical and gas carriers, consisting of seven crude oil carriers, nine petroleum product carriers, seven chemical carriers, and one gas carrier. The fleet also includes three barges and four pushers and tugs. Eighteen of the vessels are owned by the division, two are partly-owned by the division and eleven are chartered from other parties. The total carrying capacity of the fleet is approximately 1.0 million dwt.

To reduce the risk of leakage or spills, every carrier in the fleet is equipped with a double-bottom. In addition, the majority also have a double hull and are ice-strengthened. In 1997, the Oil Division received an ISO 14001 environmental certification for its inland and maritime operations, making Fortum the first company in the world to receive an ISO environmental certification for shipping services.

In addition to providing shipping services to other Fortum divisions, the Oil Division operates its fleet in international freight markets to help ensure a high utilization rate for its vessels. The division has transport agreements with a number of international oil companies. The division has also been responsible for delivering all petroleum required by Greenland for over 20 years and its vessels have delivered petroleum products through the Northeast Passage, from Murmansk, Russia to the Pacific Ocean.

The Oil Division has plans to upgrade its product carrier fleet, primarily through charter arrangements. In accordance with this objective, the Oil Division recently signed a time-charter contract with a Swedish shipping company for a new 11,500-dwt tanker to be delivered in 1999.

Vessels owned by the Oil Division are covered by protection and indemnity insurance policies, with liability coverage for pollution caused by oil spills of up to U.S.\$700 million and unlimited coverage for other liability events.

Harbor and Terminal Operations

The Oil Division owns and operates harbors at the Porvoo and Naantali refineries. The harbors are utilized for the import, export and distribution of crude oil, feedstocks, chemicals and other products. The harbor at Porvoo is the busiest in Finland, measured by annual volume of shipments, and the harbor and its approach route are up to 15 meters deep, allowing the harbor to accommodate vessels of up to 160,000 cargo tons.

The Oil Division utilizes extensive storage facilities at the Porvoo refinery, including 25 bedrock caverns with a total storage capacity of 5.5 million cubic meters. The caverns serve as interim storage facilities for crude oil, middle distillates, aviation fuel, condensates and LPG products, and one of the caverns is used for storing propane (LPG) as security reserve for the Finnish natural gas network. Most of the bedrock caverns are unlined, but are at a depth where the groundwater pressure around each cavern is higher than the pressure within the cavern, thereby preventing stored oil or petroleum products from escaping. Although this is a relatively unique

storage method, management believes the technology is proven. Such caverns are also used at the Naantali refinery, throughout Finland and in Sweden.

The Oil Division owns or leases a total of 13 oil terminals in Finland and in the Baltic Rim area. Terminals are used as intermediate distribution centers for raw materials and petroleum products. The division currently has its own storage facilities in five locations in Finland, while it cooperates with other oil companies for terminal services in other parts of Finland. To serve the Baltic states, the division owns and operates terminals in Estonia and Latvia. Construction of a terminal in St. Petersburg commenced in December 1997 and is scheduled for completion in 1999.

The following table sets forth the location and capacity of the terminals used by the Oil Division as of September 30, 1998.

	<u>Ow ned Terminals</u>	<u>Leased Terminals</u>	<u>Total Capacity (cubic meters)</u>
Finland	5	—	676,295
Russia	1(1)	1	30,000
Estonia	1	—	34,100
Latvia	1	1	60,000
Poland	—	2	10,000
Lithuania	—	1	5,000
Total	<u>8</u>	<u>5</u>	<u>815,395</u>

(1) Terminal under construction, scheduled to begin operation in 1999.

Road and Rail Transportation

All inland transportation of Oil Division products is contracted out to approximately 100 private haulers and to VR, the Finnish Railway Company. In 1997, the division shipped eight million tons of petroleum products by truck and train.

Recently, the Oil Division completed the expansion of a railway terminal in Porvoo to enable the rail transportation of crude oil and other feedstocks from Russia to the Porvoo refinery.

Baltic Oil Pipeline

The Oil Division is currently engaged in discussions with certain Russian and other parties regarding possible construction of a direct pipeline connection to the Porvoo refinery from northwestern Russia. If constructed, the pipeline will improve the Oil Division's ability to procure and transport crude oil. The underground storage facilities and shipping terminal at Porvoo could be used to store and ship crude oil delivered through the pipeline.

The project would involve construction of an extension to an existing Russian pipeline. The extension, which would be approximately five hundred kilometers in length, would begin near St. Petersburg and extend through southeastern Finland to the Porvoo refinery. A feasibility study relating to the proposed pipeline is currently being undertaken and is scheduled to be completed by year-end 1998.

Research and Development

The Oil Division develops low-emission traffic fuels and motor oils with reduced environmental impact at its emissions laboratory and engine laboratory at the division's Porvoo Technology Center. Research and development is focused on the development and timely introduction of products with reduced environmental impact in different markets. The division was among the first producers of unleaded gasoline, reformulated low-emission gasoline and City Diesel.

The Oil Division has developed several innovative production technologies. The division uses its own patented NExETHERS technology at the Porvoo refinery to produce TAME low-emission gasoline components, and recently licensed the NExETHERS process to another oil company. The division's proprietary method of converting heavy fuel oils into lighter oil products (known as "cracking"), called NExCC, is being targeted to eventually replace traditional fluid catalytic cracking. Plans for an NExCC production plant are being developed and are expected to be implemented upon completion of testing of this new technology. In addition, most of the

technology utilized at the Porvoo and Naantali refineries for removing sulfur and aromatics in petroleum products has been developed by the division.

The Oil Division is also focusing on the development and production of VHVI and PAO base oils with reduced environmental impact. When used in motor oils, VHVI and PAO base oils reduce engine fuel consumption and, as a result, exhaust gas emissions.

Competition

The Oil Division faces strong domestic and international competition in each of its business areas.

In Finland, the Oil Division's main competitors in the retail market are Shell, Esso (Exxon) and Teboil (each of which purchases gasoline and/or diesel fuel in bulk from the Oil Division). The retail market in Finland is characterized by heavy competition, primarily as a result of the recent increase in the number of competitors. Principal competition in bulk sales comes from imports by competing retail chains, particularly Shell, Esso and Teboil, as well as smaller importers.

In the Baltic states, the Oil Division's main competitors in the retail market include Statoil and Shell. In Poland, several local and Western oil companies compete in the retail market. In the St. Petersburg area, the Oil Division is currently one of two Western oil companies conducting retail operations, and other competitors include local oil companies. In the Baltic Rim area, Fortum's main competitors in bulk sales include Shell, Esso, Statoil and Preem, as well as Lukoil and other Russian companies.

The Oil Division's main competitors in the international traffic fuel component markets are Arco, Sabic, Ecofuel and Enron.

Regulation

European Union

EU legislation provides for an intervention system designed to ensure a minimum level of security of the regional oil supply. The legislation provides for minimum oil stocks and measures to be taken in the event of an oil supply crisis. The current stockholding systems in the EU are regulated by a 1968 directive imposing minimum stocks of crude oil and/or petroleum products. The directive initially required EU member states to maintain oil stocks for each of the main petroleum product categories (gasolines, middle distillates, fuel oils) at a minimum level equivalent to at least 65 days' consumption. This was increased by a 1972 directive to 90 days. Individual EU member states are left free to organize their own internal stockholding regimes as they see fit.

A draft amendment to the 1968 oil stock directive aims to increase the efficiency, transparency and fairness of stockholding arrangements in EU member states. The proposal, which has not yet been formally adopted, would obligate member states to ensure that stocks are available and accessible at all times, and that the costs resulting from maintenance of stocks are identified by transparent arrangements in the final product price of the oil products concerned. EU member states would be encouraged to set up a stockholding body which would be responsible for holding all or most of the stocks. EU member states would also be allowed to hold stocks in other EU member states. An existing derogation on the stock-holding obligation for EU member states with indigenous oil production would be enhanced. EU member states would be required to establish a system of sanctions to ensure the effective application of these provision.

Finland

In connection with the EU directive requiring minimum oil stocks, Finland requires importers of crude oil, feedstocks and petroleum products to maintain stocks of such imports equivalent to at least the importing company's average volume imported over a two-month period, with maintenance of the minimum stock financed by the importing company. The Oil Division is in compliance with such requirements.

GAS DIVISION

General

The table below sets forth certain financial and statistical data relating to the Gas Division for the three years ended December 31, 1997 and the nine months ended September 30, 1997 and 1998(1).

	Year ended December 31,			Nine months ended September 30,	
	1995	1996	1997	1997	1998
<i>(FIM in millions, except personnel data)</i>					
Net sales	2,841	3,283	3,655	2,447	2,801
Operating profit	332	362	372	272	260
Identifiable assets	N/A	1,688	1,808	N/A	1,740
Investments	30	377	150	167	113
Average number of employees	467	438	430	436	430

(1) Fortum has undertaken to dispose of shares representing 50 percent of the share capital of Gasum. See “— Gasum.”

The Gas Division holds Fortum’s interest in Gasum, which owns the existing natural gas transmission network in Finland. Fortum currently owns a 75 percent interest in Gasum, with RAO Gazprom, the Russian natural gas supplier, which is the largest natural gas supplier in the world, owning the other 25 percent. Gasum imports natural gas to Finland from Russia through RAO Gazprom, which is its sole natural gas supplier. Gasum currently accounts for approximately 60 percent of net sales of the division. In connection with the Combination, Fortum has undertaken to dispose of shares representing 50 percent of the share capital of Gasum. See “— Gasum” below. Total net sales of Gasum amounted to FIM 1,963 million, FIM 2,201 million and FIM 2,229 million in 1995, 1996 and 1997, respectively. All of these net sales were derived from deliveries of natural gas in Finland.

The Gas Division also operates in the areas of LPG, heat and steam supply, and renewable energy systems.

The Gas Division’s LPG activities consist of distribution operations in Finland, purchasing LPG feedstocks for the Oil Division’s refineries, international LPG trading and bulk LPG distribution operations in Sweden. The Gas Division supplies heat and process steam to industry, district heat utilities and the public sector in Finland. In addition, the NAPS unit develops, manufactures and markets solar, wind and other renewable energy systems. Finally, the Gas Division trades on Nord Pool and EL-EX, the Finnish electricity exchange, and enters into bilateral transactions.

Gasum

The Gas Division commenced the importation and distribution of natural gas in Finland in 1974. In 1994, all natural gas operations in Finland were transferred to Gasum. Gasum owns and operates Finland’s high-pressure natural gas network, and is the sole distributor and wholesale marketer of natural gas in the country. As a result, Gasum maintains a dominant position in the Finnish natural gas market and is therefore required, under Finnish competition regulations, to apply nondiscriminatory pricing, terms and conditions to its customers.

Reduction of Interest in Gasum

In connection with the formation of Fortum, Fortum undertook to EU competition authorities to reduce its involvement and position in the natural gas business in Finland by relinquishing control of Gasum. As a result, Fortum will sell shares representing 50 percent of the share capital of Gasum to Finnish and other investors, thereby reducing its interest in Gasum to 25 percent. Such sale is expected to be on commercial arm’s-length terms. Pursuant to such undertaking, no more than a 24 percent interest of such 50 percent interest may be sold to the Finnish State and Fortum must effect these sales prior to June 3, 1999. Following reduction of its shareholding in Gasum, the focus of the Gas Division’s natural gas operations will be the development of natural gas activities outside of Finland, which are not limited by Fortum’s undertaking to the EU.

Supply

All of Gasum’s natural gas supply is currently sourced from RAO Gazprom, the sole supplier of Russian natural gas. Gasum and RAO Gazprom have a long-term supply agreement, providing for the supply of natural gas up to the year 2014, with the possibility of a five-year extension. The supply agreement provides for delivery of quantities based on demand in the Finnish market and allows for increased deliveries to match reasonable increases in demand. The agreement contains terms and conditions similar to those included in standard

European gas supply contracts, including a take-or-pay obligation. In line with its current ownership interest, Neste has guaranteed 75 percent of Gasum's payment obligations under this agreement.

Since the importation of natural gas from the former Soviet Union began in the 1970s, there have been only a few minor technical interruptions in Gasum's natural gas supply. Gasum has contingency plans in place to meet the short-term needs of most of its customers in the event of a supply interruption. For example, Gasum has business interruption insurance which is intended to cover Gasum's gross profits and salary costs for two years if losses arise from unexpected damage to transmission equipment in Finland or Russia.

Transmission

Gasum owns, operates and maintains Finland's high-pressure natural gas transmission network. The transmission network is concentrated in southern Finland and consists of 900 kilometers of high-pressure pipeline, five compressor stations, a dispatching and maintenance center, an import metering and receiving station and a separate maintenance unit. The entire network is controlled and monitored from a central control station.

In 1997, Gasum completed a three-year expansion of its natural gas transmission network which increased its capacity by one-third, to over four billion cubic meters annually. This expansion entailed investment of approximately FIM 600 million in construction of a new parallel pipeline from the Russian-Finnish border to Lappeenranta and construction of compressor stations and metering/pressure-reduction stations. Gasum also improved its natural gas transmission network in 1997 by installing gas turbines with reduced environmental impact at compressor stations, which reduced 1997 nitrogen oxide and methane emission by 30 tons and 180 tons, respectively, from 1996 levels.

In addition, RAO Gazprom recently completed a new compressor station as well as the Russian portion of the new parallel pipeline.

Customers

Gasum delivered approximately 3.4 billion cubic meters of natural gas to customers in 1997, equivalent to approximately ten percent of Finland's total energy requirement for that year, compared to 3.5 billion cubic meters for 1996 and 3.3 billion cubic meters for 1995. Approximately half of this amount was delivered to industrial customers and half to heat and power companies. Approximately 70 percent of the natural gas delivered was used by CHP plants.

Gasum has approximately 70 direct customers, principally large and medium-sized industrial enterprises, power producers and energy companies. Deliveries to industrial and heat and power generation customers generally are made pursuant to long-term supply contracts.

Other Interests

The Gas Division holds a ten percent shareholding in Vattenfall Naturgas AB, which is currently the sole importer of natural gas into Sweden. Other shareholders are Dansk Olje & Natur Gas A/S, Ruhrgas AG, Statoil and Vattenfall AB.

Recently, the division began natural gas trading operations in the United Kingdom. In addition, in September 1998, the Gas Division acquired an eleven percent shareholding in Eesti Gaas AS, which is the sole importer and distributor of natural gas in Estonia.

Regulation

The EU Internal Gas Market Directive requires EU member states to allow third-party access to gas markets and calls for the separation of accounts for transmission and distribution. As a member of the EU, Finland is required to adapt its natural gas market regulations to the EU Internal Gas Market Directive. While this process is currently under way, a decision to adapt fully Finland's regulations to the directive has not yet been taken. The EU Internal Gas Market Directive sets forth rules relating to the organization of the natural gas sector, including the operation of systems and the criteria and procedures applicable to the granting of authorizations for transmission, distribution, supply and storage of natural gas. The Internal Gas Market Directive calls for limited liberalization of at least 20 percent of the total annual gas consumption of the national gas market of each member state during the first five years after August 10, 2000, when the directive is to become fully effective, 28 percent between five and ten years after effectiveness (2005 to 2010), and 33 percent after ten years (after 2010). EU member states may choose between negotiated or regulated access regarding third-party access to the market. The Internal Gas Market Directive contains a derogation, however, for EU member states that are not directly connected to the interconnected system of any other EU member state and that have only one primary external supplier of natural gas. Finland may apply for the derogation when the conditions set forth in the directive are met.

In Finland, the storage, technical use and transmission of natural gas is regulated by the Finnish Natural Gas Decree and certain regulations of the Finnish Ministry of Trade and Industry. Under the Natural Gas Decree, construction and operation of major transmission pipelines and storage of natural gas requires a permit from the Safety Technology Authority, an agency under the Ministry of Trade and Industry. The owner of the gas pipeline is responsible for the operation and maintenance of the pipeline according to the applicable regulations.

Liquefied Petroleum Gas

In 1997, LPG sales and trading activities contributed FIM 955 million to the Gas Division's net sales, compared to FIM 678 million in 1996 and FIM 458 million in 1995.

Finland

The Gas Division distributes LPG in Finland through its subsidiary Tehokaasu Oy ("Tehokaasu"), Finland's leading LPG distributor. Approximately 85 percent of Tehokaasu's sales in 1997 was in the form of bulk LPG, with the remainder consisting of retail sales of bottled LPG. Bulk sales of LPG to industrial customers are primarily made under long-term supply contracts.

Bulk LPG is distributed by road or rail directly to customers in the steel, paper, metal and food industries. Sales of bottled LPG are made to industrial and residential customers in roughly equal proportions. Sales to retail customers are made primarily through the Oil Division's retail network and through hardware stores. LPG is bottled by a joint venture company formed by the Gas Division and Shell.

International

Through its LPG International unit, the Gas Division distributes LPG in bulk outside of Finland, principally in the Baltic Rim area. LPG International also supplies LPG to other Fortum divisions and business units, including the Porvoo refinery and Tehokaasu. In Sweden, LPG International is a bulk distributor, operating an LPG terminal in Sundsvall, through which it imports LPG for distribution to industrial users and to heat generators in central and northern Sweden. LPG International also imports and distributes LPG in Poland, to industrial customers, in bulk, and on a small scale to gasoline stations.

LPG International imports LPG into Finland from Russia and also trades on the international market to help ensure adequate supplies of LPG for the Gas Division's distribution and sales operations, as well as for other Fortum needs. Purchases are made either pursuant to long-term supply agreements or on the spot market.

In China, LPG International and China Oil & Gas are currently considering jointly constructing an LPG import terminal and storage cavern in Qingdao, with the storage cavern scheduled to be completed in 2000. LPG International has a 50 percent interest in the project and is considering further limited investment.

Heat and Steam

Through Neste Lämpö, a Group subsidiary, the Gas Division supplies heat and process steam to industry, district heat utilities and the public sector in Finland, through long-term contracts. In 1997, heat and steam sales of Neste Lämpö contributed FIM 227 million to the Gas Division's net sales, compared to FIM 202 million in 1996 and FIM 164 million in 1995.

Neste Lämpö owns and operates 160 heat facilities in Finland, with a total heat generation capacity of 879 MW. In 1997, heat and steam sales amounted to 1.35 TWh, with 67 percent of the production generated by facilities burning oil, 24 percent by facilities burning natural gas and nine percent by facilities burning wood-based fuels.

Neste Lämpö utilizes centralized monitoring and remote control operation of heat facilities, as well as other technical and operational methods, to increase cost efficiency.

Neste Advanced Power Systems

NAPS develops and builds renewable energy systems, which are marketed in Finland and also internationally. NAPS specializes in solar electricity, solar heating and cooling, wind power and related energy storage and control technologies.

Competition

The principal competitors of Tehokaasu are Shell, Esso and Teboil. Competitors in Sweden for LPG operations include Statoil, Shell, T-Gas, BP and Preem.

The Gas Division's principal competitors in the area of solar power are BP Solar of the United Kingdom, Photocomm of the United States and Total of France.

POWER AND HEAT DIVISION

General

The following table sets forth certain financial and statistical data relating to the Power and Heat Division for the three years ended December 31, 1997 and the nine months ended September 30, 1997 and 1998.

	Year ended December 31,			Nine months ended September 30,	
	1995	1996	1997	1997	1998
<i>(FIM in millions, except personnel data)</i>					
Net sales ⁽¹⁾					
Continuing operations	5,952	6,578	5,838	4,203	4,046
Acquired operations ⁽²⁾	—	2,378	5,141	3,593	3,798
Eliminations	—	(19)	(83)	(36)	(549)
Total	<u>5,952</u>	<u>8,937</u>	<u>10,896</u>	<u>7,760</u>	<u>7,295</u>
Operating profit					
Continuing operations	787	907	932	688	664
Acquired operations ⁽²⁾	(1)	493	1,134	776	767
Total	<u>786</u>	<u>1,400</u>	<u>2,066</u>	<u>1,464</u>	<u>1,431</u>
Identifiable assets					
Continuing operations	N/A	9,442	11,180	10,811	8,890
Acquired operations ⁽³⁾	N/A	12,970	16,825	16,422	22,737
Total	N/A	<u>22,412</u>	<u>28,005</u>	<u>27,233</u>	<u>31,627</u>
Investments ⁽⁴⁾					
Continuing operations	535	603	2,393	2,012	493
Acquired operations	61	10,579	4,934	2,110	5,695
Eliminations	—	—	(20)	—	—
Total	<u>596</u>	<u>11,182</u>	<u>7,307</u>	<u>4,122</u>	<u>6,188</u>
Average number of employees					
Continuing operations	925	820	827	821	831
Acquired operations ⁽²⁾	—	955	2,140	2,126	2,015
Total	<u>925</u>	<u>1,775</u>	<u>2,967</u>	<u>2,947</u>	<u>2,846</u>

(1) Net sales for 1996 and for the nine months ended September 30, 1997 have been adjusted to remove distribution fees paid to other distribution network owners. See "Management's Discussion of Financial Condition and Results of Operations — Results of Operations — Power and Heat Division — General."

(2) Includes Gullspång from April 1, 1996 to September 30, 1998 as a subsidiary. Länsivoima as an associated company from March 31, 1996 and as a subsidiary from January 1, 1997, and Tuusulanjärvi Energy as an associated company from March 31, 1995 and as a subsidiary from March 31, 1998.

(3) In September 1998, IVO exchanged its Gullspång shares for 50 percent ownership of Birka Energi. Birka Energi's balance sheet was consolidated with the Group according to the proportionate method of consolidation as of September 30, 1998. Until September 30, 1998, Gullspång's results have been consolidated as a subsidiary of the Company.

(4) Investments in the nine months ended September 30, 1998 include an increase of FIM 4,280 million in interest-bearing net liabilities in relation to the establishment of Birka Energi.

Operations of the Power and Heat Division encompass the generation, sale and distribution of power and heat. The division owns and manages power and heating plants and also has interests in power and heating plants owned by other parties. The division sells in the Nordic countries electricity and heat generated by these facilities and obtained through purchases from other companies and the spot market. Electricity sales and distribution to small customers are made mainly through local subsidiaries, associated companies and other companies in which the division has an interest, while sales to industry, large customers and on spot markets are made directly by the division. The division also offers electricity marketing services to other electricity companies.

The Power and Heat Division is one of the two largest electricity suppliers in the Nordic countries by volume of electricity sold, volume of electricity produced and number of customers. Fortum owns 50 percent of the share capital of Birka Energi, which is the largest power and heat company in Sweden by number of customers and the third-largest power and heat company by generating capacity. The division also has operations in other European countries and Southeast Asia.

In the Nordic countries, the Power and Heat Division had a total of 8,770 MW of electricity generating capacity and 2,533 MW of heat production capacity at year-end 1997 (including the division's proportionate share of capacity of facilities partly-owned by it). The division produced approximately ten percent of the electricity consumed in the Nordic countries in 1997. At year-end 1997, the division owned 237 power and heating plants and CHP facilities in Finland and Sweden.

In 1997, the Power and Heat Division sold 48.1 TWh of electricity. Calculated on the basis of net sales, 18 percent was sold to small customers (households and small and medium-sized companies), 70 percent was sold to large customers (industry and electricity companies), and 12 percent was comprised of spot market and temporary sales. The division's sales represented 13 percent of total Nordic electricity consumption in 1997, and the division's subsidiaries made four percent of all electricity sales to small customers in the Nordic countries in 1997.

In 1997, the Power and Heat Division sold 10.3 TWh of heat. In 1997, 54 percent of net sales of heat was to industrial customers and 46 percent was to district heating systems.

In the Nordic countries, the Power and Heat Division had through its subsidiaries a share of approximately five percent of the electricity distribution market, with approximately 700,000 distribution network customers, at year-end 1997.

The Power and Heat Division focuses on ensuring that its portfolio of power and heat plants complies with increasingly stringent environmental standards. With respect to new capacity, the division focuses on CHP facilities and power plants that utilize fuels with reduced environmental impact such as biofuels. In accordance with Fortum's strategy of further improving the efficiency of operations, management is currently studying the possible sale or temporary closure of certain power plants in Finland and Sweden. Pursuant to this strategy, two of the four units at the Inkoo coal-fired condensing power plant were recently taken from active operation and placed in reserve. Other measures being taken by management include fuel inventory reductions, fuel mix developments and fuel cost reductions.

The Power and Heat Division is continuously developing new service concepts for both small and large customers, with concepts based on customer relationship management, and actively seeks opportunities to acquire electricity and distribution companies to expand its customer base.

In Finland, the majority of the power plants owned and managed by the Power and Heat Division are designed and constructed by the Engineering Division, and are operated and maintained by the Operation and Maintenance Division.

Outside the Nordic countries, the Power and Heat Division invests in independent power generation companies and power plant projects in Europe and certain countries in Southeast Asia. Management is currently considering investment in power plants and electricity companies in Poland and Germany, where liberalization of energy markets has begun. The division aims to offer its full range of services in these new markets, from power generation to distribution and supply. In Europe and Asia where the Power and Heat Division already has operations, the division intends to acquire majority interests in selected large-scale power plant projects, particularly CHP plants.

Net Sales and Operating Profit by Geographic Area

The following table sets forth the Power and Heat Division's net sales of electricity and heat, as well as operating profit derived from those sales, by geographic area for the three years ended December 31, 1997 and the nine months ended September 30, 1997 and 1998.

	Year ended December 31,			Nine months ended September 30,	
	1995	1996	1997	1997	1998
	<i>(FIM in millions)</i>				
Net Sales					
<i>Finland</i>					
Electricity	5,253	4,676	5,685	4,101	3,881
Heat	608	730	816	571	601
Other sales	47	48	67	41	36
<i>Sweden and Norway(1)</i>					
Electricity	38	3,260	4,029	2,868	2,594
Heat	—	77	85	56	65
Other sales	—	85	169	115	110
<i>Other Countries</i>					
Other sales	6	61	45	8	8
Total net sales	<u>5,952</u>	<u>8,937</u>	<u>10,896</u>	<u>7,760</u>	<u>7,295</u>
Operating Profit					
Nordic countries	804	1,416	2,129	1,437	1,462
Other countries	(18)	(16)	(63)	27	(31)
Total operating profit	<u>786</u>	<u>1,400</u>	<u>2,066</u>	<u>1,464</u>	<u>1,431</u>

(1) Does not include Stockholm Energi.

Power and Heat Generation and Procurement in the Nordic Countries

General

As of December 31, 1997, the Power and Heat Division's total electricity generating and heat production capacity in the Nordic countries was 8,770 MW and 2,533 MW, respectively, of which approximately two-thirds was in Finland. The division's ownership interests in power and heating plants under construction in the Nordic countries as of that date represented an additional 155 MW of electricity generating capacity and 20 MW of heat generation capacity.

In Sweden, the division operated primarily through Gullspång Produktion AB, a subsidiary of Gullspång, prior to the formation of Birka Energi. As part of its strategy of expanding within the Nordic market, the Power and Heat Division acquired control of Gullspång in April 1996. At year-end 1997, the Gullspång Group operated power and heating plants representing a total of 2,576 MW of electricity generating capacity and 309 MW of heat production capacity, primarily in central Sweden. The division also had rights to 30 MW of capacity of other power companies in Sweden as of that date. Beginning in September 1998, the division has been operating primarily through Birka Energi in Sweden. As of September 30, 1998, Birka Energi owned and operated power and heating plants with a total electricity generation and heat production capacity of 4,845 MW and 4,301 MW, respectively. See "— Birka Energi" below.

While the Power and Heat Division's power and heating plants are already generally equipped with the best available technology for reducing SO₂ and NO_x emissions and particulates, compliance with the requirements of EU legislation being prepared on acidification (as these requirements are expected to be implemented in Finnish and Swedish law) would require additional investments by the division.

Management expects that legislation will be enacted in some or all of the countries in which the Power and Heat Division generates power in order to comply with the provisions of the Kyoto Protocol limiting CO₂ and other greenhouse gas emissions. Although the effect of implementation of the Kyoto Protocol is not yet clear, management expects that compliance with the Kyoto Protocol by participating countries will require increasing the use of power plants utilizing natural gas and biofuels, as well as nuclear power plants, and weaken the competitiveness of coal- and peat-fired power and heating plants.

A major portion of the Power and Heat Division's power generation capacity is based on production methods that do not produce CO₂ emissions, with nearly 80 percent of power production in 1997 coming from nuclear, hydroelectric and biofuel generation methods. More than 50 percent of the division's remaining production is based on CHP generation, which results in relatively low levels of CO₂ emissions. Management intends to increase utilization of such energy sources and actively develop measures under the flexibility mechanisms built into the Kyoto Protocol. See "Environmental Regulation — International Conventions — Kyoto Protocol to the UN Framework Convention on Climate Change."

Energy Sources

The Power and Heat Division owns and has interests in several different types of power and heating plants, which utilize a variety of fuels. The flexibility resulting from the diversity of generating facilities available to the division allows it to optimize electricity generation among its power plants by allocating generating tasks to plants that use fuels which are available at a lower cost at any given time. Certain power and heating plants are also capable of utilizing multiple fuel types to generate power and heat.

Currently, measured by total capacity, facilities owned and partly-owned by the Power and Heat Division utilize primarily hydroelectric power, nuclear energy and coal, and to a lesser extent, natural gas, peat and biofuels, for electricity production. In addition, the division is currently procuring new wind power generation capacity and is continuing research on the potential for using solar and wind power at the division's experimental power plants.

The following table sets forth the Power and Heat Division's power generation capacity and its entitlement to electricity as a result of certain shareholdings or other interests in electricity generating companies in the Nordic countries for the three years ended December 31, 1997.

Nordic Power Generation Capacity

	1995		1996		1997	
	Number of Plants	Capacity(1) (MW)	Number of Plants	Capacity(1) (MW)	Number of Plants	Capacity(1) (MW)
FINLAND						
<i>Own Power Plants</i>						
Hydroelectric	22	746	22	746	30	761
Nuclear	1	890	1	920	1	930
CHP(2)						
Coal	1	185	1	185	—	160
Natural gas	5	238	5	238	6	377
Peat	4	309	4	309	4	309
Other	3	128	4	133	5	153
Total	13	860	14	865	15	999
Conventional condensing(2)						
Coal	3	1,494	3	1,494	3	1,494
Natural gas	—	—	—	—	—	—
Peat	1	154	1	154	1	154
Other	—	—	—	—	—	—
Total	4	1,648	4	1,648	4	1,648
Other	5	302	5	302	6	313
Total	45	4,446	46	4,481	56	4,651
<i>Other Entitlements</i>						
Hydroelectric	15	561	15	458	15	610
Nuclear(3)	1	377	1	384	1	415
CHP and conventional condensing(2)						
Coal	1	98	1	98	1	98
Natural gas	2	205	2	205	3	335
Peat	1	55	1	55	1	55
Other	—	—	—	—	—	—
Total	4	358	4	358	5	488
Total	20	1,296	20	1,200	21	1,513
Total Finland	65	5,742	66	5,681	77	6,164
SWEDEN						
<i>Own Power Plants</i>						
Hydroelectric	—	—	177	1,296	177	1,302
Nuclear	—	—	—	—	—	—
CHP(2)						
Coal	—	—	—	—	—	—
Natural gas	—	—	—	—	—	—
Peat	—	—	1	14	1	14
Other	—	—	—	—	—	—
Total	—	—	1	14	1	14
Conventional condensing(2)	—	—	—	—	—	—
Other	—	—	3	48	3	48
Total	—	—	181	1,358	181	1,364
<i>Other Entitlements</i>						
Hydroelectric	—	—	15	125	15	125
Nuclear(4)	1	30	2	724	2	724
CHP(2)						
Coal	—	—	1	186	1	186
Natural gas	—	—	—	—	—	—
Peat	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	—	—	1	186	1	186
Conventional condensing(2)						
Coal	—	—	—	—	—	—
Natural gas	—	—	—	—	—	—
Peat	—	—	—	—	—	—
Other	—	—	2	194	2	194
Total	—	—	2	194	2	194
Other	—	—	1	13	1	13
Total	1	30	21	1,242	21	1,242
Total Sweden(5)	1	30	202	2,600	202	2,606

(1) Capacity controlled by Fortum.

(2) Capacity divided by principal fuel used in generation.

(3) Fortum's shareholding in TVO entitles it to 26.6 percent of the output of TVO's nuclear power plant in Olkiluoto, Finland.

(4) For 1995, includes IVO's entitlements in Mellansvensk Kraftgrupp ("MKG"), which owns an interest in the Forsmark nuclear power plant in Sweden, and, for 1996 and 1997, includes IVO Energi's and Gullspång's entitlements in MKG and in OKG AB, which owns the Oskarshamn nuclear power plant in Sweden.

(5) Consists of Gullspång and IVO Energi and does not include Stockholm Energi.

Nordic Power Generation

The following table sets forth the electricity generated by the Power and Heat Division and electricity generating companies in which it has shareholdings or other interests in the Nordic countries in each of the three years ended December 31, 1997(1).

	1995	1996	1997
		(GWh)	
FINLAND			
<i>Own Power Plants</i>			
Hydroelectric	4,100	3,395	4,031
Nuclear	6,449	6,825	7,600
CHP(2)			
Coal	754	892	910
Natural gas	764	849	972
Peat	584	644	607
Other	922	857	1,097
Total	3,024	3,242	3,586
Conventional condensing(2)			
Coal	1,197	3,652	1,259
Natural gas	23	31	12
Peat	1,276	1,323	873
Other	75	58	55
Total	2,571	5,064	2,199
Total	16,144	18,526	17,416
<i>Other entitlements</i>			
Hydroelectric	1,559	1,667	1,778
Nuclear(3)	3,053	3,141	3,601
CHP and conventional condensing(2)			
Coal	218	849	647
Natural gas	776	827	800
Peat	116	348	444
Other	0	0	38
Total	1,110	2,024	1,929
Total	5,722	6,832	7,308
Total Finland	21,866	25,358	24,724
SWEDEN			
<i>Own power plants</i>			
Hydroelectric	-----	2,309	4,567
Nuclear	-----	-----	-----
CHP(2)			
Coal	-----	-----	-----
Natural gas	-----	-----	-----
Peat	-----	30	16
Other	-----	24	21
Total	-----	54	37
Conventional condensing	-----	-----	-----
Other	-----	-----	-----
Total	-----	2,363	4,604
<i>Other entitlements</i>			
Hydroelectric	-----	397	850
Nuclear(4)	75	2,633	4,685
CHP and conventional condensing(2)			
Coal	-----	182	26
Natural gas	-----	-----	-----
Peat	-----	-----	-----
Other	-----	224	50
Total	-----	406	76
Total	75	3,436	5,611
Total Sweden(5)	75	5,799	10,215

(1) The division of generation between own and other entitlements is based on Fortum's accounting principles, which are not consistent in all respects with the system used for categorizing generation capacity.

(2) Capacity divided by type of fuel used in generation.

(3) Fortum's shareholding in TVO entitles it to 26.6 percent of the output of TVO's nuclear power plant in Olkiluoto, Finland.

(4) For 1995, includes IVO's entitlements in MKG, which owns an interest in the Forsmark nuclear power plant in Sweden, and, for 1996 and 1997, includes IVO Energi's and Gullspång's entitlements in MKG and in OKG AB, which owns the Oskarshamn nuclear power plant in Sweden.

(5) Consists of Gullspång and IVO Energi and does not include Stockholm Energi.

Hydroelectric Power

At year-end 1997, the division owned 207 hydroelectric power plants in Finland and Sweden and had interests in 30 others, representing a total capacity of 2,798 MW (including the division's share of partly-owned plants). With the formation of Birka Energi, the Power and Heat Division increased its hydroelectric power generation capacity by 888 MW. As of September 30, 1998, Birka Energi owned 198 hydroelectric power plants and had interests in 14 others, representing a total capacity of 2,315 MW. See "—Birka Energi" below.

Hydroelectric power generation has the benefit of minimal environmental impact in terms of emissions and pollutants as compared to other forms of power generation. Hydroelectric power plants also have the important advantage of being able to easily accommodate short-term load conditions, and are able to quickly increase or decrease output to meet daily demand variations.

Hydroelectric power generation is characterized by very low operating costs and is principally dependent upon the availability of water and precipitation levels. In Finland, output from the Power and Heat Division's hydroelectric power plants typically varies 25 to 30 percent, or 1.5 TWh, above and below the annual average output of such facilities. Output from the division's Swedish hydroelectric power plants typically varies 20 percent, or 1 TWh, above and below the annual average output. The division utilizes the spare capacity from its fossil fuel-based conventional condensing power plants to manage these generation variations.

In recent years, the construction of new hydroelectric power generation capacity in the Nordic countries has been significantly limited due to the extensive hydroelectric development that has already taken place in the region and by national environmental policies.

Nuclear Power

The Power and Heat Division owns and operates one nuclear power plant, located in Loviisa, Finland, consisting of two plant units, and has a 26.6 percent shareholding in TVO, which owns and operates another nuclear power plant, located in Olkiluoto, Finland, which has two plant units. Birka Energi also has a shareholding in Mellansvensk Kraftgrupp AB ("MKG"), which indirectly owns an interest in the Forsmark nuclear power plant in Sweden, and in OKG AB ("OKG"), which owns the Oskarshamn nuclear power plant in Sweden. At year-end 1997, the division's interests in nuclear power plants represented a total capacity of 2,069 MW (including Loviisa and the division's shares of the Olkiluoto, Forsmark and Oskarshamn nuclear power plants). The division's nuclear power plants are operated at full capacity at all times except during maintenance outages or technical interruptions.

Nuclear power generation is characterized by low variable costs and high capital costs.

Loviisa

The Loviisa nuclear power plant has at present a total capacity of 1,020 MW (gross) and 976 MW (net), and consists of two VVER-440 pressurized water reactors originally designed in the former Soviet Union. The Loviisa power plant was designed and constructed to meet Western safety standards, and operates in full compliance with these standards, which have become increasingly stringent. Contractors and subcontractors from Finland, Germany, the United States and other countries supplied certain design specifications, important sub-systems, components and construction expertise with respect to the facility. The two units began commercial operation in 1977 and 1981.

Since the beginning of commercial operation, the average load factor at Loviisa has been 83.6 percent for the first unit and 87.1 percent for the second unit, making Loviisa one of the most reliable and efficient nuclear power plants in the world (when compared to average load factors of nuclear power plants in other countries over the same operational period). In 1997, the load factor of the first unit was 94.3 percent, while that of the second unit was 94.7 percent.

The current nuclear power license for the Loviisa nuclear power plant expires at the end of 2007. Management believes that it will be possible to extend the license for an additional 10 or 20 years, subject to possible upgrading of the plant.

A modernization program was begun in 1995 at the Loviisa facility to extend the plant's operating life and upgrade the plant units. Work is scheduled to be completed in 2000, with a total estimated cost of FIM 200 million. The plant's capacity was increased in spring 1998 by approximately 90 MW as a result of work performed under this project.

Radiation doses received by personnel and radioactive releases into the environment have been far below international averages and limits established by Finnish regulations. In 1997, the highest individual dosage received at the Loviisa facility was below 20 mSv, with the majority of employees receiving below 3 mSv for the year, well below the annual limit of 50 mSv established under Finnish law. The Loviisa power plant employs safety-enhancing multi-barrier construction, which effectively isolates its nuclear reactor from the surrounding environment. Each nuclear reactor is housed within a steel containment building, and the reactors are equipped with emergency core cooling systems.

Partly-Owned Nuclear Power Plants

Olkiluoto. The Power and Heat Division holds a 26.6 percent interest in TVO, which owns and operates the Olkiluoto nuclear power plant. Olkiluoto has two plant units, with a total capacity of 1,560 MW (net) at year-end 1997. The division's shareholding entitles it to the output from 26.6 percent of Olkiluoto's capacity, which corresponds to approximately 415 MW. In the late summer of 1998, a modernization program that was implemented from 1994 to 1998 expanded total capacity of the Olkiluoto plant to 1,680 MW (net), of which Fortum's share is 477 MW. Other shareholders in TVO are Pohjolan Voima Oy ("PVO"), with a 56.8 percent share, and several other Finnish companies. Olkiluoto's plant units began commercial operation in 1978 and 1981, respectively.

The Olkiluoto nuclear power plant operates at a level of efficiency similar to that of Loviisa.

The current nuclear power license of the Olkiluoto plant expires at the end of 2018. Management believes that it will be possible to extend the license for an additional 10 to 20 years, subject to possible upgrading of the plant.

Sweden. Through Birka Energi, the Power and Heat Division has interests in two nuclear power companies in Sweden.

Birka Energi owns 78.03 percent of the share capital of MKG, a Swedish company which owns 25.5 percent of a company that, in turn, owns and operates the Forsmark nuclear power plant, Forsmark Kraftgrupp AB ("FKA"). Forsmark has three plant units, with a total capacity of 3,095 MW, which began commercial operation in 1980, 1981 and 1985, respectively.

Birka Energi's interest in MKG entitles it to the output from 19.83 percent (613.8 MW) of Forsmark's total capacity. Through lease agreements with Skellefteå Kraft AB, which expire at the end of 1998, Birka Energi has the right to the output from a further 0.65 percent (12.6 MW) of Forsmark's capacity.

Birka Energi also holds a 33.37 percent interest in OKG, which owns and operates the Oskarshamn nuclear power plant. Oskarshamn has three plant units, with a total capacity of 2,210 MW, which began commercial operation in 1972, 1974 and 1985, respectively.

Birka Energi's interest in OKG entitles it to the output from 33.37 percent (737.5 MW) of Oskarshamn's total capacity. Through a lease agreement with Sydkraft AB expiring in January 2004, Sydkraft is entitled to obtain from Birka Energi the output from 2.5 percent (55.3 MW) of Oskarshamn's capacity.

Possible Additional Nuclear Power Plant

The Power and Heat Division is currently conducting an environmental impact assessment with respect to the possible construction of a new nuclear power plant at Loviisa, while a similar assessment is being conducted by TVO with respect to the possibility of constructing such a power plant at an alternative site in Olkiluoto. Environmental assessments of this nature are normally performed in advance of consideration of construction of any power plant, regardless of type, and management would only proceed with the design and construction of an additional nuclear power plant if it is deemed commercially viable in comparison with other types of power plants.

Any such proposal would require the approval of the Finnish Parliament and Council of State and design and construction of a new nuclear power plant would be expected to take at least ten years.

Disposal of Nuclear Waste

Finland. Prior to the end of 1996, spent nuclear fuel elements from Loviisa were transported to Russia. Due to a change in the Finnish Nuclear Energy Act, however, since the beginning of 1997 all nuclear waste from nuclear power plants in Finland must be disposed of within the country.

The Loviisa and Olkiluoto nuclear power plants each operate on-site permanent repositories for low-level and intermediate-level radioactive waste resulting from purification of water used in power plant operations and maintenance and operational activity, such as gloves, clothing and particulates. Waste is placed in containers and stored within a cavern complex excavated over 50 meters underground in bedrock. The repositories are also to house irradiated equipment and construction material when the respective nuclear facilities are eventually decommissioned.

After interim storage on the site of the plant, high-level radioactive spent fuel elements from Loviisa and Olkiluoto will be disposed of by Posiva Oy, a company owned jointly by Fortum and TVO. Final disposal will take place in tunnels to be constructed 500 meters underground in bedrock. Site investigations for the final disposal have been made in the areas of Eurajoki (Olkiluoto), Kuhmo and Äänekoski and, since the beginning of 1997, at Loviisa. In addition, environmental assessments were begun at each of these areas in 1997. A decision on the site to be used is expected to be made in 2000.

Sweden. Nuclear waste produced by the Oskarshamn and Forsmark nuclear power plants is disposed of by Svensk Kärnbränslehantering AB. Low-level and intermediate-level waste is disposed of in a central repository, located near the Forsmark nuclear power plant, while spent fuel is currently stored in a central interim storage facility, by the Oskarshamn facility. As in Finland, site investigations and selection are currently underway for the permanent, deep-bedrock disposal of the spent fuel, with construction tentatively scheduled to begin in 2010.

The Power and Heat Division has agreed with other shareholders of MKG and with shareholders of FKA to provide financing for FKA in the event that FKA is unable to meet its obligations, in an amount proportionate to the division's electricity output right relating to the Forsmark nuclear power plant. The division has also entered into a similar agreement with other shareholders of OKG, with respect to the Oskarshamn nuclear power plant. The Power and Heat Division's funding obligation for both of these plants includes a portion of its obligations to the Swedish Nuclear Waste Fund that the operating company is unable to satisfy. The division is further obligated under each of these agreements to provide a portion of the security that the respective operating company is required to post to the Nuclear Waste Fund.

For a discussion of Finnish and Swedish regulations affecting nuclear power plants and nuclear waste disposal, see "Environmental Regulation."

CHP

A significant amount of the Power and Heat Division's generating capacity is represented by CHP plants. The Power and Heat Division is the market leader in the Nordic countries in the sale of CHP-generated energy. At year-end 1997, the division owned 16 such plants, representing an aggregate electricity generation capacity of 1,013 MW, and has ownership interests in an additional six CHP facilities. The division has been involved in development of CHP technology since 1980 and the proportion of CHP to total electricity generation capacity in Finland is among the highest in the world.

CHP production is driven by local demand for heat. CHP plants offer the benefits of high energy efficiency, the ability to utilize, for example, biofuels and recycled fuels such as residual waste, and reduced CO₂ emissions. High efficiency is achieved through the use of back-pressure power generation potential and subsequent use of steam in industrial processes or hot water for district heating. For added flexibility, some CHP plants also have condensing power generation capacity. The EU strategy to promote CHP generation calls for a doubling of CHP capacity in Europe as a means of reducing CO₂ emissions. Management believes that stricter environmental requirements will further increase the demand for these plants, and intends to utilize the Power and Heat Division's long experience with CHP technology to continue the development of this business.

Currently, the majority of the division's CHP production capacity is concentrated in Finland, with process industry and municipalities as the principal customers utilizing CHP-produced energy. The Swedish market is also one of the division's focus areas for expanding its CHP business.

The Power and Heat Division increasingly participates in partnership-type arrangements with customers to suit their specific requirements for power and heat. Recent cooperative projects undertaken in Finland include construction of the Kirkniemi CHP plant, servicing a Metsä-Serla Oyj paper mill at Kirkniemi, and the Vuosaari B power plant for Helsingin Energia in Helsinki. The division has also recently begun developing joint ownership arrangements with various municipalities for new and existing CHP plants.

The Power and Heat Division's CHP plants utilize a variety of fuels. Fuel used by the division's CHP plants in 1997 comprised 27 percent natural gas, 25 percent coal, 17 percent peat and 31 percent biofuels and other fuels.

Conventional Condensing Power

At year-end 1997, the division owned four conventional condensing power plants in Finland and had interests in two others in Sweden, representing a total capacity of 1,842 MW (including the division's share of partly-owned plants).

Conventional condensing power generation capacity is used to generate base- or mid-load power. The Power and Heat Division currently has surplus capacity in conventional condensing power generation and utilizes the surplus capacity primarily to compensate for the shortfall in hydroelectric power generating capacity in years of low precipitation. The division's conventional condensing power plants utilize coal and peat.

The Power and Heat Division's peak-load gas turbines are principally utilized to fulfill short-term electricity needs, as when outages occur during peak consumption hours in other power generation facilities supplying the grid. Peak-load gas turbines have high operating costs and therefore cannot be operated profitably for extended periods of time. Peak-load gas turbines also support the national grid system in outage situations.

Electricity Procurement

The following table sets forth electricity procurement of the Power and Heat Division for the three years ended December 31, 1997.

	<u>1995</u>	<u>1996</u> (TWh)	<u>1997</u>
Power plants owned by the division	16.1	20.9	22.0
Power plants partly-owned by the division	5.8	10.3	12.9
Imports and other purchases	8.7	10.3	14.0
Total(1)	<u>30.6</u>	<u>41.5</u>	<u>48.9</u>

(1) Does not include Stockholm Energi.

The following table sets forth electricity procurement of the Power and Heat Division by energy sources type for the three years ended December 31, 1997.

	<u>1995</u>	<u>1996</u> (TWh)	<u>1997</u>
Nuclear power	9.6	12.6	15.9
Hydroelectric power	6.1	8.6	11.2
Thermal power	6.7	10.9	7.9
Imports and other purchases(1)	8.2	9.4	13.9
Total(2)	<u>30.6</u>	<u>41.5</u>	<u>48.9</u>

(1) Portion of imports and other purchases for which the energy source is known has been transferred to the figures for nuclear, hydroelectric and thermal power.

(2) Does not include Stockholm Energi.

The following table sets forth the method of purchase for imports and other purchases by the Power and Heat Division for the three years ended December 31, 1997.

	<u>1995</u>	<u>1996</u> (TWh)	<u>1997</u>
Finland, contractual	5.4	5.3	7.0
Finland, spot and temporary	3.3	0.6	0.4
Sweden, contractual	—	3.6	5.5
Sweden, spot and temporary	—	0.8	1.1
Total(1)	<u>8.7</u>	<u>10.3</u>	<u>14.0</u>

(1) Does not include Stockholm Energi.

By combining the Power and Heat Division's own long-term generating assets with various types of purchase agreements, the balance among various sources of electricity can be optimized to correspond to the varying time lengths, volumes and pricing levels of the division's electricity sales agreements. This minimizes costs of procuring electricity. The division also increasingly uses the evolving derivatives trading market to secure both electricity purchases and set sales price levels, depending on market conditions.

Most of the Power and Heat Division's long-term purchase agreements in Sweden (excluding those of Stockholm Energi) expire in 1998 or 1999. The division's largest purchase agreement is its import agreement with Technopromexport, a Russian state enterprise, which covers approximately 4-4.5 TWh annually and expires at the end of 2000. At the moment, approximately eight percent of the electricity sold by the division is purchased pursuant to this agreement. The division has been in negotiations with Russian parties concerning a new import agreement. If satisfactory terms are not agreed, management expects that the division would replace the power currently obtained under this agreement by increasing its own production and through purchases from other sources.

Heat Generation

Heat is delivered to most industrial customers in the form of steam for use as "process steam" and to other municipal energy companies and industrial customers as hot water for use in district heating systems. Process steam and hot water are produced by CHP plants and, in some cases, by heating plants. District heating systems, which are common in the Nordic countries, consist of underground pipe networks which carry hot water to residences and businesses in the areas surrounding heating and CHP plants, for use in heating these buildings.

A contract for the supply of heat is often accompanied by a contract for the supply of electricity. A growing number of industrial companies are outsourcing their process steam requirements.

At year-end 1997, the Power and Heat Division had a total heat generation capacity of 2,533 MW in the Nordic countries. In 1997, the division supplied 10.3 TWh of heat, half of which was delivered as district heat to district heat companies and the other half was delivered as process steam and heat to industrial customers.

The following table sets forth the heat generation capacity of the Power and Heat Division and its entitlement to heat as a result of certain shareholdings and other interests in heat generating companies in the Nordic countries for the three years ended December 31, 1997.

Nordic Heat Generation Capacity

	1995			1996			1997		
	Number of Plants	District Heat(1) (MW)	Process Steam(1) (MW)	Number of Plants	District Heat(1) (MW)	Process Steam(1) (MW)	Number of Plants	District Heat(1) (MW)	Process Steam(1) (MW)
Finland									
<i>Own Power Plants</i>									
CHP(2)									
Coal	1	303	125	1	330	185	1	330	185
Natural gas	5	257	140	5	257	140	5	257	140
Peat	3	291	145	3	291	145	3	287	166
Other	4	64	277	5	104	277	6	176	378
Total	13	915	687	14	982	747	15	1,050	869
Other	15	241	49	15	249	38	15	242	63
Total Finland	28	1,156	736	29	1,231	785	30	1,292	932
Sweden									
<i>Own Power Plants</i>									
CHP(2)									
Coal	—	—	—	—	—	—	—	—	—
Natural gas	—	—	—	—	—	—	—	—	—
Peat	—	—	—	1	36	—	1	36	—
Other	—	—	—	—	—	—	—	—	—
Total	—	—	—	1	36	—	1	36	—
Other	—	—	—	16	158	—	21	200	—
Total	—	—	—	17	194	—	22	236	—
<i>Other Entitlements</i>									
CHP(2)									
Coal	—	—	—	—	—	—	—	—	—
Natural gas	—	—	—	—	—	—	—	—	—
Peat	—	—	—	—	—	—	—	—	—
Other	—	—	—	1	6	—	3	73	—
Total	—	—	—	1	6	—	3	73	—
Total Sweden(3)	—	—	—	18	200	—	25	309	—

(1) Capacity controlled by the Power and Heat Division.

(2) Capacity divided by principal fuel used in generation.

(3) Does not include Stockholm Energi.

The following table sets forth the actual amounts of heat generated by the Power and Heat Division in the Nordic countries for the three years ended December 31, 1997.(1)

Nordic Heat Generation		1995	1996	1997
			(GWh)	
Finland				
<i>Own Plants</i>				
CHP(2)				
Coal		2,053	2,478	2,344
Natural gas		1,464	1,600	2,010
Peat		1,630	1,847	1,730
Other		2,754	2,847	3,254
Total		7,901	8,772	9,338
Other		516	463	572
Total Finland		<u>8,417</u>	<u>9,235</u>	<u>9,910</u>
Sweden				
<i>Own Plants</i>				
CHP(2)				
Coal		—	—	—
Natural gas		—	—	—
Peat		—	42	54
Other		—	33	67
Total		—	75	121
Other		—	72	149
Total		—	147	270
<i>Other Entitlements</i>				
CHP(2)		—	—	—
Other		—	7	103
Total Sweden(3)		—	<u>154</u>	<u>373</u>

(1) The division of generation between own and other entitlements is based on Fortum's accounting principles, which are not consistent in all respects with the system used for categorizing generation capacity.

(2) Capacity divided by type of fuel used in generation.

(3) Does not include Stockholm Energi.

Based upon an agreement entered in September 1998, Birka Energi and Drammen Energinett AS have established a district heating company for the purpose of developing the district heating operations of Drammen, a Norwegian municipality. Birka Energi and Drammen each have a 50 percent shareholding in the new company, and will make a combined investment of SEK 150 million (FIM 100 million) to expand Drammen's heating plant to an annual heat production of 150 GWh.

Sales of Electricity and Heat

General

The Power and Heat Division sells electricity and heat in the Nordic countries and in Estonia. Electricity is obtained from the division's own power plants, facilities in which the division has an interest, and procured under long-term purchase contracts, and through the spot market. The Power and Heat Division sells electricity to industry and other large customers, electricity companies, buying consortia, small customers and to the spot market. Electricity sales by the division to small customers are primarily made through local subsidiaries and associated companies, taking advantage of these companies' retailing experience. Finally, the division provides customers with information on the deregulated electricity markets, the efficient use of energy and the environmental effects of electricity production.

Recently, the IVO Partners Chain marketing program was created by the division and several electricity distribution companies to provide new products and services to small customers.

Contract Sales

The majority of electricity sales by the Power and Heat Division are made through long-term contracts, principally to industry, electricity companies and other large customers. The table below sets forth the volume of electricity to be supplied under existing contracts for 1998, 1999, 2000 and 2001.

	1998	1999	2000	2001
	(TWh)			
Finland(1)	22.0	19.2	17.7	9.0
Sweden(2)				
Gullspång (50%)	4.7	4.1	3.4	1.2
Stockholm Energi (50%)	3.5	2.8	1.7	0.6
Total	8.2	6.9	5.1	1.8
Total contracted volumes	30.2	26.1	22.8	10.8

(1) Figures include sales contracts of Länsivoima. See “—Recent Acquisitions in the Nordic Countries.”

(2) Figures include 50 percent of Birka Energi’s contracted supply volumes with the 1998 figures including Stockholm Energi’s contracted supply volumes for the entire year.

Measured by volume of electricity delivered, the division’s long-term electricity sales contracts (excluding those of Stockholm Energi) expire as follows (calculated on the basis of long-term contractual sales volumes in 1997): by the end of 1998, 18 percent; by the end of 1999, nine percent; by the end of 2000, 39 percent; and 34 percent thereafter. See “Investment Considerations — Electricity Markets.”

Management expects that most electricity sales to large customers in future years will continue to be based on long-term contracts. Recently, however, the time periods for which such contracts are entered have decreased. In addition, rights to electricity are increasingly sold through financial products offered on Nord Pool and on the OTC derivatives market.

Nordic Countries

The development of electricity products and services of the Power and Heat Division is directed at taking advantage of deregulation of the electricity markets in Finland and throughout the Nordic countries. Marketing of branded electricity in Sweden began in 1995, and has since launched new electricity marketing programs in both Finland and Sweden, primarily directed at small customers. The division’s focus is on customer relationship management.

Finland

The following table sets forth the Power and Heat Division’s electricity sales in Finland by customer group for 1996 and 1997.

	1996		1997	
	TWh	Number of Customers	TWh	Number of Customers
Small customers	1.5(1)	105,000	4.5(2)	331,000
Industry and other large customers	8.3	17	9.2	20
Electricity companies	16.0	29	14.3	29
Spot market and temporary sales	2.0	N/A	2.9	N/A
Total	27.8	N/A	30.9	N/A

(1) Figure represents sales by Uudenmaan Energia Oy.

(2) Figure represents all sales by Länsivoima including 1.3 TWh sales to small and medium industrial customers. See “—Recent Acquisitions in the Nordic Countries.”

Together with six other electricity companies, the Power and Heat Division established the IVO Partners Chain in Finland in November 1997. The IVO Partners Chain is a marketing chain for electricity consisting of the division and eleven electricity companies, some of which are the division’s subsidiaries and associated companies. Services are primarily directed at households and small businesses, through the division’s “Home Electricity” (Kotisähkö) and “Company Electricity” (Yrityssähkö) marketing concepts. The IVO Partners Chain aims to achieve cost efficiency in electricity sales through common marketing and development of energy-related customer services. Total electricity sales through member companies amounts to approximately 5.2 TWh annually. The total customer base of the IVO Partners Chain is 405,000, of which 255,000 are customers of subsidiaries of the division.

The IVO Partners Chain combines the Power and Heat Division's national presence and electricity sales expertise with the local strengths and retailing experience of partner electricity companies, thereby providing customers with a full range of energy-related services. To enhance sales margins and develop customer loyalty in different customer segments, the IVO Partners Chain focuses on customer relationship management. Customers are divided into portfolios according to power requirements and usage, and may receive customized energy services and products.

Sweden

The following table sets forth the Power and Heat Division's electricity sales in Sweden by customer group for 1996 and 1997(1).

	1996		1997	
	TWh	Number of Customers	TWh	Number of Customers
Small customers	2.3	355,000	4.2	370,000
Industry and other large customers	3.9	725	5.9	875
Electricity companies	3.2	15	4.0	15
Spot market and temporary sales	3.9	N/A	3.0	N/A
Total	<u>13.3</u>	<u>N/A</u>	<u>17.1</u>	<u>N/A</u>

(1) Figures represent sales by Gullspång and IVO Energi.

Until the formation of Birka Energi, the Power and Heat Division's electricity sales in Sweden were made primarily through Gullspång. Beginning on September 14, 1998, sales have been made primarily through Birka Energi. At present, Birka Energi uses the electricity marketing concepts developed by Gullspång and Stockholm Energi. Gullspång's main marketing concepts are home electricity ("HemEl"), which is the most developed home electricity service program in Sweden and offers services similar to that of the IVO Partners Chain, and small business electricity ("JobbEl"), which offers small business customers, for example, customized energy savings programs. Both concepts have been introduced throughout Sweden by Gullspång, and have also been licensed to other electricity companies. Stockholm Energi's electricity marketing concepts comprise "Valfri El," which is aimed at small and large customers and allows customers to choose the type of generation, and "Valfri Villavärme," which offers small customers various heating alternatives.

As a result of the formation of Birka Energi, operations of Gullspång and Stockholm Energi will be integrated from the beginning of 1999 and marketing concepts and products will continue to be developed for the Birka Energi group.

Trading

The Power and Heat Division's trading activities are used to support procurement and sales of electricity, hedge against short-term price fluctuations and protect the division's overall results. The division trades on the OTC derivatives market and the Nord Pool spot and futures markets. Small-scale speculative trading is conducted on a continuous basis.

Sales of Heat

In the Nordic countries, the Power and Heat Division sells heat and steam to industry, district heating companies and small and medium-sized residential, commercial and industrial customers. In 1997, the division sold 10.3 TWh of heat and steam in the Nordic countries, representing net sales of FIM 901 million. Approximately half of volume of heat sold was delivered to industrial customers.

Steam and heat are sold to large industrial customers and district heating companies directly by the Power and Heat Division, while small customer district heat operations are conducted both through the division and through independent local producers and distributors and the division's subsidiary distributors in Finland and Sweden. The division's principal district heat supplier to small customers in Finland is Tuusulanjärvi Energy, which supplied approximately 0.2 TWh in 1997 and had approximately 600 district heat customers located in southern Finland. In Sweden, prior to the formation of Birka Energi, district heat was supplied to small customers by Gullspång Värme AB, which supplied approximately 0.3 TWh in 1997 and had approximately 680 district heat customers.

The formation of Birka Energi increased the division's district heat sales to small customers by 6.9 TWh per year. Currently, Birka Energi has a district heat customer base of approximately 8,280 customers.

Distribution of Electricity in the Nordic Countries

The Power and Heat Division distributes electricity to small customers in the Nordic countries mainly through local subsidiaries and associated companies. In 1997, the division's subsidiaries accounted for approximately five percent of the Nordic electricity distribution market. At year-end 1997, the division's subsidiaries had a total customer base of approximately 700,000 in the Nordic countries. Approximately half of these customers were in Finland and half in Sweden.

Generally, electricity is delivered to consumers through an integrated transmission and distribution system. High-voltage electricity (110-400 kV) is transmitted through the national grid (see "— Other Operations — Grid Services" below), while electricity of 45-110 kV and 0.4-20 kV is distributed across regional networks and distribution networks, respectively.

The regional and distribution networks of the Power and Heat Division are mainly owned and operated by Länsivoima, Tuusulanjärvi Energy and Koillis-Pohjan Sähkö Oy, in Finland, and, prior to the formation of Birka Energi, by Gullspång Nät AB, in Sweden. The combined regional and distribution networks of the four companies totaled 114,200 kilometers, concentrated in southern Finland and in central Sweden. The Power and Heat Division seeks to acquire additional network businesses in areas near the division's existing distribution areas, and when appropriate, where other Fortum divisions have interests.

The following map shows the distribution areas of the Power and Heat Division's subsidiaries and associated companies in the Nordic countries as of September 30, 1998:

Finland

Subsidiaries

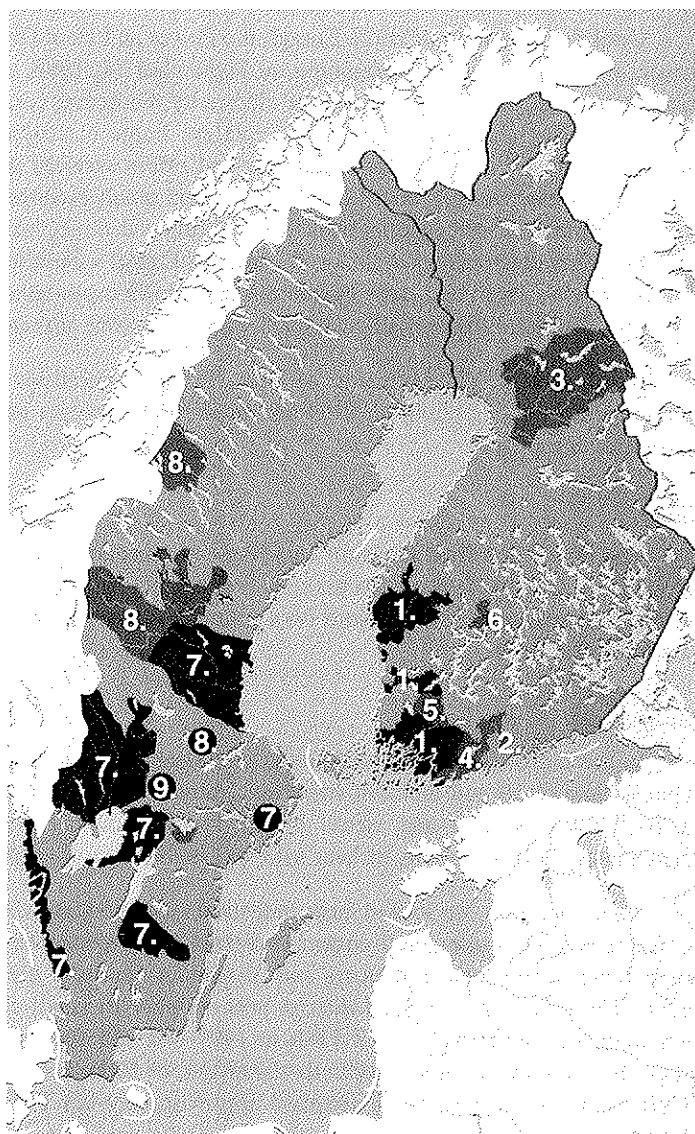
1. Länsivoima Oyj and its subsidiaries
2. Tuusulanjärvi Energy Ltd
3. Koillis-Pohjan Sähkö Oy

Associated companies

4. Uudenmaan Sähköverkko Oy
5. Länsivoima's associated companies
6. Keuruun Sähkö Oy

Sweden

7. Birka Energi and its subsidiaries
8. Birka Energi's associated companies
9. Other Swedish associated companies



Recent Acquisitions in the Nordic Countries

Recent acquisitions of electricity companies in Finland and Sweden have increased significantly the sales of the Power and Heat Division and its small and medium-sized customers.

Länsivoima. In 1997, the Power and Heat Division increased to over 65 percent its ownership in Länsivoima, a Finnish electricity company which had 1997 net sales of FIM 1,368 million. The acquisition of Länsivoima brought approximately 225,000 customers to the division, and also increased the power generation capacity of the division. See “—Power and Heat Generation and Procurement” above. Länsivoima, based in southwestern Finland, is a public company listed on the Helsinki Stock Exchange. Through its active strategy of acquiring small electricity companies, Länsivoima Group has increased its customer base to over 331,000. Upon conversion of certain bonds issued by Länsivoima, the division’s shareholding could decrease to 64 percent.

Other. Three small Swedish electricity companies were purchased by the division in 1997, with combined 1997 net sales of FIM 190 million and approximately 28,000 customers. In January 1998, the division acquired 35 percent of the shares of Ryssa Elverk AB, which had net sales of FIM 148 million and approximately 25,000 customers in 1997. In March 1998, the Power and Heat Division acquired 70 percent of the Finnish electricity company Tuusulanjärvi Energy, having already purchased the other 30 percent. Tuusulanjärvi Energy had 1997 net sales of FIM 188 million and currently has 28,000 customers. In September 1998, the municipality of Karlskoga in Sweden sold a 49 percent ownership interest in Karlskoga Energi and Miljö AB to IVO Energi AB. Karlskoga had a turnover of approximately FIM 240 million in 1997 and currently has a customer base of 21,000 customers. In November 1998, the Power and Heat Division increased its shareholding in Koillis-Pohjan Sähkö, a power company in Northern Finland, from 25 percent to 54 percent. In 1997, Koillis-Pohjan Sähkö had net sales of approximately FIM 124 million and a customer base of approximately 27,000 customers.

For a discussion of the acquisition of the Gullspång Group and the subsequent formation of Birka Energi, see “—Birka Energi” below.

The following table sets forth the Power and Heat Division’s holdings in subsidiaries and associated companies as of September 30, 1998, and sales information for such subsidiaries and associated companies for the year ended December 31, 1997.

	Year ended December 31, 1997		
	Net Sales	Small Customer and Distribution Sales	Power and Heat Division's Share
	(FIM in millions)		(%)
<i>Subsidiaries</i>			
Koillis-Pohjan Sähkö(1)	124	124	53.90
Länsivoima(2)	1,368	1,366	65.11
Tuusulanjärvi Energy(3)	188	131	100.00
<i>Associated Companies</i>			
Birka Energi(4)	9,172	4,930	50.00
Birka Energi's associated companies	339	296	46-49
Other Swedish associated companies	240	91	49.00
Länsivoima's associated companies	104	104	46.00
Other Finnish associated companies	256	248	35-50

(1) The division’s holding was increased from 25 percent to 54 percent on November 2, 1998. Koillis-Pohjan Sähkö’s net sales are included in IVO’s financial statements as from November 1, 1998.

(2) Includes Uudenmaan Energia Oy for the entire year. Länsivoima purchased its 50 percent interest in Uudenmaan Energia from IVO on September 1, 1997. The division’s holding in Länsivoima was increased from 45 percent to 65 percent in 1997. Länsivoima’s net sales have been included in IVO’s financial statements as from January 1, 1997.

(3) The division’s holding was increased from 30 percent to 100 percent on March 16, 1998. Tuusulanjärvi Energy’s net sales are included in IVO’s financial statements as from April 1, 1998.

(4) Net sales reflect 100 percent of Birka Energi’s pro forma figures. Gullspång’s net sales in 1997 were FIM 3,940 million, and small customer and distribution sales in 1997 totaled FIM 2,186 million. From April 1, 1996 to September 30, 1998, Gullspång’s results have been consolidated as a subsidiary of the Company. In September 1998, Fortum exchanged its Gullspång shares for 50 percent ownership of Birka Energi. Fifty percent of Birka Energi’s net sales are included in Fortum’s financial statements as from October 1, 1998.

Birka Energi

Through a series of transactions effected on September 14, 1998, Stockholm Energi and Fortum’s Swedish subsidiary Gullspång were combined to form Birka Energi. Birka Energi, which is 50 percent owned by each of Fortum and the City of Stockholm, owns and operates power and heating plants and electricity distribution networks, as well as district heating and cooling networks, in the greater Stockholm area and central Sweden. As a result of the combination, Birka Energi has become the largest power and heat company in Sweden by number of customers and the third-largest power and heat company by generating capacity.

Under the Shareholders' Agreement relating to Birka Energi, IVO Energi, which holds the Birka Energi shares owned by Fortum, may be obligated to offer to sell its shares in Birka Energi to an entity controlled by the City of Stockholm in the event IVO Energi ceases to be wholly-owned by the Company, on conditions set forth in the Shareholders' Agreement. Under the agreement, Fortum will receive preemptive rights to acquire additional shares in Birka Energi in certain circumstances. In accordance with the agreement, the board of directors of Birka Energi is comprised of 12 directors, six nominated by Fortum and six nominated by the City of Stockholm. Currently, Mr. Heikki Marttinen, President and Chief Executive Officer of Fortum, is serving as Chairman of the Board of Directors, while a representative of the City of Stockholm is serving as Vice Chairman.

The objective of the formation of Birka Energi is to combine the energy production, trading and supply resources of Gullspång with those of Stockholm Energi in order to offer power and heat at competitive prices to a wider range of industrial and retail customers. The combination of the power generation capacity and research efforts of the two companies is expected to produce economies of scale and further development of their respective environmental protection technologies. According to the management's plan, the business divisions, electricity trading operations, power generation, electricity networks, district heating operations and other services of Stockholm Energi and Gullspång are scheduled to begin operating under the new structure established for Birka Energi at the start of 1999.

Gullspång is the fourth-largest power and heat company in Sweden, and has operations located primarily in the central part of the country, with net sales in 1997 of FIM 3,940 million. The Power and Heat Division acquired control of the Gullspång Group in April 1996, expanding its customer base by approximately 200,000 customers, including both retail and industrial customers. Additional share acquisitions since that time resulted in the division obtaining 100 percent ownership of Gullspång. The acquisition of Skandinaviska Elverk AB in July 1996 by Gullspång increased its customer base by an additional 155,000 customers. Currently, Gullspång has a total of approximately 370,000 customers. The acquisition of Gullspång also added a significant amount of electricity and heat production capacity to the Power and Heat Division. See "— Power and Heat Generation and Procurement" above.

Stockholm Energi is the third largest power and heat company in Sweden, with 1997 revenue of approximately FIM 5 billion and total assets at year-end 1997 of FIM 14 billion. At the end of 1997, Stockholm Energi had approximately 450,000 small and medium-sized customers connected to its local distribution network and 50 large customers connected directly to its regional network. In addition to electricity and heat generation and sales, it also sells district cooling and city gas produced from coal. Operations of Stockholm Energi are primarily concentrated in the greater Stockholm area, with hydroelectric power plants located in central and northern Sweden. Stockholm Energi had total electricity and heat generating capacity of 2,447 MW and 3,343 MW, respectively, at the end of 1997. In 1997, Stockholm Energi delivered 11.6 TWh of electricity and 6.6 TWh of heat (including internal sales).

At the end of 1997, Birka Energi had approximately 820,000 electricity and 8,300 heat customers, and had an electricity and heat generation capacity of approximately 4,936 MW (including 116 MW of internal sales) and 3,652 MW, respectively. Calculated on a pro forma basis, as if the formation of Birka Energi had taken place as of January 1, 1997, Birka Energi had net sales of FIM 9,172 million for the year ended December 31, 1997 and pro forma operating profit of FIM 1,929 million. Birka Energi's total assets were FIM 43,845 million as of September 30, 1998, and interest-bearing net liability of FIM 21,208 million. See "Pro Forma Income Statement Information Relating to Birka Energi" included elsewhere in this Offering Memorandum.

The following table sets forth sales, generation and customer information relating to Gullspång, Stockholm Energi and Birka Energi for the year ended December 31, 1997.

	Year ended December 31, 1997		
	Gullspång	Stockholm Energi	Birka Energi
	<i>(TWh, except for customer data)</i>		
Electricity sales(1)	14.7	11.6	26.3
Heat sales	0.3	6.6	6.9
Total	15.0	18.2	33.2
Generation			
Hydroelectric power	5.4	4.8	10.2
Nuclear power(2)	4.5	4.9	9.4
Combined heat and power generation	0.1	0.8	0.9
Total	10.0	10.5	20.5
Number of customers	370,000	450,000	820,000

(1) Stockholm Energi's figure includes 1.2 TWh of internal sales. Birka Energi's figure does not include IVO Energi's sales of 2.4 TWh.

(2) In addition, IVO Energi contributed 0.2 TWh to Birka Energi's generation.

The following table sets forth certain financial information relating to Gullspång for the year ended December 31, 1997 and for the nine months ended September 30, 1997 and 1998.(1)

	Year ended December 31, 1997	Nine months ended September 30	
		1997	1998
	<i>(SEK in millions)</i>		
Net sales	5,797	4,130	3,882
Operating profit(2)	1,422	994	975
Financing income and expenses(2)	(620)	(487)	(488)
Profit before extraordinary items	802	507	487

(1) Until September 30, 1998, Gullspång's results have been consolidated as a subsidiary of the Power and Heat Division. The separate financial results of Gullspång do not give a complete picture of the results of the newly-formed Birka Energi, as the financial effects of ownership and financing arrangements relating to the formation of Birka Energi are not included in the separate financial results. The financial effects of the ownership and financial arrangements are due to valuations used in the transfers as well as an extra dividend declared. The results do not include any expected economic benefits or additional expenses relating to the formation of Birka Energi.

(2) The financial effects of certain financial arrangements of Gullspång have been adjusted in the Group accounts so that they increase operating profit and financial expenses.

The following table sets forth certain financial information relating to Stockholm Energi for the year ended December 31, 1997 and for the nine months ended September 30, 1997 and 1998.(1)

	Year ended December 31, 1997	Nine months ended September 30	
		1997	1998
	<i>(SEK in millions)</i>		
Net sales	7,049	4,907	5,001
Operating profit(2)	1,759	1,022	1,084
Financing income and expenses	(1,005)	(764)	(765)
Profit before extraordinary items	754	258	319

(1) Stockholm Energi's results have been consolidated in Birka Energi's results for the nine month period ended September 30, 1998. Birka Energi acquired 90.85 percent of Stockholm Energi's shares on December 29, 1997 and the remaining 9.15 percent of Stockholm Energi's shares in September 1998. The operating profit of Birka Energi Group for the nine month period ended September 30, 1998, not including Gullspång, was SEK 853 million, including SEK 231 million of depreciation relating to the goodwill arising on the consolidation of Stockholm Energi.

The separate financial results of Stockholm Energi do not give a complete picture of the results of the newly-formed Birka Energi, as the financial effects of ownership and financing arrangements relating to the formation of Birka Energi are not included in the separate financial results. The financial effects of the ownership and financial arrangements are due to valuations used in the transfers as well as an extra dividend declared. The results do not include any expected economic benefits or additional expenses relating to the formation of Birka Energi.

(2) The financial result for the year ended December 31, 1997 included SEK 220 million of Birka Kraft's non-recurring reorganization costs.

International Operations

The following table summarizes the Power and Heat Division's interests outside of the Nordic countries as of September 30, 1998.

	Fortum's Share of Partnership (percent)	Total MW(1)	Fortum's Share of MW(1)	Number of Plants	Fuel	Commercial Operation Date	Fortum's Investment as of September 30, 1998 (FIM in millions)	Fortum's Committed Investments	Fortum's Committed Loans
<i>United Kingdom</i>									
Regional Power Generators Ltd (Brigg)(2)	25.0(2)	240/-/-	60/-/-	1	gas	1993	—(3)	—	—
Humber Power Limited ..	22.5	750/-/- 500/-/-	169/-/- 113/-/-	1	gas gas	1997 (phase 1) 1999 (phase 2)	47(4)	—	81
Grangemouth CHP Limited(5)	75.0	130/-/250	98/-/188	1	gas	2000			
<i>Ireland</i>									
Edenderry Power Ltd	100.0	118/-/-	118/-/-	1	peat	by 2001	34	213(6)	423
<i>Hungary</i>									
Budapesti Erőmű Rt.	43.8	262/1,572/530	115/689/232	6	gas	1912-1963	141	—	—
<i>Estonia</i>									
AS Läänemaa Elektrivõrk(7)	95.1	-/-/-	-/-/-	—	—	1997	—	—	—
<i>Russia</i>									
OAO Lenenergo	4.9	3,242/-/-	133/-/-	14	gas, hydro	1929-1987	116	—	—
<i>Thailand</i>									
The Cogeneration Public Company Limited (COCO)	7.4	300/-/385 70/-/70 400/-/200	22/-/28 5/-/5 30/-/15	2	gas gas gas/coal	1995 (phase 1) 1996 (phase 2) 1997 (phase 3) 2000 (phase 3)	93	46	—
Union Power Development Company Limited (Hin Krut)	28.0	1,400/-/-	392/-/-	1	coal	2002/2003	37	433(8)	—
Laem Chabang Power Company Limited	75.0	100/-/33	75/-/25	1	gas	2000	3	83(8)	332(8)

(1) Total output of electricity/district heat/process steam.

(2) Fortum's ownership will increase to 100 percent by the end of 1998, when Fortum's estimated investment and loans will amount to FIM 720 million.

(3) Less than FIM 0.5 million.

(4) Equity investment of FIM 1.0 million and a subordinated loan of FIM 46 million.

(5) Subject to completion of the transaction, which is estimated to occur by the end of 1998. Fortum's investments and loans will amount to approximately FIM 715 million.

(6) Includes an EU grant.

(7) Fortum's shareholding was 95.1 percent as of November 4, 1998, and Fortum has an agreement to increase its shareholding to 100 percent. Fortum's investment and loans total FIM 36 million.

(8) Subject to completion of the transaction, which is estimated to occur by the end of 1998.

In international projects, the Power and Heat Division focuses on growth through acquisitions but, where appropriate, also participates in greenfield development projects. Currently, the Power and Heat Division holds minority interests in most of its overseas projects, which are primarily financed on a project finance basis; however, management intends to begin focusing on the development of majority-owned power companies. The division's share of total electricity generating and heat production capacity in its international projects amounted to 530 MW and 954 MW, respectively, as of September 30, 1998. In addition, the division has 1,006 MW of generation capacity and 228 MW of heat production capacity in the development and construction phase.

When considering international power generation investments, the Power and Heat Division takes into account investment criteria including country risk, specific project risk, finance structure and purchasing power parity in currency conversions. As a result, the equity yield of the division's investments in its focus markets have historically varied between 12 percent to over 20 percent.

In the United Kingdom, the Power and Heat Division owns a 22.5 percent share of Humber Power Limited, one of the country's largest independent power generating companies. The division also owns a 25 percent share of Regional Power Generators Ltd., an independent power generating company in Brigg, England. The division has agreed to increase its shareholding in the company to 100 percent by the end of 1998, pending the completion of certain conditions precedent. In Scotland, the Power and Heat Division recently entered into a joint venture agreement for the development of a CHP plant in Grangemouth with 130 MW and

250 MW of electricity generation and heat production capacity, respectively. The division has a 75 percent equity interest in the project. In Ireland, a 118 MW peat-fired power plant wholly-owned by the Power and Heat Division is currently under construction in Edenderry.

In Hungary, the division owns a 43.8 percent interest in Budapesti Erőmű Rt., a Hungarian power and heat generating company, which owns and operates five CHP plants with total capacity of 262 MW, as well as one heating plant, and is developing extensions of 108 MW and 115 MW to two of these CHP plants. The Power and Heat Division is also engaged in business development activities in the Czech Republic and Estonia. In Estonia, the Power and Heat Division recently led a consortium in the acquisition of AS Läänemaa Elektrivõrk, an Estonian electricity company. The division has a 95.1 percent equity interest in the company. In Russia, the Power and Heat Division increased to 4.9 percent its shareholding in Lenenergo, a power company that serves St. Petersburg and the surrounding region.

The Power and Heat Division does not currently own interests in Germany and Poland. In light of the anticipated liberalization of energy markets in this region, however, the division is currently investigating opportunities to acquire and develop CHP plants and CCGT plants and related distribution systems. The division is also developing its power trading activities and acquiring local distribution companies and equity stakes in local electricity companies. The objective of the division is to offer its full range of services in these markets, from power generation to distribution and supply. In line with this objective, Fortum has entered into agreements relating to the development of a proposed 750-1,250 MW gas-fired power plant in Lubmin, Germany, and the purchase of a related site. These agreements, which will be effective upon satisfaction of certain conditions, include a framework agreement with Energiewerke Nord GmbH, a state-owned power and heat company in Germany, for the development of the plant. Separately, Fortum has recently received an electricity supply license from German authorities covering the entire country, one of the first such licenses granted to a foreign company. The license enabled the Power and Heat Division to enter into its first electricity supply contract with a German electricity company to supply approximately 50 GWh of electricity per year. In addition, as part of its expansion into the German market, the division recently entered into a cooperation agreement with a Danish electricity company, Elsam, to establish a joint venture company in Germany for trading and selling electricity primarily to German industries and German electricity retailers.

In Thailand, where the energy market is gradually being liberalized, the Power and Heat Division owns shares in three independent power producers. The division holds a 28 percent ownership interest in Union Power Development Company Limited, which is finalizing negotiations for the construction of a 1,400 MW coal-fired power plant (the Hin Krut Project). The division also owns a 7.4 percent share of the Cogeneration Public Company Limited, which is operating a 370 MW industrial CHP plant and constructing an additional 400 MW industrial CHP plant. Finally, the Power and Heat Division holds a 75 percent share of Laem Chabang Power Company Limited, which is developing a 100 MW CHP plant.

In Indonesia, the Power and Heat Division is focusing on developing industrial CHP power plants for the pulp and paper industry, as well as peat-fired power plant projects. However, development has been delayed as a result of the regional economic instability. The division does not have any investment exposure in Indonesia.

In China, the Power and Heat Division is developing 24 MW CHP power plants in the cities of Zaozhuang and Wuhu. Business development activities are being pursued with respect to similar CHP projects in eastern China.

The Power and Heat Division generally participates in international power generation projects as an equity participant, with the fuel supply and power and heat offtake secured by long-term contracts with other parties. Of the division's existing international investments, the division has accepted offtake risk only in projects in the United Kingdom. In the Humber project, the division has entered into a "contract for differences," under which it has guaranteed a minimum price with respect to 220 MW of the plant's output. As the market price for electricity has fallen below the minimum price set forth in the contracts for differences, the division has incurred costs to date under these obligations of approximately FIM 30.7 million. The division has currently taken a provision of FIM 104 million for possible future liabilities under the contracts for differences for the years 1998-2001.

Competition

The Power and Heat Division competes with large power and heat companies in the Nordic countries, particularly Finland and Sweden, that are engaged in power generation and electricity sales to small- and large-scale customers. The main long-term competitors of the Power and Heat Division in the electricity sales business area are other large power companies in the Nordic electricity markets, including Vattenfall, Sydkraft, Statkraft, Elsam, Teollisuuden Sähkönyynti and Helsingin Energia.

Integration of the Nordic electricity markets exposes market participants, including Fortum, to the effects of excess capacity of producers in the Nordic countries and in neighboring countries. For example, Norwegian power producers, which may have substantial over-capacity depending on weather conditions and the amount of precipitation, and Danish power producers, which have had lower operating costs and a surplus of coal-fired condensing capacity, have caused significant downward pressure on electricity prices in Finland and Sweden by exporting low-cost electricity to these markets. While limited power transmission capacity from northwestern Russia to the Nordic countries has to date limited the export to the Nordic countries of electricity produced in this region, it is possible that in the future the electricity markets of the Nordic countries could be affected significantly by the over-capacity in northwestern Russia.

Research and Development

Research and development projects in the Power and Heat Division currently focus on the development of power trading services and increasing the efficiency of distribution network operations. Other areas being researched include CHP generation, operation and maintenance of power plants, increasing efficiency in the use of electricity and heat, environmental competitiveness and the application of information technology to the various stages of energy production.

Regulation

European Union

The EU Internal Electricity Market Directive (the "EU Electricity Directive"), adopted on December 19, 1996, was the first major step taken Europe-wide to create an open and competitive electricity market in Europe. As from February 1999, all EU member states must open at least 25.37 percent of their electricity markets to free competition. The stated aim is to bring lower electricity prices to all consumers by requiring EU member states to take steps necessary for: (a) the opening up of the construction of new electricity generation capacity to competition; (b) the "unbundling" (i.e., separation) of the accounting for electric generation, transmission and distribution operations; (c) the designation of a transmission network operator responsible for the operation, maintenance and, where appropriate, development of the transmission network in specific areas and for its interconnections with other networks; and (d) the introduction of a system of negotiated third-party access to the network, pursuant to which companies willing to enter electricity supply contracts must negotiate with the transmission and/or distribution network operators. This system is to be introduced pursuant to a schedule laid down in the EU Electricity Directive, which permits gradual entry into the market of certain qualified consumers. The EU Electricity Directive will have full effect from February 19, 1999.

Finland

In anticipation of adoption of the EU Electricity Directive, the Finnish electricity market was largely deregulated in 1995, with the implementation of the Finnish Electricity Market Act. The generation, supply and export of electricity were entirely deregulated and rules were established relating to the electricity transmission grid, which is operated as a natural monopoly by Fingrid, and electricity distribution. Pursuant to the Electricity Market Act, all customers are free to choose their electricity supplier, and transmission and distribution prices must be transparent, reasonable and non-discriminating for all users.

The Finnish electricity market is supervised by the Electricity Market Authority, which is an independent agency under the Finnish Ministry of Trade and Industry. The primary responsibility of the Electricity Market Authority is to promote the efficiency of the electricity market and monitor transmission and distribution prices in cooperation with the Ministry of Trade and Industry and the Finnish Competition Authority. In addition, the Electricity Market Authority grants licenses to Fingrid, the grid operator, and regional and distribution network operators. It also issues construction permits for transmission and distribution networks and monitors operators' compliance with the terms of licenses and permits.

The electricity market is also regulated by the merger control provisions of the Finnish Competition Restrictions Act, which took effect on October 1, 1998. Pursuant to the Competition Restrictions Act, competition authorities may prohibit acquisitions which would result in the holding by a single company of more than 25 percent of a 0.4 kv distribution network in Finland.

In 1997, Finnish electricity taxation was revised extensively to be harmonized with the energy taxation schemes of Sweden and Norway in order to eliminate certain negative tax implications affecting Finnish electricity producers. The new electricity taxation system taxes the use of electricity rather than fuels used in electricity generation, as under the previous system.

Power generators have no obligation under Finnish law to maintain peak load capacity as reserves in Finland.

Sweden

As in Finland, the Swedish electricity market has been largely deregulated, effective from January 1996. Electricity generation and sales were separated from transmission grid and network services, which are operated as natural monopolies and regulated under the Swedish Electricity Act. The public state utility, Svenska Kraftnät, operates the national high-voltage transmission grid. Large power companies operate regional networks while local distribution and supply companies operate local networks. All customers are free to choose their electricity supplier. However, small customers have not been active in switching suppliers as switching requires the customer to purchase an electricity meter, which has a price of up to SEK 2,500 (FIM 1,700). A temporary supply concession for local suppliers, expiring at the end of year 2000, guarantees electricity supply to customers who do not wish to change their supplier. Exports and imports of electricity for periods exceeding six months are subject to notification to the Swedish National Energy Authority, which may impose certain conditions.

The Swedish National Energy Authority, Energimyndigheten, is an independent state agency under the Swedish Ministry of Industry, responsible for monitoring the electricity market. The National Energy Authority grants licenses to construct and operate transmission and network facilities and grants concessions to local suppliers, and also enforces compliance with the provisions of the Swedish Electricity Act.

As in Finland, power generators in Sweden are not required to maintain peak-load capacity as reserves, but must maintain a balance between procurement and sales. In Sweden, power plant operators provide reserve generating capacity by contracting with Svenska Kraftnät on an annual basis.

OPERATION AND MAINTENANCE DIVISION

General

The following table sets forth certain financial and statistical data relating to the Operation and Maintenance Division for the three years ended December 31, 1997 and the nine months ended September 30, 1997 and 1998.

	Year ended December 31,			Nine months ended September 30,	
	1995	1996	1997	1997	1998
	<i>(FIM in millions, except personnel data)</i>				
Net sales(1)					
Internal	511	618	626	401	373
External	229	312	745	495	634
Operating profit	49	92	92	48	22
Identifiable assets	N/A	50	90	110	93
Investments	15	21	37	26	29
Average number of employees	1,771	2,097	2,465	2,432	3,134

(1) Half of the net sales of Birka Service Group, which was completely transferred to Birka Energi's full ownership as of September 14, 1998, have been combined with the division's net sales using the proportionate method of consolidation, which increased net sales for the nine months ended September 30, 1998 by FIM 249 million, net sales for the corresponding period in 1997 by FIM 189 million, and net sales for the year ended December 31, 1997 by FIM 279 million.

The Operation and Maintenance Division operates and maintains the majority of the Power and Heat Division's power and heating plants in Finland, as well as three power plants located outside Finland in which the Power and Heat Division has interests. The Operation and Maintenance Division also contracts with other companies that own power and heating plants to operate and maintain these facilities, and performs maintenance tasks of varying sizes and durations for industrial facilities and power plants.

As of September 30, 1998, the Operation and Maintenance Division operated and maintained a total of 56 power and heating plants within Finland and six outside Finland (not including Birka Energi). These facilities together represented a total of 6,300 MW of electricity generating capacity and 2,500 MW of process steam and district heat production capacity. Plants maintained by the Operation and Maintenance Division in Finland represent approximately one-third of the electricity generating capacity in the country.

Approximately 46 percent of the Operation and Maintenance Division's net sales for the year ended December 31, 1997, represented sales to other Fortum divisions, compared to 66 percent of net sales for the year ended December 31, 1996 and 69 percent of net sales for the year ended December 31, 1995.

Management of the Operation and Maintenance Division is focusing on further reducing operation and maintenance costs of Fortum's power plants and maintaining high availability ratios of power plants under its management. Management also intends to develop the division's operation and maintenance services for power plants and oil refineries into a global service product, and to continue increasing the proportion of the division's external sales.

Sales by Geographic Area

The following table sets forth the Operation and Maintenance Division's net sales by geographic area for the three years ended December 31, 1997.

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM in millions)</i>		
External sales			
Finland	162	212	306
Other Nordic countries	6	6	293
International	61	94	146
Internal sales	511	618	626
Total net sales	<u>740</u>	<u>930</u>	<u>1,371</u>

In Finland, the Operation and Maintenance Division contracts cover 56 power and heating plants located throughout the country, representing a total of 3,700 MW of power generating capacity and 2,500 MW of heat production capacity.

In Sweden, operation and maintenance activities are carried out by Birka Service, a subsidiary of Birka Energi in which the division has a 50 percent ownership interest. Birka Service was established in 1997 as a joint venture between the Power and Heat Division and Stockholm Energi. Birka Service is responsible for the operation and maintenance of Stockholm Energi's power plants and its electricity distribution and district heating networks, and has been offering operation and maintenance services to other parties as well. See "— Power and Heat Division — Formation of Birka Energi" above. Currently, Birka Service's contracts cover 25 power and heating plants, including 22 hydroelectric power plants, representing a total of 1,657 MW of electricity generation capacity and 3,300 MW of heat production capacity in Sweden. As a result of the formation of Birka Energi, Birka Service has become a subsidiary of Birka Energi. In 1997, net sales from Birka Service amounted to FIM 558 million.

Where appropriate, the Operation and Maintenance Division seeks to participate in power and heating plant projects in which the Power and Heat Division or the Engineering Division are involved, in order to take advantage of synergies among these divisions.

Business Activities of the Operation and Maintenance Division

The Operation and Maintenance Division provides long-term operation and maintenance services in Finland and Sweden, in other countries in Europe and in Southeast Asia, and provides maintenance services relating to particular items of equipment or entire facilities or sites primarily in Finland.

Long-Term Operation and Maintenance Services

The Operation and Maintenance Division works in the Nordic countries and internationally under long-term arrangements to operate and maintain customer facilities, enabling customers to focus on the development of their core businesses. The division operates customer facilities and performs day-to-day maintenance and repair work as well as major scheduled maintenance.

An operation and maintenance provider is often evaluated by the extent to which it is able to assure continued availability of the plants under its management, expressed as the "availability" of these plants. The average availability ratio of power plants operated by the Operation and Maintenance Division in the Nordic

countries was 98.2 percent for 1997, among the highest in the world. Fossil-fueled power plants operated by the division in the Nordic countries have posted a five-year average availability ratio of 96.3 percent.

The high availability ratios achieved by the Operation and Maintenance Division allow it to offer customers “availability guarantees,” pursuant to which the Operation and Maintenance Division guarantees a certain availability ratio to the customer for the customer’s facility. Availability guarantees are often accompanied by bonus and penalty provisions, under which the compensation payable to the division is increased or decreased to reflect attainment of an availability ratio exceeding a predetermined level.

In addition to standard power plant operation and maintenance services, the division recently began offering customers in Finland the opportunity to enter into partnership-type arrangements under which a small heating plant is built for the customer and the excess heat is sold in the local district heating network. Local heating service arrangements are provided under a heat supply contract that is tailored to the customer’s needs, and comprise the building, operation and maintenance of a heating plant as well as the sale of a portion of the heat it generates. The heating plant uses fuels which originated as industrial by-products, as well as other local fuels.

In the United Kingdom, the Operation and Maintenance Division’s contracts cover three power plants, representing a total of 1,860 MW of power generating capacity. In the spring of 1998, the division entered into a letter of intent relating to the operation and maintenance of a peat-fired power plant to be constructed at Edenderry, Republic of Ireland. See “— Power and Heat Division — International Interests” above. The Operation and Maintenance Division also has operations in Hungary.

In Malaysia, the Operation and Maintenance Division operates and maintains the Teluk Gong gas turbine power plant owned by Powertek Berhad, with a total generating capacity of 440 MW. In Indonesia, the division has obtained a long-term contract, valued at approximately FIM 400 million, for the operation and maintenance of two coal-fired power plants under construction and scheduled to begin operation at the beginning of 2000, though construction has recently been suspended due to regional economic conditions. In Thailand, the Operation and Maintenance Division is in the process of negotiating a 15-year operation and maintenance contract relating to the 1,400 MW Hin Krut power plant, which is currently in the final stages of project development.

The Operation and Maintenance Division currently holds 24 quality certificates, including four ISO 14001 environmental certificates. In collaboration with the Power and Heat Division, the Operation and Maintenance Division has also developed an internal certification system for power plant operation and maintenance, which corresponds to the ISO 9002 quality standard and which has been specially designed to reflect the needs and expectations of the customers.

Service Operations

Service operations range from maintenance of specific items of equipment to contracts for the maintenance of an entire plant or facility. Contracts are generally entered into on a long-term basis. Under the terms of these contracts, the Operation and Maintenance Division assumes overall responsibility for all aspects of maintenance. The division’s broad expertise in service operations includes maintenance of steam and gas turbines, boilers, substations, switch-yards and transformers.

The Operation and Maintenance Division’s customers include owners and operators of industrial plants, power plants and substations. Municipalities and governmental units are also increasingly becoming customers as local heating services are introduced.

The Operation and Maintenance Division is currently responsible for the maintenance of 56 power plants in Finland. It also has long-term maintenance contracts with over 50 companies in the food, metal, paper and building products industries. The division also provides service operations in Sweden and Hungary, and is investigating new business opportunities in the United Kingdom.

Competition

In Finland, most competition of the Operation and Maintenance Division comes from the operation and maintenance units of owners of existing power plants. The main competitors of the division’s service operations are large maintenance service companies, which typically offer the same scope of services and possess utility or manufacturing experience.

Research and Development

Research and development activities undertaken by the Operation and Maintenance Division have recently focused on the development and refinement of remote power plant operation and maintenance systems. Under these systems, services are provided from centralized support centers, thereby increasing cost efficiency and improving the reliability of power plants.

The Operation and Maintenance Division, together with the Power and Heat Division, is studying the integration of environmental management with operation and maintenance functions. Procedures relating to environmental management have been integrated with the quality system of each power plant being operated by the Operation and Maintenance Division.

ENGINEERING DIVISION

General

The table below sets forth certain financial and statistical data relating to the Engineering Division for the three years ended December 31, 1997 and the nine months ended September 30, 1997 and 1998.

	Year ended December 31,			Nine months ended September 30,	
	1995	1996	1997	1997	1998
	<i>(FIM in millions, except personnel data)</i>				
Net sales(1)					
Internal	279	488	562	413	242
External	1,126	1,486	1,617	1,114	1,149
Operating profit	13	29	80	12	(10)
Identifiable assets	N/A	340	441	370	491
Investments	31	90	35	25	48
Average number of employees	1,474	2,012	2,199	2,202	2,501

(1) Half of the net sales of Teknik och Miljö, which was completely transferred to Birka Energi's ownership, have been consolidated with the division's net sales using the proportionate method of consolidation, which increased net sales for the nine months ended September 14, 1998 by FIM 21 million, net sales for the corresponding period in 1997 by FIM 20 million, and net sales for the year ended December 31, 1997 by FIM 27 million.

The Engineering Division specializes in turnkey contracts for power plants, electricity transmission and distribution systems, railway electrification projects and antenna masts. Finland has one of the highest CHP utilization rates in the world, and the division possesses particular expertise with respect to CHP facilities. In addition, the division offers project management, design and consulting services, and technical support and development for existing facilities. Principal customers of the division are in the power, railway and telecommunications industries. The division also provides engineering services and technical support with respect to projects being undertaken by other Fortum divisions, taking advantage of shared business opportunities between the Engineering Division and the Power and Heat and Operation and Maintenance Divisions.

Under turnkey contract arrangements, the Engineering Division is responsible for the construction of an entire project on a fixed-price basis. The division performs design and engineering services for the project, arranges for procurement of equipment, and then subcontracts the construction and erection work to other parties. Under these arrangements, the division generally accepts overall responsibility for having the project completed by a certain date, and also accepts responsibility for deficiencies in the work performed or equipment installed by the division and its subcontractors. Delay in completion of the project, or deficiencies in the work or equipment, may result in a reduction of the amount payable to the division under the applicable contract. The division employs a variety of devices to minimize the risk to the division of failure to perform or inadequate performance by the parties with which it subcontracts or from whom it procures equipment, including corresponding performance guarantees, penalty systems and product quality guarantees.

Principal markets of the Engineering Division are Finland, Sweden, Russia, Central Europe and Asia. The Engineering Division also operates in partnership with other Fortum divisions in Germany, Great Britain and Malaysia, and is involved in development aid projects in Africa and Asia. Management believes that the division's international experience provides Fortum with an advantage with respect to projects in which other divisions are involved, as in the Edenderry and Laem Chabang projects. Approximately 58 percent of total net sales of the division in 1997 was generated by projects outside Finland.

Approximately 26 percent of the Engineering Division's net sales for the year ended December 31, 1997, represented sales to other Fortum divisions, compared to 25 percent of net sales for the year ended December 31, 1996 and 20 percent of net sales for the year ended December 31, 1995.

In light of increasingly stringent emission standards and other environmental regulations, the Engineering Division is continuing its focus on providing engineering services and products related to CHP generation, using biofuels in power generation to reduce emissions, and improving power plant efficiency. See "Environmental Regulation — European Union — Kyoto Protocol to the UN Framework Convention on Climate Change." The division is also developing expertise in mobile telecommunications infrastructure, taking advantage of the rapidly growing demand worldwide for mobile telecommunication services. Finally, the Engineering Division aims to pursue new business opportunities in conjunction with the Power and Heat Division and Operation and Maintenance Division to provide integrated services and products.

Sales by Geographic Area

The following table sets forth the Engineering Division's net sales by geographic area for the three years ended December 31, 1997.

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM in millions)</i>		
External sales			
Finland	347	379	362
Russia	219	309	213
Asia	121	61	134
Other countries	439	737	908
Internal sales	279	488	562
Total net sales	<u>1,405</u>	<u>1,974</u>	<u>2,179</u>

Business Activities of the Engineering Division

The Engineering Division conducts the following business activities: power plant engineering, power transmission engineering, nuclear power engineering and hydropower engineering. Since restructuring its operations beginning in 1992, the share of the division's net sales representing sales to external parties has increased from 19 percent to 74 percent.

In some projects, the Engineering Division acts as a co-developer with the Power and Heat Division. In these projects, the Engineering Division provides contracting and design services, while upon completion of the plant the Power and Heat Division operates the plant and arranges for the sale of power or heat. The Kirkniemi CHP plant project with Metsä-Serla Oyj, a Finnish forest products company, and the Edenderry power plant project are examples of such projects.

Power Plant Engineering

The Engineering Division has expertise in the design and construction of condensing power, gas turbine and heating plants, with a specialty in CHP plants and CHP-related technology. The division also develops and sells environmental protection technology and offers power plant refurbishment, automation, electrification and information systems.

Principal markets for power plant engineering are Finland, Russia, Northern Europe, Central Europe, China and certain countries in Southeast Asia. Significant activities underway or recently completed in these countries are described below.

Finland

Engineering and construction of the Kirkniemi CHP plant, built in partnership with Metsä-Serla Oyj to supply up to 135 MW of power and 125 MW of steam to a paper factory owned by Metsä-Serla, was completed by the Engineering Division in 1997 under a turnkey contract with a value of over FIM 300 million. The project included design, equipment supply, installation, construction management and commissioning, and was co-developed with the Power and Heat Division. Engineering and construction of a gas-fired power plant for Kotkan Energia Oy, a municipal electricity company, was also completed in 1997, with the total value of the turnkey contract amounting to approximately FIM 190 million.

Northern Europe

In the United Kingdom and Ireland, the Engineering Division is focusing on designing, engineering and constructing CHP plants. In Edenderry, Ireland, the division is working with the Power and Heat Division on development of a 118 MW peat-fired power plant.

Russia

The Engineering Division is carrying out business development activities and providing consulting services with respect to a number of small and medium-sized projects in Russia. In addition, the division is leading a consortium of Western companies in the design and construction of a plant in St. Petersburg which will have electricity and heat generating capacity of 900 MW and 800 MW, respectively. Construction was completed in mid-1998 and equipment installation is currently underway. See "Investment Considerations — Emerging Market Risks Related to Russia and Certain Other Countries."

Central Europe

In Poland, the Engineering Division is currently leading a consortium that is building a FIM 200 million CHP plant, scheduled for completion at the end of 1999, to supply power and district heat to the town of Tychy. The power plant is to have 40 MW of electricity generating capacity and 70 MW of district heat production capacity. Recently, the division entered into an agreement to construct a desulfurization plant in Poland, with a project value of FIM 300 million. The division is also involved in a number of power plant refurbishment projects.

In Romania, the Engineering Division is working on two power plant boiler refurbishment projects, at Iasi and Suceava, valued at over FIM 160 million, and recently agreed to work on the refurbishment of a power plant in Bucharest.

In the Czech Republic, the Engineering Division is in the process of designing and constructing the second unit of a desulfurization plant, having completed the first unit in 1997. The division is also leading the consortium constructing a CHP plant which is to generate electricity, district heat and process steam for a Czech power company, to be completed in November 1998 and valued at over FIM 300 million, including the value of equipment to be purchased for the plant.

Asia

In January 1998, the Engineering Division purchased a majority shareholding in a Thai company specializing in subcontracting for power plant projects. In addition, the division entered into a FIM 300 million turnkey contract in 1998 to design and construct a power plant at Laem Chabang, Thailand. The division is working with the Power and Heat Division on this project.

The Engineering Division has been active in China for more than ten years. Currently, the Engineering Division operates in district heating and environmental protection programs, including desulfurization projects as well as in development of power plant projects.

Power Transmission Engineering

General

In the area of power transmission, the Engineering Division markets, sells and implements design, construction and maintenance projects relating to power transmission and distribution. Its products and services comprise power lines, substations, telecommunications and control systems, railway electrification and antenna masts as well as refurbishment and maintenance services for distribution networks. Core markets of the power transmission engineering business area are Finland, Sweden, Norway and the Baltic Rim area as well as certain recipient countries under the Nordic development aid program. Customers are electricity and distribution companies, industrial power users and rail and telecommunications companies. Since 1997, approximately 60 percent of the division's net sales in Finland for power transmission projects has been derived from projects being performed for Fingrid, of which Fortum is a shareholder. See "— Other Operations — Grid Services" below. Elsewhere in the Nordic countries, the division is a market leader in high-voltage power transmission engineering.

Significant projects that the Engineering Division is currently involved in include the engineering and construction of two 400-kV grid projects in Finland, as well as two substations, for Fingrid. In Latvia, the

division is constructing a 250-kilometer fiber optic cable network. The division is working on a cable project underway in the United Arab Emirates, in which a second order was recently placed. This project is expected to be completed in early 1999. In Nepal, the division was recently awarded a contract to design and construct a 110-kilometer transmission line. In India, the division recently was awarded a contract to construct a local telecommunications network, for which Nokia Telecommunications Ltd is supplying a substantial proportion of the components. The value of this contract to the division is approximately FIM 120 million, including the value of equipment to be purchased for the network.

The Engineering Division is also working as a consultant in a consortium of power companies from five countries which is investigating the possibility of connecting the electricity grids of Russia, Belarus, Ukraine and Moldavia with the West European joint electricity grid. This joint study, which began in December 1997, is scheduled to take approximately 18 months, and is being financed through the EU's Tacis program.

The Engineering Division is increasingly focusing on participating in projects through joint venture arrangements.

Railway Electrification

The Engineering Division constructs railway electrification systems, primarily in the Nordic countries, through the division's subsidiary, Electric Rails Ltd. In Finland, a 170-kilometer electrified railway was completed in January 1998. In Sweden, work has begun on the electrification of an express light rail system serving the Stockholm area.

Management believes that the railway electrification market is likely to expand with the introduction of more high-speed rail links in the Nordic countries and elsewhere in Europe. The electrification and refurbishment of railways in Russia, the Baltic states and Eastern Europe is also providing new opportunities for the Engineering Division.

Masts

The Engineering Division also builds and installs masts for telecommunications systems. Operations in this area, which are conducted through Transmast Ltd, a company in which the division has a majority holding and in which Sonera Oyj, Finland's largest telecommunications company, has a minority shareholding. These operations were recently expanded to Russia, Sweden, Latvia, Thailand and Estonia. In Thailand, the division was awarded in 1997 a significant contract from Nokia Telecommunications (Thailand) Ltd for construction of base stations for a mobile telephone network. Through a Norwegian subsidiary Linjebygg AS, the division has also expanded these operations to include the maintenance and service of similar structures on offshore oil rigs.

Nuclear Power Engineering

In the field of nuclear power, the Engineering Division specializes in technical support for VVER-type nuclear power plants, the reactors of which are based upon Russian design, as well as in nuclear power plant design and in nuclear waste management. A significant share of the division's operations in the area of nuclear power consists of support for the operation of the Energy Division's Loviisa nuclear power plant, as well as related research and development operations. Projects funded by the EU also constitute an important share of the nuclear power projects undertaken by the division. The division also offers customers design and consulting services as well as deliveries of wastewater purification systems for nuclear power plants and other facilities.

The Engineering Division is currently designing a uranium processing system in Kazakhstan and developing and testing a reactor cooling system at the Bohunice VVER-440 nuclear power plant in Slovakia. Together with a Czech subcontractor, the division is also investigating embrittlement characteristics of a VVER-440 reactor pressure vessel at the Bohunice plant. In Hungary, a subsidiary of the division has been acting as a subcontractor for the design of a processing system for radioactive nuclear waste. The division is also consulting on the construction of two nuclear power plants in the Ukraine.

In China, the Engineering Division is acting as a consultant for the Russian organizations involved in the design of the two VVER-type nuclear power plants to be installed in Lianyungang, China.

The Engineering Division's services to the nuclear power industry are provided under arrangements limiting the liability of the division.

Hydropower Engineering

The Engineering Division performs refurbishment and construction projects relating to hydropower plants, and also provides consulting services for small and medium-sized hydropower plants. Services provided by the Engineering Division include dam safety studies and flow model testing of power plants and watercourses. Principal markets are Finland, Sweden, the Baltic states and Russia. The division also conducts hydropower projects in a number of other countries where other Fortum divisions have business operations. Customers include other Fortum divisions, which purchase engineering and other services, local power companies and industrial companies and electricity boards that own hydroelectric power facilities.

Projects currently in progress or recently completed by the Engineering Division in the area of hydropower engineering include the refurbishment of Unit 1 of the Power and Heat Division's Pyhäkoski hydroelectric power plant, pursuant to a ten-year plan being undertaken by the Power and Heat Division for the refurbishment of all of its hydroelectric plants, and the refurbishment of the second generator at Ahlström's Kolsi hydroelectric plant. The Engineering Division has also recently performed a feasibility study in Sweden and consulting work in Latvia. In October 1997, the division completed work on a turnkey project for the provision and installation of an additional unit for Pamilo Oy's hydroelectric power plant, which had begun in 1995.

Because of the low level of construction of new hydroelectric power plants in the Nordic countries, management expects that hydropower engineering activities in this region will continue to be limited primarily to refurbishment of existing facilities and construction of new capacity for such facilities.

Competition

The Engineering Division faces increasing competition from other engineering contractors, particularly in the Nordic countries and other Northern European countries. Liberalized electricity markets and privatizations of power companies across Europe have led to numerous mergers, acquisitions and consolidations. Such activities have not only reduced the number of potential customers, but have caused certain power companies that were customers or clients of the division to switch to the engineering contractors utilized by the acquiring or merging entity.

Management expects increased competition will lead to greater collaboration between the Engineering Division and other engineering contractors, and lead to a greater number of smaller-scale projects that focus on the division's particular expertise in CHP generation.

Research and Development

Current research and development projects being undertaken by the Engineering Division include a small-scale power plant with reduced environmental impact. The division has converted the boiler of such a plant, which is in the 10-40 MW class, to burn biomass, waste sludge and peat, as well as various mixtures of these fuels. Technologies such as those demonstrated in this plant may also be utilized in medium-sized power plants that are refurbished. Management believes that there is considerable demand for refurbishment of medium-sized power plants in certain countries of Central Europe.

The Engineering Division has also extended design and modelling software for energy technologies to cover the combustion processes of power plant boilers and control of emissions, and introduced different applications for this software. Recently, the division developed a process analysis software package for sale to customers outside the nuclear power industry, as well as building analysis tools and simulators for training purposes.

Other recent research and development projects have included development of a model to deal with waste sludge produced by the forest industry, which improves the use of energy at paper mills and reduces adverse effects on the environment. This model was based on a bed mixing dryer, which was developed by Fortum. The division has also recently been actively involved in a development project associated with the use, maintenance and construction of electricity distribution networks.

ENERGY MEASUREMENT DIVISION

General

The following table sets forth certain financial and statistical data relating to the Energy Measurement Division for the three years ended December 31, 1997 and the nine months ended September 30, 1997 and 1998.

	Year ended December 31,			Nine months ended September 30,	
	1995	1996	1997	1997	1998
	<i>(FIM in millions, except personnel data)</i>				
Net sales	330	386	413	293	399
Operating profit	22	34	32	23	48
Identifiable assets	N/A	179	214	213	226
Investments	90	19	44	34	44
Average number of employees	511	544	603	601	730

The Energy Measurement Division develops, manufactures and markets equipment, systems and services for measuring energy and for load control. Principal customers include electricity companies and industrial companies. However, liberalization of electricity markets has expanded this market to include large building management companies, housing companies and municipalities.

In addition, Eurotrem AB, subsidiary of the Energy Measurement Division in Sweden, was established in March 1998 to provide electricity measurement services to power companies, electricity companies and other large customers, consisting of installation, maintenance and reading of electricity measurement devices. The Energy Measurement Division currently owns 55.8 percent of Eurotrem, with the remainder owned by Stockholm Energi and two other electricity companies.

Demand for more sophisticated metering systems, such as remote reading technology, has increased significantly in the Nordic countries, where individual households, as well as businesses, are now able to benefit from competition in the energy market. Liberalization has also brought increased interest on the part of electricity companies in electricity measurement, remote reading systems and technology that could increase the efficiency of electricity companies' operations.

Products offered by the Energy Measurement Division include energy meters, terminal units and metering and control systems. The division has increased its use of telecommunications networks to transmit metering and measurement data.

The Energy Measurement Division has operations in Finland, Sweden, Norway, Denmark, the Netherlands, Germany, Switzerland, Australia and New Zealand.

Competition

Management expects that competition in the energy measurement industry will increase in the near future. Deregulated electricity markets have significantly increased demand for electricity metering technology, attracting new entrants and competitors. In addition, energy measurement companies are competing in a global market as demand for advanced electricity meters and measuring systems has grown worldwide.

Management believes the Energy Measurement Division is well-positioned to compete and lead in both local and international markets, taking advantage of its advanced technology and quality services.

Research and Development

Current products under development by the Energy Measurement Division include a new Avalon energy measuring and control system, which utilizes telephone and electricity networks and other means to transmit various types of measurement data.

The Energy Measurement Division is also concentrating on the development of modular meter groups for the European and Australian markets.

CHEMICALS DIVISION

General

The table below sets forth certain financial and statistical data relating to the Chemicals Division for the three years ended December 31, 1997 and the nine months ended September 30, 1997 and 1998.

	Year ended December 31,			Nine months ended September 30,	
	1995	1996	1997	1997	1998
	<i>(FIM in millions, except personnel data)</i>				
Net sales					
Continuing operations	4,703	4,198	4,557	3,373	3,471
Acquired operations	—	—	214	—	760
Discontinued operations	686	582	425	361	—
Eliminations	(92)	(77)	(67)	(62)	(1)
Total	<u>5,297</u>	<u>4,703</u>	<u>5,129</u>	<u>3,672</u>	<u>4,230</u>
Operating profit					
Continuing operations	607	296	148	167	89
Acquired operations	—	—	5	—	37
Discontinued operations	(26)	35	20	21	—
Total	<u>581</u>	<u>331</u>	<u>173</u>	<u>188</u>	<u>126</u>
Identifiable assets					
Continuing operations	N/A	1,923	1,908	N/A	1,869
Acquired operations	N/A	—	605	N/A	607
Discontinued operations	N/A	214	178	N/A	—
Total	N/A	<u>2,137</u>	<u>2,691</u>	N/A	<u>2,476</u>
Investments					
Continuing operations	186	328	253	164	100
Acquired operations	—	—	494	—	37
Discontinued operations	18	12	9	8	—
Total	<u>204</u>	<u>340</u>	<u>756</u>	<u>172</u>	<u>137</u>
Average number of employees					
Continuing operations	1,954	2,002	1,986	2,042	2,032
Acquired operations	—	—	168	—	689
Discontinued operations	733	424	225	246	—
Total	<u>2,687</u>	<u>2,426</u>	<u>2,379</u>	<u>2,288</u>	<u>2,721</u>

The Chemicals Division develops, produces and markets chemicals and polymers, principally adhesive resins and industrial coatings. The division's principal products are adhesive resins, oxo products, unsaturated polyester resins and gelcoats, and paper chemicals, which are manufactured in 41 production facilities located in 17 countries in Europe, North America and Asia.

The Chemicals Division began commercial production of petrochemicals in the early 1970s. Thereafter, operations were expanded through investments and acquisitions of shareholdings in companies producing plastics-related chemicals, adhesive resins, oxo products, unsaturated polyester resins and gelcoats and other chemical products. In 1996 and 1997, as part of its strategy of narrowing its focus to its core businesses of industrial coatings and adhesive resins, the division disposed of its vinyls, composite materials and polystyrene businesses. In August 1998, the division also disposed of its 50 percent interest in Borealis, which the division had formed with Statoil in 1994, completing the division's withdrawal from plastics production.

The Chemicals Division sells its products principally through an international network of sales centers, as well as directly from production facilities and through outside distributors. Principal customers include the wood panel and construction industries, automotive and marine craft manufacturers and coatings and paper manufacturers.

The Chemicals Division seeks to focus on its current strong market position in the adhesive resins, oxo products and unsaturated polyesters and gelcoats businesses, expand sales of paper chemicals, improve

operational efficiency in Europe and North America while maintaining market share, and pursue greater growth in Asia and Latin America.

Sales by Geographic Area

The following table sets forth the Chemicals Division's net sales by geographic area for the three years ended December 31, 1997.

	Year ended December 31,		
	1995	1996	1997
	<i>(percent)</i>		
Finland	12	7	5
Other Nordic countries	13	9	9
Rest of Europe	35	33	35
U.S. and Canada	26	30	32
Asia	12	13	10
Other countries	2	8	9
Total net sales	<u>100</u>	<u>100</u>	<u>100</u>

Business Areas of the Chemicals Division

The following table sets forth the net sales of each of the Chemicals Division's business areas for the three years ended December 31, 1997.

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM millions; unaudited)</i>		
Adhesive resins	1,883	1,836	2,247
Oxo products	1,260	1,003	1,013
Unsaturated polyesters and gelcoats	436	443	500
Chemicals trading	906	761	699
Other(1)	812	660	669
Total net sales	<u>5,297</u>	<u>4,703</u>	<u>5,129</u>

(1) Includes discontinued operations.

Adhesive Resins

The Chemicals Division manufactures and markets formaldehyde-based adhesive resins, for use primarily in the wood panel industry, and industrial resins, for use in mineral wool, glass fiber tissue and other industrial applications. Upon the acquisition of approximately 90 percent of the shares of Krems in 1997, the division became the largest producer of formaldehyde-based adhesive resins in the world. Acquisition of the synthetic resins business of Meerbeck in 1997 further expanded the adhesive resins business of the division.

The Chemicals Division has adhesive resins production in over 20 facilities. In 1997, approximately 66 percent of the division's adhesive resins sales were made to customers in North America, 33 percent in Europe and less than one percent in Asia. The principal customers of the division's resin products are European and North American companies that specialize in the manufacture of wood-based products.

Oxo Products

The Chemicals Division manufactures and markets oxo products, principally 2-ethyl hexanol and butanols, plasticizers, phthalic anhydride and 2-ethylhexanoic acid, for use by the vinyls, paints and coatings industries. The division is currently among the five largest producers of oxo products in Europe, its primary market. The principal production facility owned and operated by the division, which management believes is one of Europe's most efficient oxo production facilities, is located in Stenungsund, Sweden.

To increase the Chemicals Division's range of oxo products, the division recently expanded its production facility located in Ghent, Belgium. Management intends to focus the oxo products business increasingly on coatings applications, in part to decrease the division's dependence on vinyls-related markets and in part to further enter the relatively high value-added market for coatings additives.

Unsaturated Polyesters and Gelcoats

The Chemicals Division manufactures and markets unsaturated polyester base resins for use in structural reinforced plastics, such as marine craft, vehicle components, wooden boards and beams, and storage tanks, and gelcoats for use in coating applications for marine craft, vehicle components and construction materials. The division's customers are located primarily in the United States and Europe. The division is currently the second-largest gelcoat producer in the world. The division has ten polyesters and gelcoats production facilities in Europe and the United States, as well as one facility in China.

Paper Chemicals

Based on its proprietary technology, the Chemicals Division produces, and markets, tall-oil-based and synthetic specialty paper chemicals for use by the paper industry to improve the strength and printability of paper products. Production plants are located in Austria, Poland, Turkey and Russia.

Trading

The Chemicals Division engages in the trading of polymers, intermediates and basic chemicals from offices located in Holland, the United Arab Emirates, China, Singapore, Kenya and the United States.

Raw Materials

The main raw materials used in adhesive resins production are methanol, phenol, urea and melamine obtained from international markets.

Principal raw materials used in production of oxo products are synthesis gas and propylene. Propylene is primarily purchased from a propylene cracker located in Stenungsund, Sweden, near the Chemicals Division's oxo production facility, pursuant to a long-term supply contract.

Principal raw materials used in the production of unsaturated polyesters and gelcoats production are styrene, phthalic anhydride, MPG, NPG and various pigments, also obtained from international markets.

Competition

The Chemicals Division faces strong international competition in all of its product areas. Most major competitors are based in the United States and Europe, with some having operations in Asia.

The Chemicals Division's principal competitors in the area of adhesive resins are Dyno, Borden, Elf-Atochem, Georgia Pacific and BASF. The division's principal competitors in the area of oxo products are BASF, Hoechst, Huls, ATO/BP and Eastman Chemicals, while its principal competitors in the area of polyesters are DSM/BASF, Total, Reichhold, Interplastic and Ashland.

Research and Development

The Chemicals Division is focusing on broadening its range of coatings and adhesives and reducing the environmental impact of its products at each stage of the product's life cycle. Research and development efforts for the adhesive resins business area involve the standardization of production technologies at division production facilities and various market-driven projects. Research related to oxo products is focused on the development of specialty intermediate chemicals for the coatings industry and development of proprietary oxo technologies.

Environmental Activities

As part of the Chemicals Division's ongoing effort to control the environmental impact of its operations and products, the division has set targets for further improving its safety record and for reducing emissions of volatile organic compounds. Recently investments in vapor recovery units have been made, principally in resins plants in the United States, to comply with the U.S. Clean Air Act of 1990 and to achieve internal targets.

OTHER OPERATIONS

General

Other operations include general corporate functions of Fortum, IVO and Neste, corporate-level research and development activities of the Fortum Group, including technology units, and Neste Engineering, the engineering unit of Neste. Other operations also include certain major associated companies, which are not included in the results of the eight principal divisions. The most significant of such associated companies are Asko, Borealis (until the end of 1997) and Fingrid (included from the beginning of September 1997). The general corporate functions included as part of other operations include finance, corporate planning, communications, legal affairs, human resources, information technology and environmental affairs and health and safety operations.

The following table sets forth certain financial and statistical data for Fortum's other operations for the three years ended December 31, 1997 and the nine months ended September 30, 1997 and 1998.

	Year ended December 31,			Nine months ended September 30,	
	1995	1996	1997	1997	1998
	<i>(FIM in millions, except personnel data)</i>				
Net sales	822	943	887	608	680
Operating profit					
Other operations	(399)	(214)	(160)	(218)	(376)
Associated companies	379	(80)	349	179	120
Total	<u>(20)</u>	<u>(294)</u>	<u>189</u>	<u>(39)</u>	<u>(256)</u>
Identifiable assets					
Other operations	N/A	1,520	1,308	N/A	1,846
Associated companies	N/A	5,540	4,979	N/A	940
Total	N/A	<u>7,060</u>	<u>6,287</u>	N/A	<u>2,786</u>
Investments	87	144	321	228	101
Average number of employees	<u>1,934</u>	<u>2,018</u>	<u>2,158</u>	<u>2,157</u>	<u>2,213</u>

Research and Development

Fortum's corporate-level research and development operations aim to facilitate long-term research projects, develop technologies and systems that support Fortum's operations and manage and support research and development efforts throughout Fortum. In addition, Fortum monitors and develops new business opportunities and related technologies, and supports and develops intra-industry projects.

For 1998, Fortum budgeted approximately FIM 500 million for research and development efforts. Of this amount, somewhat over FIM 100 million represents corporate-level research and development. The bulk of Fortum's research and development is carried out on the divisional and operational unit levels. See "— Description of Operations by Division."

Corporate Technology Unit

Neste Group's Corporate Technology Unit develops and coordinates long-term research activities in the Neste Group. The unit also provides support and services relating to research and development related to Neste's divisional research and development organizations and monitors technological developments in the oil, gas and chemicals business areas. As part of the integration of IVO and Neste, the Corporate Technology Unit is to become a part of Fortum's centralized corporate-level research and development functions. See "Fortum Group — Business Strategy."

Neste Engineering

Neste Engineering is Neste's in-house engineering unit. As part of the integration of IVO and Neste, Neste Engineering is to become part of the Engineering Division. See "Fortum Group—Business Strategy."

Neste Engineering develops and applies technologies developed in cooperation with production plants and research units. In 1997, approximately one-third of the operations of Neste Engineering related to the Oil and Gas Division, where Neste Engineering has performed a significant amount of work with respect to the Porvoo and Naantali refineries and petroleum product logistics. Neste Engineering also assisted Gasum with the

construction of a new natural gas parallel pipeline in Finland, and assisted Borealis with development projects at Porvoo. These projects together accounted for approximately 40 percent of Neste Engineering's operations in 1997.

Associated Companies

Fingrid. Fingrid is an entity established by the Finnish Ministry of Trade and Industry, IVO and PVO to own and operate the Finnish high-voltage grid and connections to neighboring countries. Fortum owns 25.1 percent of the shares and has 33.4 percent of the voting rights in Fingrid. Fingrid began grid operations in September 1997. Other shareholders are PVO, with 25.1 percent of the shares and 33.4 percent of the voting rights; the Finnish State, with 12.3 percent of the shares and 16.4 percent of the voting rights; and certain Finnish institutional investors, with 37.5 percent of the shares and 16.8 percent of the voting rights. In 1997, Fingrid had net sales of FIM 448 million, and as of December 31, 1997 its total assets amounted to FIM 7,204 million. See “—Grid Services” below.

Fortum, PVO and the Finnish State have entered into a shareholders' agreement relating to Fingrid. The shareholders' agreement requires that no shareholders transfer their shares in Fingrid unless the other shareholders are first offered the right to purchase such shares on the same terms.

Asko. Asko is the parent company of a Finnish industrial group that manufactures plastic pipe systems, household appliances, floor coverings and furniture. Fortum owns 24.8 percent of the shares and voting rights in Asko. Asko's net sales were FIM 7,315 million in 1997, FIM 7,429 million in 1996 and FIM 7,066 million in 1995, and its operating profit was FIM 656 million in 1997, FIM 606 million in 1996 and FIM 575 million in 1995. Asko's total assets were FIM 6,801 million at year-end 1997.

Borealis. Borealis is a Danish producer of petrochemicals and polyolefins, established in 1994 by Neste and the Norwegian petroleum company Statoil. Borealis had net sales of DKK 18,281 million (FIM 14,373 million) in 1997, DKK 15,603 million (FIM 12,356 million) in 1996, and DKK 17,600 million (FIM 13,746 million) in 1995, and its operating profit was DKK 1,785 million (FIM 1,403 million) in 1997, DKK 790 million (FIM 626 million) in 1996, and DKK 2,900 million (FIM 2,265 million) in 1995. Borealis' total assets were DKK 16,212 million (FIM 12,885 million) at year-end 1997.

Grid Services

Until September 1997, IVO owned and operated an extensive power transmission grid in Finland, which included connections from Finland to Sweden, Norway and Russia. IVO controlled approximately 90 percent of the Finnish national grid.

In September 1997, IVO and PVO sold their respective grid assets to Fingrid, an entity which had been established in 1996 by the Finnish State, IVO and PVO to hold and operate such assets. The total consideration paid to the Power and Heat Division for its grid operations was FIM 5,448 million, representing FIM 3,485 million in profit before taxes.

The following table sets forth certain financial and statistical data relating to the Power and Heat Division's grid operations for the three years ended December 31, 1997.

	Year ended December 31,		
	1995	1996	1997
	(FIM in millions, except personnel data)		
Net sales	1,001	1,101	671(1)
Operating profit	590	610	347
Identifiable assets	N/A	2,068	34
Investments	84	122	144
Average number of employees	239	238	153

(1) The grid operations were sold to Fingrid in September 1997. Fortum owns 25 percent of the share capital of Fingrid.

PERSONNEL

The average number of employees by division for the three years ended December 31, 1997 and for the nine months ended September 30, 1998 were as follows:

	Year ended December 31,			Nine Months ended September 30, 1998	Percent of Group Nine Months ended September 30, 1998
	1995	1996	1997		
<i>Personnel by Business Sector</i>					
Exploration and Production	82	79	81	280	1.5
Oil	4,400	4,456	4,337	4,126	21.7
Gas	467	438	430	430	2.3
Power and Heat	925	1,775	2,967	2,846	15.0
Operation and Maintenance	1,771	2,097	2,465	3,134	16.5
Engineering	1,474	2,012	2,199	2,501	13.2
Energy Measurement	511	544	603	730	3.8
Chemicals	2,687	2,426	2,379	2,721	14.3
Other Operations	1,934	2,018	2,158	2,213	11.7
Grid Services	239	238	153	—	—
Total	14,490	16,083	17,772	18,981	100.0

As of December 31, 1997, 61.7 percent of Fortum's employees were located in Finland, 11.6 percent in Sweden, 18.7 percent in other European countries, 6.4 percent in North America and 1.6 percent in other countries.

A significant portion of Fortum's non-management employees are members of labor unions in their home countries. Local customs and legislation are observed in labor matters and in negotiating collective bargaining agreements. Management believes that Fortum's relationship with employees and their representatives is good. There have been no strikes or similar disputes in recent years that have materially impacted Fortum's operations.

LITIGATION

Fortum has extensive worldwide operations and is both a defendant and a plaintiff in a number of legal proceedings incidental to such operations. Following is a brief description of those arbitration and legal proceedings known to Fortum and which management believes may be material.

The Finnish Competition Council and the Supreme Administrative Court have in decisions issued during the years 1994 through 1996 ruled that Neste is entitled to differentiate in its pricing among customers with respect to various factors, including bulk discounts, customers' import parity and associated costs. However, according to a ruling of the Finnish Competition Council in 1994 and a decision of the Supreme Administrative Court in 1995, Neste has abused its dominant market position in connection with its ex-refinery pricing in relation to Suomalainen Energiaosuuskunta, a Finnish chain of retail outlets. On July 1, 1998, Neste filed an application for reversal of these rulings with the Supreme Administrative Court.

In response to a request from the Finnish Electricity Association, on September 1, 1998 the Finnish Competition Authority began an investigation of IVO's practices with respect to long-term electricity supply agreements. The Finnish Ministry of Trade and Industry has appointed two administrators, with the appointments expiring at the end of 1998, to review whether the wholesale electricity contracts include terms that may restrict competition in the Finnish retail electricity market and to make the necessary proposals based upon their review. It is not possible at this time to predict how long these investigations will continue, or their results. See "Investment Considerations — Electricity Markets."

Management does not expect the outcome of any of these legal proceedings, individually or in the aggregate, to have a material adverse effect on the results of operation or financial condition of Fortum.

PATENTS

Fortum owns numerous patents worldwide. Fortum also relies on a combination of international trade secret and other intellectual property laws and protective measures to establish and protect its proprietary rights in certain of its products, systems and services. Management believes that Fortum has taken appropriate steps to protect its brand names in the United States and in other countries where such protection is a concern. Fortum is not dependent on one patent or group of patents or any technology licensed by third parties.

INSURANCE

Management is of the opinion that the Company and its subsidiaries have adopted risk strategies that reflect the requirements of each business division and the size of each subsidiary concerned. Reasonable insurance cover is maintained where addressing risks by insurance has been considered feasible. Certain business interruption and machinery failure risks of Fortum's subsidiaries are not insured.

The property and facilities of the IVO Group are insured at either estimated full replacement values or on a "first-risk" basis. For nuclear risks, the third-party liability of the IVO Group is limited by law and covered by a statutory insurance policy. See "Environmental Regulation — International Conventions — Nuclear Power" and "Environmental Regulation — Finland — Nuclear Power." IVO has group-wide coverage of up to FIM 200 million for general and product liability claims, including claims arising from sudden and accidental pollution. IVO also has insurance for its engineering and construction operations of up to FIM 300 million, as well as professional liability insurance for its consultancy service, which provides coverage for claims up to FIM 15 million. Most IVO subsidiaries are insured under these group-wide insurance policies. In Sweden, where dam owners are strictly liable for accidents relating to dams, Birka Energi's largest dams are covered by liability insurance of up to SEK 5 billion.

The Neste Group's assets are insured at their estimated replacement value. Insurance for onshore installations, cargo and certain owned shipping vessels are covered through Neste Insurance Ltd., a Group subsidiary which reinsures most of the risk in the international insurance markets. Neste generally has unlimited liability for claims arising from its onshore and offshore operations. Neste has onshore general and product liability coverage of up to U.S.\$400 million, including liability for claims arising from sudden and accidental pollution. In addition, Neste has taken separate liability insurance policies for offshore operations (general and product liability coverage limited to U.S.\$100 million) and aviation refueling operations (general and product liability coverage limited to U.S.\$500 million). For its shipping fleet, Neste has protection and indemnity insurance for its owned vessels of up to U.S.\$700 million for pollution liability, and otherwise unlimited coverage, and up to U.S.\$100 million coverage for both time-chartered and voyage-chartered vessels.

PROPERTIES

The Company's principal executive office is located at Snellmaninkatu 13, Helsinki, Finland and is leased by the Company. The principal executive office of the IVO Group is located at Malminkatu 16, Helsinki, Finland, and is owned by IVO. The principal executive office of the Neste Group is located at Keilaniemi, Espoo, Finland, and is partly-owned and partly-leased from the Neste Pension Foundation by Neste. Fortum's principal production facilities are set forth below:

<u>Location of Facility</u>	<u>Owned or Leased</u>	<u>Size of Site</u> (sq. m.)	<u>Type of Facility</u>
<i>Oil Division</i>			
Porvoo, Finland	Owned	11,000,000	Oil refinery and chemical plant
Naantali, Finland	Owned	3,178,100	Oil refinery
<i>Power and Heat Division</i>			
Loviisa, Finland	Owned	335,627	Nuclear power plant
Meri-Pori, Finland	Owned	111,013	Coal-fired power plant
Naantali, Finland	Owned	285,126	Coal-fired power plant
Inkoo, Finland	Owned	531,330	Coal-fired power plant
Imatra, Finland	Owned	523,116	Hydroelectric power plant
Tainionkoski, Finland	Owned	78,702	Hydroelectric power plant
<i>Chemicals Division</i>			
Stenungsund, Sweden	Owned	571,136	Chemical plant
Krems, Austria	Owned	298,332	Chemical plant
Moncure, the United States	Owned	226,227	Chemical plant

THE NORDIC ENERGY MARKETS

Introduction

The energy markets in the Nordic countries are generally among the most deregulated in the world. The markets in Finland and Sweden for oil and refined products are fully deregulated, although established domestic companies with refining operations in the Nordic countries continue to have logistical advantages over importers. The markets for electricity have been deregulated, and in Finland, Sweden and Norway consumers are able to choose their own suppliers. A competitive market for generation of electricity has existed for a number of years, although in Norway there are some restrictions on the ownership of energy generation companies. Historically, consumption of natural gas in the Nordic region has been relatively limited. Although there is some demand for natural gas from municipal and industrial consumers, the residential and commercial gas markets in the Nordic countries, other than in Denmark, are relatively small.

In recent years, environmental energy taxes have been implemented in the Nordic countries. As a result, those sources of energy with low environmental impact may gain market share and become more price-competitive. The availability of hydroelectric power, biomass fuel sources and natural gas in several of the Nordic countries makes them well-placed to take advantage of environmentally-driven opportunities. See "Environmental Regulation" for further information on the environmental regulatory regime in the Nordic countries.

Power and Heat

Hydroelectric, nuclear, coal, natural gas, biofuels, peat and, to some extent, wind power are used in power generation in the Nordic countries. Coal, natural gas and other fuel sources are also used in CHP generation. Hydroelectric, nuclear and CHP facilities typically provide base-load capacity, while natural gas and other thermal power plants are typically utilized to provide mid-load and peak-load capacity. Heat is produced in CHP and heating plants.

The process of deregulation of electricity markets began in Norway in the early 1990s, followed by Finland and Sweden and, more recently, Denmark. Directives recently approved by the European Union require staged deregulation of the electricity and natural gas markets in EU countries over a relatively long period. Nordic deregulation opened access to electricity transmission grids and distribution networks, enabling customers to choose from a selection of suppliers.

Grid, regional and distribution network businesses are natural monopolies and are subject to government regulation. Electricity companies are required to keep separate their network operations from other businesses and make their networks available to all electricity suppliers and customers on reasonable terms.

Statistics regarding electricity consumption and generation in the Nordic countries during 1997 are shown below.

	<u>Finland</u>	<u>Sweden</u>	<u>Norway</u>	<u>Denmark</u>
Population (millions)	5.1	8.9	4.4	5.3
Electricity consumption (excluding electric boilers) (TWh)				
Losses, pumped storage power	2.8	9.7	10.7	2.4
Housing	17.4	39.5	35.3	9.7
Industry (including energy sector)	40.8	53.3	43.9	9.8
Trade and services (including transportation)	11.1	34.2	19.9	9.3
Other (including agriculture)	1.4	3.4	1.6	3.3
Total	<u>73.5</u>	<u>140.1</u>	<u>111.4</u>	<u>34.5</u>
Maximum consumption (GW) (measured in January)	10.1	21.4	16.2	5.4
Electricity production (TWh)	65.9	144.9	112.0	41.7
Breakdown of electricity production				
Hydroelectric power (%)	18	47	99	—(1)
Nuclear power (%)	30	46	—(1)	—(1)
Other thermal power (fossil and biofuels) (%)	52	7	1	95
Other renewable power (wind) (%)	—(1)	—(1)	—(1)	5

Source: Nordel.

(1) Less than 0.5 percent.

Principal activities within the electricity industry are:

Generation:	Production of electricity and heat.
Sales/Supply:	Sale of electricity and heat, including retail sales.
Transmission:	Transmission of electricity across a grid.
Distribution:	Transfer of electricity from the grid through regional and local distribution networks to customers.

District heating, which often involves CHP generation, accounts for a large proportion of the demand for heat to warm residential and business buildings in Finland, Sweden and Denmark. Statistics regarding district heat supply in the Nordic countries in 1996/1997.

	<u>Finland</u>	<u>Sweden</u>	<u>Norway</u>	<u>Denmark</u>
District heat supply (TWh)	28.2	44.2	1.4	32.8
Share of CHP heat (%)	79	28	7	73

Source: Nordvärme.

Generation

Electricity production within Finland, Sweden and Norway has historically been dominated by hydroelectric generation, which continues to account for approximately half of total production, varying from year to year depending on precipitation levels. Nuclear power accounts for approximately one-quarter of total capacity and is a substantial source of base-load capacity. The remaining electricity is generated by means of coal, natural gas and domestic biofuels at CHP or conventional condensing power plants, and, to a lesser extent, by wind power. Hydroelectric, nuclear and industrial CHP power plants are typically scheduled to operate whenever they are available, including during periods of low demand, and these sources form the majority of base-load capacity, which is capacity required to operate 24 hours per day (regardless of peak consumption variations), 365 days per year. Other generating capacity, including coal-fired facilities, is more likely to operate during periods when demand is higher (from fall to spring), during major power plant overhauls, or when hydroelectric output is lower than normal. CHP generation of heat and electricity has a high efficiency ratio as heat and electricity can each be utilized; however, in the summer there is little demand for district heat. Pressure to reduce harmful emissions is likely to result in CHP, biofuel and natural gas generation taking market share from traditional forms of electricity generation and fuels.

There are relatively few major power generating companies in the Nordic countries. Until recently, generating companies tended not to be vertically integrated, as a result of the existence of a large number of small- and medium-sized regional electricity companies with relatively small market shares. More recently, some vertical integration of generation and supply in the Nordic countries has enabled power companies to better predict required production volumes and reduce exposure to spot markets and any loss of large supply contracts with electricity companies. Management believes that large power companies will increasingly focus on acquiring small- and medium-sized electricity companies with customer sales and distribution capabilities, subject to any regulatory constraints on market share. Some consolidation of retail sales and distribution businesses has occurred in Finland and Sweden, and management believes that the pace of consolidation is likely to increase as larger power and electricity companies are able to realize cost efficiency and economies of scale by acquiring smaller electricity companies.

Taxation

Until recently, significant taxes were imposed on power generation in the Nordic countries. Taxes were structured to influence fuel choice (for example, to reduce usage of fossil fuels) and hydroelectric and nuclear power generation. Integration of the Nordic power market has resulted in the transfer of the tax burden from generation to consumption in all the Nordic countries, with the exception of minor generation taxes on nuclear power in Sweden and on hydroelectric power in Norway, which do not have an effect on their competitiveness. However, there is a fuel tax on heat generation in each of these countries.

Demand for Electricity and Heat

Demand for electricity and heat in the Nordic countries is affected by a number of factors, including changes in economic activity, energy requirements of individual sectors of the economy and the extent to which these requirements are met by electricity (as opposed to other energy sources), improvements in efficiency of use of electricity and heat, consumer prices of electricity and heat relative to other forms of energy, and weather variations. Management believes that demand for electricity will gradually increase, as increasing affluence means consumers are likely to demand more electricity and as industrial activity increases. However, the Nordic

countries currently have excess capacity, partly as a result of large amounts of precipitation in 1998, and the region is currently a net exporter of electricity. Operation of several power generation units in Finland and Sweden (representing 2,500 MW of capacity) has been suspended because of the current excess capacity. Also, power plants or plant units representing a total of 1,250 MW in power plant capacity are expected to be closed down in Denmark in 2000.

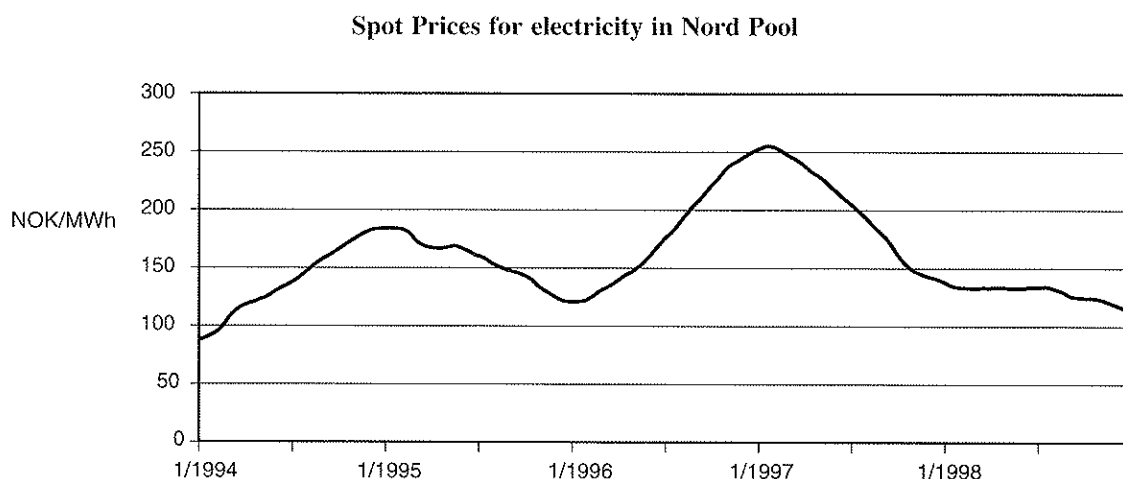
As demand rises and excess capacity is reduced, management believes spot prices will also rise, reflecting two factors. First, more expensive thermal capacity, which is currently not in use, will have to be brought into the system to satisfy additional demand. Second, as the reserve margin falls to around 15 percent with the growth in demand, new capacity will have to be commissioned and prices will have to rise to a level sufficient to justify this new investment. Even CHP-based generating capacity, which produces heat as well as electricity, generally requires a price of approximately FIM 155 per MWh of electricity output in order to justify the requisite investment.

New interconnectors from Norway to Germany and The Netherlands are expected to increase the potential for imports to enter the Nordic system. Surplus capacity in Germany will then be available to meet peak demand in the Nordic countries, thereby reducing the need for new capacity. The Nordic countries will also be able to export surplus electricity to Germany, where prices are currently much higher.

Electricity and Heat Pricing, Sales and Trading

Spot prices for electricity are quoted on the joint Norwegian-Swedish electricity exchange, Nord Pool, and on the Finnish electricity exchange, EL-EX. Cooperation between Nord Pool and EL-EX is being developed and, since the summer of 1998, EL-EX has represented Nord Pool in Finland. At the end of August 1998, there were 226 registered operators involved in trading, directly or indirectly, spot and future electricity contracts on Nord Pool and EL-EX. All electricity not sold under contracts is sold on these markets. Opportunities for trading between Finland and Sweden improved during 1997. In addition, border tariffs established in 1997 between Finland and Sweden are due to be removed in the near future, which will further improve electricity trading opportunities. Approximately 17 percent of electricity utilized in Norway and Sweden in 1997 was sold through Nord Pool.

The following chart presents average spot prices for electricity, as a 52 week rolling average, on Nord Pool since 1994.



Source: Nord Pool.

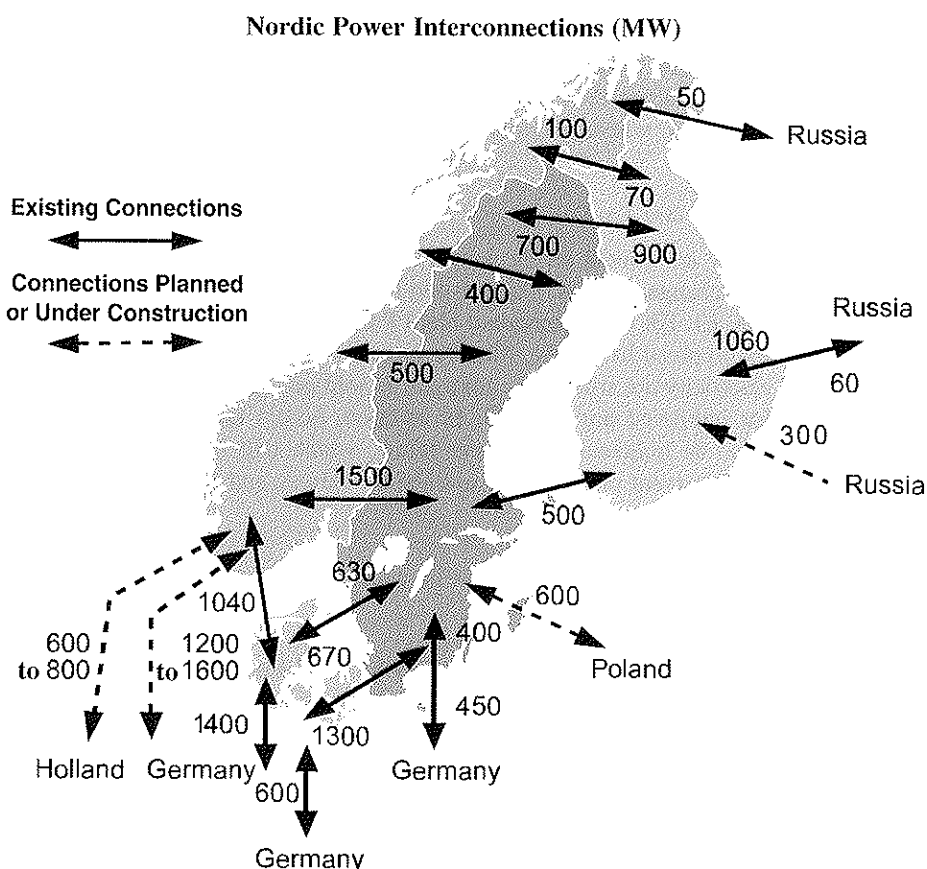
A considerable amount of Nordic cross-border electricity flow relates to contract-based transactions between power generators and large customers. Contract prices depend on the load profile of the customer and on the contract term and tend to reflect more the true economics of power generation. Until recently, large contracts were signed for periods of five to ten years, but as a result of deregulation most new contracts are currently for one to five years.

Heat is only sold under long-term contracts to local distributors and industrial customers. There is no spot market for heat.

Transmission and Distribution

Electricity and heat distribution in Finland, Sweden, Norway and Denmark remains highly fragmented, with over 750 companies serving a population of 23.7 million through small, primarily municipally-owned, electricity companies. Electricity generated at power plants is delivered to consumers through interconnected transmission and distribution networks. Originally designed on a nationwide basis, these networks are now interconnected throughout Europe, facilitating cross-border competition and a significant cross-border flow of electricity. Under some circumstances, such as during floods, Nordic interconnectors may operate at full capacity and bottlenecks in transmission may arise.

The following diagram shows existing and planned power interconnections among and from the Nordic countries.



Source: Nordel/IVO.

Electricity to large industrial customers and electricity companies is transmitted through the grid, a high-voltage electricity transmission network comprising 400 kV, 220-300 kV and 110-150 kV lines and substations. The grid is used for electricity transmission from power plants to large customers and is connected through regional networks to local distribution networks.

A system of regulated third party access exists in Finland, Sweden and Norway in which suppliers can contact customers directly and have access rights to the network on the basis of published distribution and transmission point tariffs. Only Denmark has opted for negotiated third party access, where suppliers and customers also contract directly but access charges must be negotiated with the network owner. None of the Nordic countries has opted for a "single buyer" system.

Role of Grid and Distribution Companies

In each of Finland, Sweden and Norway, a national grid company operates the entire or nearly the entire country's electricity transmission network. Denmark has two national grid operators. The grids in these Nordic countries are operated in a similar manner and are subject to comparable regulations.

A grid contract grants a power company the right to utilize the entire national grid. Grid companies operate, maintain and develop their grids and connections to other grids according to transmission requirements, and ensure grid operations and quality of transmission. Each power company that is connected to the grid is legally required to maintain a balance between electricity production and consumption, either through own generation or by purchasing power from other sources.

Distribution companies operate on the local level and transmit electricity from the national grid to end users through regional and local distribution networks. Typically, a distributor can operate only in areas for which it has a license.

Finland

Deregulation

In Finland, deregulation of the electricity market has occurred in several steps. Initially, reforms required network (transmission and distribution) operators to provide third parties with access to their networks and introduced a point-pricing system for transmission. Subsequently, the ownership of the transmission grid and foreign connections were unified under Fingrid, with transmission being made independent of generation. The supply of electricity was also liberalized in stages, and in November 1995 customers with demand exceeding 500 kW (approximately 2,000 customers) obtained the right to choose their supplier. The supply sector of the Finnish electricity market is now fully deregulated and the Finnish Electricity Market Act, fully implemented in early 1997, has opened the market to any seller or buyer of electricity.

The practical problems of invoicing the electricity sold to retail customers have thus far limited the benefits of competition in the consumer sector in Finland. Customers wishing to change their supplier were, until recently, required to purchase a meter to measure hourly electricity consumption, which is relatively expensive for small customers. To address this problem, in September 1998, Finland implemented a system similar to Norway, where hourly metering is replaced by an estimate based on a customer group demand curve. In Sweden the problem has been addressed by limiting the price at which meters may be sold.

The price at which electricity is sold in Finland is monitored by the Finnish Electricity Market Authority. The Electricity Market Authority investigates possible misuse of dominant position in power sales and network pricing. Statistics distributed by the Electricity Market Authority in October 1998 indicate that the average consumer price of electricity in Finland, including value-added taxes and distribution fees, is FIM 0.592 per kWh (of which the transmission and distribution price is FIM 0.327) in blocks of apartments; FIM 0.523 per kWh (FIM 0.278) in detached houses without electric heating; FIM 0.395 per kWh (FIM 0.206) in detached houses with electric heating; and FIM 0.325 per kWh (FIM 0.131) for medium-sized enterprises with an annual demand of approximately 2000 MWh. Price levels for major consumers have decreased in the last year. Variations in prices between distributors are significant; for example, the average combined transmission and distribution price for medium-sized enterprises ranges from FIM 0.102 to FIM 0.196 per kWh.

Total consumption of electricity in Finland in 1997 amounted to 73.5 TWh, an increase of 5.0 percent, or 5.8 percent adjusted for temperature and calendar variations. Industry accounted for 54 percent of electricity consumption. Activity in 1997 increased mainly in the forestry industry, in which demand increased by 13 percent. Adjusted for temperature and calendar variations, electricity consumption in the small customer and service sectors rose in 1997 by approximately 2.5 percent, one percent more than in 1996.

Grid and Distribution Network

In 1997, Fingrid had 105 customers, consisting of ten generators, 20 industrial companies and 75 electricity companies. Fingrid took over the grid property of the IVO Group and the PVO Group, and now owns 97 percent of the Finnish grid and all major cross-border interconnections. Fingrid's stated objective is to buy most of the grid connections still owned by other companies.

Fingrid does not sell electricity, as electricity transmission and sales have been separated completely. Grid services and pricing are based on the point pricing system in accordance with the Finnish Electricity Market Act. As a result, customers connected to the grid have the right to use the entire Finnish grid as well as the distribution network, and a single contract gives access to all services offered by the grid.

A license is required from the Finnish Electricity Market Authority to conduct transmission activities, unless the relevant network supplies electricity to a defined property or group of properties or an exemption is

granted for a temporary or defined period for the operation of a network that does not affect the transmission of electricity. The Electricity Market Authority is required to grant an indefinite transmission license once the applicant demonstrates that it is technically, financially and organizationally capable of operating its electricity network. Each operator is assigned a geographic area of responsibility, which together covers all of Finland and, other than in the Åland Islands, do not overlap. All operators, other than distribution network operators that seek to construct a domestic electricity network with a voltage of at least 110 kV, are also required to obtain authorization from the Electricity Market Authority. Operators that seek to construct cross-border connections must obtain authorization from the Ministry of Trade and Industry and are required to provide electricity transmission services within the capacity of their network for reasonable compensation. No single party may acquire an ownership interest in a distribution network exceeding 25 percent.

The Finnish Electricity Market Act also provides that, generally, only the relevant licensed distribution network operator may construct a distribution network in its assigned area of responsibility. Provided these networks meet certain technical standards, these local networks are to be connected on reasonable terms of connection to the regional distribution network.

All network operators, pursuant to their development obligations in the Finnish Electricity Market Act, are required to maintain, operate, and develop both their networks and inter-network connections in accordance with market demands for electricity.

Since the amended Finnish Electricity Market Act came into effect in the beginning of September 1998, Fingrid has been responsible for maintaining the national balance between procurement and consumption of electricity. Currently, maintaining the balance has meant requiring each power company connected to the Finnish grid to maintain a certain level of reserve capacity. However, a new market-based approach, which allows power companies to purchase reserves from other power producers, will be introduced at the beginning of 1999.

Sweden

The domestic electricity market was deregulated in Sweden in 1996. While generation is fully deregulated and all customers are free to choose their electricity supplier, transmission is independently controlled. Competition has increased for large industrial customers, which are generally more sensitive to the price of electricity, and prices have declined in this segment. Competition for small customers has not been as active, since small customers have only recently been able to switch suppliers and only one-third of the total price of electricity is subject to competition (the balance being transmission and distribution, which is separately regulated and taxed). In addition, small customers require a meter to switch suppliers, which have a price of up to SEK 2,500 (FIM 1,700). Under a temporary concession, suppliers are obligated to continue supplying electricity to existing customers who have not indicated an intention to change suppliers; however, the price and other conditions relating to supply of electricity under the temporary concession are subject to examination by the National Energy Authority.

Norway

The Norwegian electricity market was deregulated at the start of 1991, with the liberalization of generation and the separation of the generation and transmission businesses, and Norwegian generators play a significant role in the fluctuation in prices in the Nordic electricity market because all of the generation capacity in Norway is hydroelectric, and, in particular, fluctuations in output of these generators contributes significantly to electricity price fluctuations in the Nordic countries.

Recently, a group of companies has sought to obtain a license to operate a 700 MW gas-fired condensing power plant in Norway, which would consume surplus gas produced from oil production fields in the North Sea. Construction of the plant is likely to be economical at future electricity prices, since the fuel cost would be relatively low. However, the Norwegian government has to date refused to grant the license on environmental grounds. Also, industrial companies are planning to construct gas-fired power plants and Norsk Hydro has notified the authorities that it intends to build a 1,300 MW hydrogen gas power plant. However, all of these projects are still in the planning stage.

Currently, district heating is not widely used in Norway, though more district heating systems are being developed.

Denmark

Denmark began the process of deregulation of the electricity market at the start of 1998, with the implementation of the Danish Electricity Supply Act, which liberalized supply of electricity in amounts of 100

GWh and above, including to both industrial customers and electricity companies. As a result, current transmission and sale activities are in the process of being divided. Further legislation is expected before year-end.

EU Competition Law

In addition to national competition law, Finnish and Swedish power companies are subject to EU legislation governing competition and prohibiting anti-competitive agreements and abuse of market dominance insofar as either may affect trade among member states. The European Commission has extensive powers to stop violations of these rules and to impose fines, backed by broad powers of investigation.

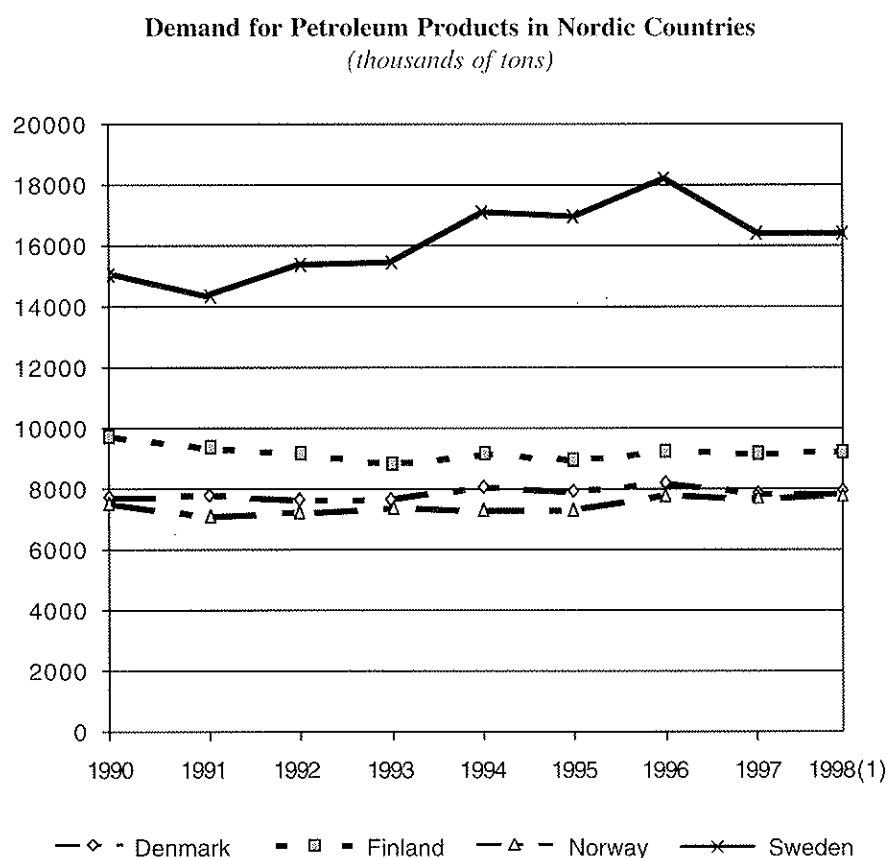
The accession of additional countries to the EU, such as Poland and Estonia, would require these countries to deregulate their electricity sectors, which could lead to increased competition in these countries and in Northern Europe.

Oil

The combined oil consumption in Nordic countries in 1997 amounted to approximately 40 million tons (800,000 bpd), equal to approximately seven percent of total oil consumption within the EU in 1997.

Demand for refined oil products in Western Europe has generally grown slowly since the dramatic decrease in demand in the early 1980s. Overall demand for traffic fuels is expected to level, since the overall increase in traffic volumes may be matched by lower fuel consumption of vehicles. The demand for traffic fuels is still increasing in Southern Europe and in the developing countries of Eastern Europe. Demand in the markets in the Baltic Rim area is expected to grow together with economic development.

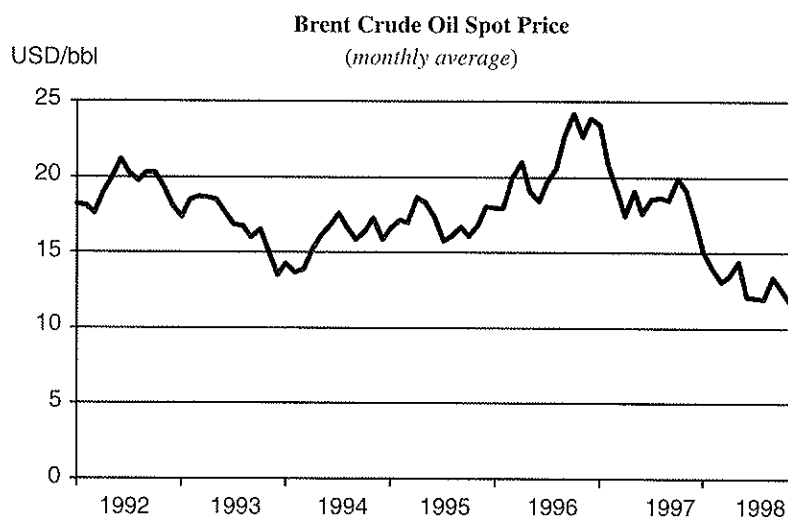
Total demand for petroleum products in the Nordic countries has developed as shown in the following table.



Source: Petro Finance from SPI, IEA and CPDP/Enerfinance.

(1) Estimated.

The chart below shows the monthly average Brent crude oil price since 1992.



Source: Platt's.

Management believes that consumption in the Nordic countries will remain stable for the foreseeable future, with a slight increase in traffic fuels balanced by a decrease in the consumption of fuel oils, particularly heavy fuel oil. Management expects that demand for products with reduced environmental impact will further increase in the Nordic countries and export markets. Due to the cold winter weather conditions of the Nordic countries, special winter diesel oil is used as a traffic fuel and special light winter fuel oil is used for heating purposes. Management believes that, due to their location, Nordic refineries have a competitive advantage over many other European refineries in supplying these products to the Nordic markets.

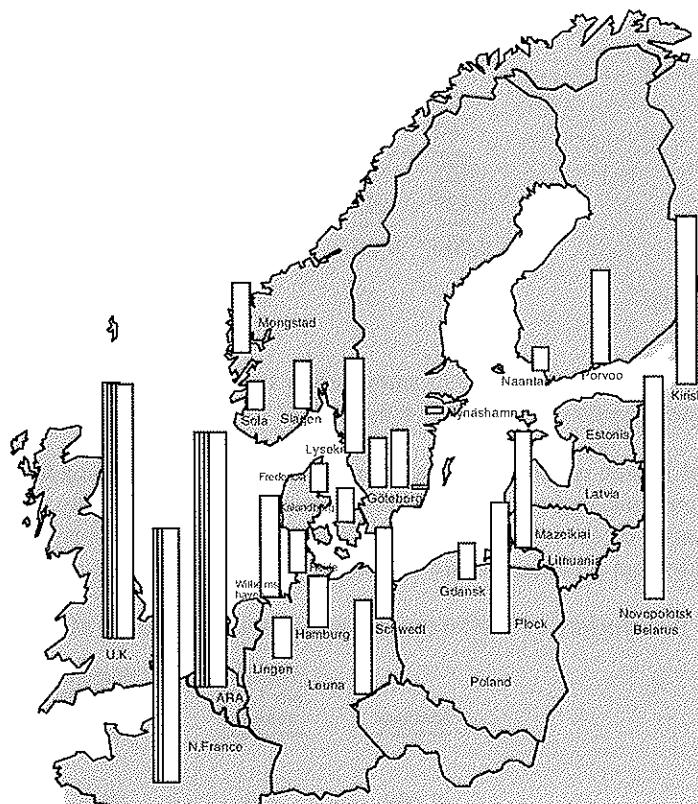
There are 13 oil refineries in the Nordic countries, with a total crude distillation capacity of approximately 60 million tons annually. Of these 13 refineries, three are small specialty oil product refineries. In recent years, no new refineries have been built in the Nordic countries. Refining capacity has been increased only by upgrading and modernizing existing refineries. It has also been possible to increase production volumes by using components as additional feedstocks. One refinery in the region has been closed recently, resulting in the elimination of three million tons of annual production capacity in 1997.

Shown below are the capacities of oil refineries in the Nordic countries as of December 31, 1997.

Refinery Capacity in the Nordic Countries	
Country	Annual Capacity (millions of tons)
Finland	12.8
Sweden	21.4
Norway	15.4
Denmark	6.6

The map set forth below shows the relative capacities and locations of refineries in Northwestern Europe as of December 31, 1997.

Relative Refinery Capacities in Northwestern Europe



Source: Oil and Gas Journal/Neste.

According to a report prepared in 1997 for the European Community, there is surplus refining capacity within the EU, amounting to approximately 70-100 million tons annually. The refining margin in Northwestern Europe has been narrow for some years. However, refineries with complex configurations can achieve higher refining margins by producing high-quality products.

Increased environmental pressures have led to more stringent requirements with respect to the environmental impact of petroleum products. The EU has set new requirements for traffic fuels to be effective in 2000 and 2005. The most competitive Nordic oil refineries are already able to produce the products meeting the requirements to be effective in the EU from 2000. Even stricter product quality specifications will be in effect from 2005, requiring additional investments. The 2005 product standards will require lower sulphur contents in diesel fuel and lower sulphur and aromatics contents in gasoline.

There are no restrictions on imports of oil or petroleum products into the Nordic countries. There is typically sufficient oil terminal and depot capacity in each of the Nordic countries to enable import of large volumes by ship. As a result, markets for oil and petroleum products are very competitive, especially with respect to bulk-quality petroleum products. Nevertheless, due to demand for high-quality products, supported by tax incentives for products with reduced environmental impact, and due to the logistical position of the Nordic refineries, there are cost advantages for local refineries over bulk product importers.

Oil companies competing in the Nordic countries consist of major international oil companies, local state-owned or state majority-controlled oil companies and private oil companies. International oil pricing has a significant impact on the Nordic markets, as local product suppliers compete against imports. Therefore the pricing of oil products in the Nordic countries generally reflects the import parity price of each oil product. The import parity price is based on the price quotations available on bulk products in the ARA (Amsterdam-Rotterdam-Antwerpen) as adjusted by the cost of logistics from ARA to the relevant country, and adjusted by quality differentials between the actual qualities and bulk qualities.

Exports and imports of petroleum products among the Nordic countries for 1997 are shown below.

Exports/Imports of Petroleum Products in the Nordic Countries

Importer	Exporter				Import from Nordic Countries	Total Imports	Nordic Share of Total Imports
	Norway	Sweden	Finland	Denmark			
	<i>(thousands of tons)</i>						<i>(percent)</i>
Norway	—	1,416	8	307	1,731	3,615	47.9
Sweden	735	—	1,515	1,191	3,441	6,037	57.0
Finland	62	406	—	126	594	3,905	15.2
Denmark	576	2,150	37	—	2,763	5,144	53.7
	1,373	3,972	1,560	1,624	8,529	18,701	45.6
Total exports	9,200	9,207	3,641	4,155	26,203		

Source: International Energy Agency.

Exports from the Nordic countries in 1997 amounted to 12.6 million tons, and imports amounted to 10.2 million tons, resulting in net exports of 2.4 million tons in 1997 from the Nordic countries.

In addition to local Nordic refining companies, major international oil companies have established retail networks in the Nordic countries, and small independent companies operate locally. However, there have been several mergers and alliances recently, as a result of which the market is relatively concentrated. Typically, a high percentage of the petroleum products market is covered by only four or five companies.

Set forth below is the structure of retail networks in the Nordic countries as of January 1, 1997.

Country	Stations	Stations per 1,000 vehicles	Stations per 1000 square km	Average Annual Sales <i>(thousands of tons)</i>
Finland	2,190	1.0	6.5	1.41
Sweden	3,605	0.8	8.0	1.60
Norway	2,227	1.0	6.1	1.23
Denmark	2,609	1.1	60.7	1.26

A relatively large number of unmanned gasoline and diesel stations operate in the Nordic countries.

Natural Gas

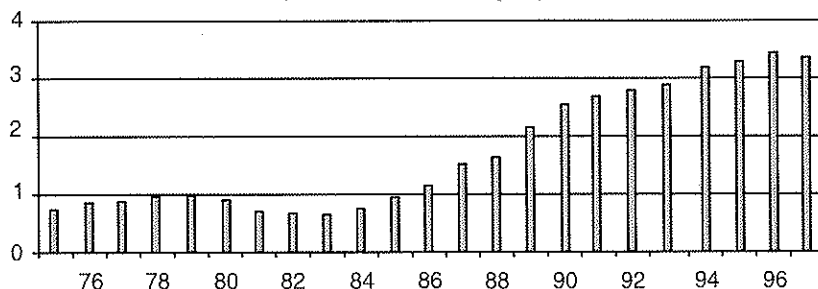
The pipeline network for natural gas in the Nordic countries is limited in geographic reach and capacity. In addition, demand for natural gas in the region has been constrained by the advanced development of alternative sources of energy and the extensive use of district heating in cities.

The Nordic countries have limited natural gas distribution at the retail level. In Finland, natural gas is available in the southern part of the country, and it is used mainly in CHP generation by municipal and industrial consumers. Consumption by residential consumers represents approximately five percent of the Finnish gas market. In Sweden, the natural gas network is located in the southwestern part of the country. In Denmark, the natural gas network covers the entire country and the natural gas distribution network for residential consumers is well-developed. Demand for natural gas in the Nordic countries is expected to grow, as gas-fired and CHP generation result in reduced environmental impact compared to traditional fossil fuel-based sources.

Finland

Natural gas is supplied to Finland by RAO Gazprom of Russia, under a long-term agreement with Gasum. The following table shows natural gas consumption in Finland.

Natural Gas Consumption in Finland
(billion cubic meters per year)



Source: Gasum/Neste.

In Finland, natural gas is mainly utilized by industrial and municipal CHP plants. Growth in consumption has been significant since the mid-1980s, having been primarily driven by the commissioning of gas-fired power plants. With the completion in 1997 of five new gas-fired power plants, natural gas consumption in Finland is expected to rise to 4 billion cubic meters annually in 1998. Investments in additional natural gas-fired capacity in the medium-term are principally determined by electricity prices, and low electricity prices may result in the postponement or cancellation of such investments.

Energy taxation is an important factor in determining the relative competitiveness of various fuels in the production of electricity. At present, there are no taxes applicable to fuels used in power generation, though peat and biofuels offer certain tax benefits. Environmental reasons may, however, cause energy taxation to favor natural gas due to its cleaner burning attributes. In heat production, taxes aimed at curbing CO₂ emissions improve the competitiveness of natural gas over coal. A prerequisite for a significant increase in the use of natural gas is a safe and competitive supply of natural gas. Accordingly, Finland would need to be connected to the European natural gas grid if a large proportion of additional energy production in the future is to be based on natural gas.

Sweden

In Sweden, natural gas is only generally available along the west coast of the country. It is estimated that expansion of the network to Stockholm would result in increased demand, as existing district heating systems were replaced with more efficient CHP facilities. However, the current preference under the Swedish energy policy is for biofuel generation.

Denmark

The natural gas market in Denmark is largely supplied from sources in the North Sea and continental Europe. Increases in demand are not expected due to excess coal capacity and relatively limited environmental restrictions. Further growth would only be expected if coal-fired capacity were replaced.

Norway

Norway exports significant amounts of natural gas sourced from the North Sea to Central Europe. The level of demand for natural gas in Norway is dependent upon the relative costs of transmitting natural gas and electricity. There is the potential for development of Norway's natural gas reserves through construction of gas-fired electricity generation capacity on the west coast of the country, where natural gas may be obtained relatively inexpensively from offshore oil and gas fields. The principal constraint on construction of such capacity is a concern about CO₂ emissions, and the Norwegian government currently prohibits construction of natural gas-fired electricity generation capacity for this reason. See "— Power and Heat — Norway" above.

ENVIRONMENTAL REGULATION

General

Fortum's operations are subject to a range of environmental laws and regulations adopted by governmental authorities in the jurisdictions in which Fortum operates. In particular, Fortum's interests in petroleum refining, power and heating plant operation and chemical production involve the manufacture, use, storage, transport and sale of materials that may be considered to be contaminants when released into the environment, and involve emissions to air and water and waste products that are subject to environmental limits and controls, as well as storage and transport operations that are subject to controls and regulations to prevent environmental hazards.

International Conventions

Nuclear Damage Liability

At the international level, the framework for liability for nuclear damage is primarily governed by two instruments: the Vienna Convention on Civil Liability for Nuclear Damage of 1963 ("the Vienna Convention") and the Paris Convention on Third Party Liability in the Field of Nuclear Energy of 1960 ("the Paris Convention" and together with the Vienna Convention, the "Conventions"), linked by the Joint Protocol adopted in 1988 (the latter ensures that Parties to the Joint Protocol are treated as though they are Parties to both Conventions and provides a choice of law rule to determine which of the two Conventions should apply in respect of the same incident; both Finland and Sweden are Signatory or Party to the Joint Protocol). The Paris Convention was later reinforced by the 1963 Brussels Supplementary Convention. The Paris Convention operates under the aegis of the OECD Nuclear Energy Agency. The Vienna Convention operates under the aegis of the International Atomic Energy Agency.

The Conventions are based on civil law and share several key principles. Liability is channeled exclusively to the operators of the nuclear installations. The operator is held liable irrespective of fault, though liability is limited in amount and compensation rights are extinguished under both Conventions if an action is not brought within ten years from the date of the incident (national implementing provisions may contain longer or shorter periods). The operator must maintain insurance or other financial security for an amount corresponding to its liability. If such security is insufficient, the relevant state is obliged to make up the difference up to the limit of the operator's liability. Finally, jurisdiction over actions lies exclusively with the courts of the contracting party in whose territory the nuclear incident occurred.

In September 1997, the international legal framework covering liability for nuclear damage was significantly enhanced when delegates from over 80 states adopted a protocol amending the Vienna Convention and also adopted a Convention on Supplementary Compensation for Nuclear Damage (the "Supplementary Compensation Convention"). The Supplementary Compensation Convention sets the joint liability limit of the operator and the relevant state at not less than 300 million Special Drawing Rights ("SDRs") (FIM 2,171 million at June 30, 1998). It contains a new definition of nuclear damage which also addresses the concept of environmental damage and preventative measures, extends the geographical scope of the Vienna Convention to nuclear damage wherever suffered (with possible exceptions for states not party to the Supplementary Compensation Convention), and extends to 30 years the period during which claims may be brought for loss of life and personal injury. The Supplementary Compensation Convention also defines additional amounts to be provided through contributions by state parties.

Implementation of the Conventions by Finland and Sweden is discussed below.

Kyoto Protocol to the UN Framework Convention on Climate Change

The EU and EU member states are signatories to the UN Framework Convention on Climate Change and its Kyoto Protocol. The Kyoto Protocol contains provisions that aim to reduce emissions of six types of gases that contribute to global warming: carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride. Countries party to the Kyoto Protocol fall into one of eight emission reduction categories. EU member states are committed to reduce global warming gases by eight percent below 1990 emission levels by between 2008 and 2012. Emission limitations apply to the EU as a whole, and the emission reduction targets required of each EU member state were determined by the EU Environment Council in June 1998. Finland has a reduction target of zero percent, (which means emissions must be reduced to 1990 levels), while Sweden is permitted to exceed its 1990 emission levels by up to four percent. Although these targets appear to be less stringent than those allocated to most other EU member states, they are nonetheless ambitious due to CO₂ reduction measures already taken and can probably be achieved only by using a wide set of energy policy

measures and flexibility mechanisms provided for in the Kyoto Protocol, including emissions trading, joint implementation, clean development mechanisms and using the carbon dioxide-absorbing qualities of forests to affect emissions.

The annual conference of participating countries to discuss the specifics of implementing the provisions of the Kyoto Protocol was held in Buenos Aires, Argentina in November 1998. A two-year plan of action was adopted by the participating countries to resolve by 2000 the practical methods, rules and procedures for the operation of the flexibility mechanisms. The Kyoto Protocol will become binding on participating countries if the legislatures of nations representing 55 percent of greenhouse gas emissions in industrialized countries ratify the protocol. However, the overall impact that implementation of the Kyoto Protocol will have on participating countries cannot be determined at this time.

European Union

General

The environmental policy of the EU is centered upon harmonizing environmental protection among EU member states. Acting on proposals of the European Commission, the Council of Ministers, often in conjunction with the European Parliament, issues binding environmental directives that EU member states are required to comply with within a specified period of time. The method and manner of compliance is left to each EU member state to decide. In certain circumstances, the European Court of Justice or a national court may declare that a directive is directly applicable in a member state, even if it has not been formally adopted through local legislation by the deadline set forth in such directive. In addition, the European Commission may commence infringement proceedings against member states which fail to properly implement a directive, which can lead to proceedings in the European Court of Justice.

The Integrated Pollution Prevention and Control Directive (the ‘‘IPPC Directive’’), issued in 1996, requires each EU member state to unify its environmental licensing regime relating to emissions to air, land and water. The IPPC Directive contains several key policies, including the requirement that all emission or pollution control measures be based on the best available technique (similar requirements already appear in existing Finnish and Swedish law). EU member states must ensure that installations located in their territories are energy efficient, no significant pollution is caused, the necessary measures are taken to prevent and limit the impact of accidents, waste production is minimized, and where waste is produced, it is recovered or disposed of in an environmentally sound manner. Under the IPPC Directive, EU member states have until 2007 to bring the operations of existing installations into compliance with these requirements, although as from October 30, 1999, the effective date of entry into force of the IPPC Directive, EU member states must ensure that no new installations are operated without a permit issued in accordance with the provisions of the directive. The implementation of the IPPC Directive in Finland and Sweden will require certain amendments to existing legislation and license procedures. However, since environmental policies in these countries are generally more stringent than EU policies, the direct national consequences are likely to be limited.

Nuclear Power

The nuclear industry is subject to regulation and intervention by the EU institutions in such matters as trade, security, non-proliferation, supply, power stations and joint undertakings, safeguards, nuclear research and development, and the transportation and disposal of radioactive waste. The EU’s trade policy on nuclear materials is based on the Euratom Treaty which was signed in 1957. Since 1965, nuclear policy has been the responsibility of the EU institutions, within the scope of Euratom. The general aim is to place under common control the supply of, and trade in, nuclear materials. Contracts for the supply of nuclear materials into the European Atomic Energy Community must be endorsed by the Euratom Supply Agency (established under the European Commission’s control and supervision). The EU has entered into agreements with a number of non-EU countries for cooperation in the area of atomic energy.

The EU institutions have adopted directives laying down the basic standards for the protection of the health of workers and the general public against the dangers arising from ionizing radiation. The directives apply to the production, processing, handling, use, holding, storage, transport and disposal of natural and artificial radioactive substances and to any other activities which involve a danger arising from ionizing radiation.

A 1985 directive obliges EU member states to require environmental impact assessments before granting consents for thermal power plants and other combustion installations with a heat output of 300 MW or more, nuclear power plants and other nuclear reactors, and for the long-term storage of nuclear waste. As from March

1999, an amendment to the directive will require environmental impact assessments for new installations engaged in the production or enrichment of nuclear fuels, reprocessing of irradiated nuclear fuels and collection and processing of radioactive waste.

Air Emissions

A directive relating to the quality of gasolines and diesel fuels in Europe (the "Fuel Quality Directive") sets forth limits for sulfur, benzene and aromatics in gasolines and diesel fuels marketed in the EU after January 1, 2000. Lower limits for sulfur and benzene have also been established for 2005, and EU member states are permitted to promote the early introduction of fuels meeting the 2005 standards through tax incentives. Marketing of leaded gasoline will be prohibited, subject to possible derogations, from January 1, 2000. An upcoming review in 1999 of the Fuel Quality Directive may lead to the setting of additional fuel specifications for 2005. As a result of the Fuel Quality Directive, the market for reduced emission gasolines and low-sulfur diesel fuels is expected to grow significantly. See "Oil Division — Refining" for a description of Fortum's strengths in this area. It is also expected that an agreement on CO₂ reductions from motor vehicles concluded in July 1998 between the European Commission and the European Automobile Manufacturers Association will have the same effect. The agreement is based on the assumption that low-sulfur fuels will be made widely available on European markets. The European Council has requested the European Commission to put forward binding legislation should the agreement turn out not to be effective.

The 1988 directive on the reduction of emissions of SO₂, NO_x and particulates into the air from large combustion plants (the "LCP Directive") sets emission limit values for new plants (larger than 50 MW) licensed after July 1, 1987. The European Commission put forward a proposal for the revision of the LCP Directive in July 1998. The proposal sets emission limit values for SO₂, NO_x, and particulates which are about twice as strict as the existing values, but the emission value limits apply only to new installations licensed after January 1, 2000. The proposed revision also broadens the LCP Directive to cover gas turbines, while providing incentives for biofuels and CHP technology, which are areas in which Fortum has expertise. See "Business of Fortum — Description of Operations by Division — Power and Heat Division" and "Business of Fortum — Description of Operations by Division — Engineering Division."

An EU strategy to combat acidification was published by the European Commission in 1997. The main instrument will be a directive setting total emissions ceilings (SO₂, NO_x, NH₃ and VOCs) for each EU member state. The European Commission is expected to make a proposal for a draft directive in 1999.

Electromagnetic Fields

The regulatory response to date to studies into the possible health effects from exposure to electromagnetic fields is limited. The European Commission is currently considering the necessity for measures in light of a report, published in June 1998, which it requested from its independent Scientific Steering Committee, stating that available research does not provide sufficient evidence to conclude that long-term health effects occur, and therefore no recommendations for exposure limits can be made. The report points out, however, that ongoing international research may provide a scientific basis for further assessment.

With regards to the assessment of acute effects from electromagnetic fields, the European Commission considers that guidelines produced in 1998 by the International Commission on Non-Ionizing Radiation Protection on limiting exposure to time-varying electric, magnetic and electromagnetic fields are the appropriate basis to develop exposure limits against this risk. The European Commission has recently proposed a draft recommendation (which would be non-binding), which suggests basic restrictions and reference levels. EU member states are, however, free to decide whether they wish to take measures along these lines. In a proposal for a binding directive which it tabled in 1993 but which still has not been adopted, the European Commission aims to set a limit value for the exposure of workers to electromagnetic fields and set forth provisions to avoid, reduce, and protect workers from exposure.

Environmental Liability

The European Commission is expected to issue a White Paper (which is usually the precursor of a legislative initiative) on environmental liability by the end of 1998 or the beginning of 1999. An early draft included the following elements: strict liability, joint and several liability, coverage of all environmental media, coverage of traditional damage to persons and property and damage to biodiversity, allowing in some cases access to justice for public interest groups, and application only to future damage.

Finland

General

Generally, the environmental policies and legislation of Finland are more demanding than current EU environmental directives. The environmental impact of and specific limits for business operations in the energy sector in Finland are defined in legislation, regulations, license conditions and decisions of the Finnish Council of State, the Finnish Ministry of Environment and certain other national and local regulatory bodies in Finland. Such legislation, regulations, license conditions and decisions either apply to a specific area of environmental protection or cover water, land or air more generally.

Generally, any business engaged in an activity that may cause pollution or pose a threat to the environment is required to prepare an environmental impact assessment and apply for an environmental license. The license includes location permits pursuant to the Finnish Neighborhood Relations Act and the Finnish Public Health Act, an air pollution permit pursuant to the Finnish Air Pollution Control Act, and a waste permit pursuant to the Finnish Waste Act. Environmental licenses are approved and issued by local or regional authorities, depending on the environmental scope and impact of the activity. Water pollution permits and chemical storage permits are issued separately from the environmental license.

A separate regulatory regime governs the operation of nuclear power plants.

Nuclear Power

Nuclear power is regulated by the Council of State, the Finnish Ministry of Trade and Industry, and the Finnish Radiation and Nuclear Safety Authority pursuant to the Finnish Nuclear Energy Act and other regulations under the Nuclear Energy Act. The Nuclear Energy Act sets forth the requirements for a positive decision by the Council of State, construction permits, operating licenses, the conditions for the use of nuclear energy, nuclear fuels and nuclear waste management policies. The Finnish Parliament has the final authority on the construction of new nuclear power plants and nuclear waste disposal facilities.

Prior to the construction of a significant nuclear power plant or disposal facility, consent of the Finnish Radiation and Nuclear Safety Authority and the municipal council of the community where the facility is to be located, as well as a positive decision by the Council of State and ratification by the Finnish Parliament, is required. The construction of a nuclear power plant or disposal facility is subject to issuance of a detailed construction permit by the Council of State. An operating license for a nuclear power plant is granted by the Council of State under the Nuclear Energy Act, provided that the operation of a nuclear plant has been organized in such a manner that labor protection, safety of the population and environmental protection are observed as required; that the methods used by the applicant for nuclear waste management, including the final disposal of nuclear waste and decommissioning of the plant, are sufficient and appropriate; and that the applicant has access to sufficient expertise. In addition, the applicant must be deemed to have financial and other necessary resources to carry out the operations safely and in accordance with Finland's obligations under international treaties. Additional prerequisites to receiving an operating license include safety, readiness and other arrangements sufficient to restrict possible nuclear damage and safeguards to prevent the use of nuclear energy for illegal purposes. An operating license is granted for a fixed term.

Under the Nuclear Energy Act, producers of nuclear waste are individually responsible for the handling, management and disposal of nuclear waste, as well as for the financing of such operations. Nuclear waste generated in Finland must be disposed of within Finland. After final disposal of spent fuel and all other nuclear waste in accordance with the applicable regulations, producers of nuclear waste are released from responsibility. The Ministry of Trade and Industry establishes the basic guidelines for nuclear waste management.

Funds for the future costs of conditioning, storage and disposal of spent fuel and low- and intermediate-level waste, as well as decommissioning of the plant, are collected by means of annual contributions to the Finnish Nuclear Waste Management Fund (the "Fund"), which is operated under the auspices of the Ministry of Trade and Industry. The Fund's capital consists mainly of contributions determined annually by the Ministry of Trade and Industry, which are payable by nuclear power operators. The liability comprises the future estimated costs of the management of all waste accumulated by the end of the year in question. These estimates are calculated at current price levels without applying discounting in relation to future disbursements. Since certain non-recurring costs, such as construction costs in respect of nuclear waste storage facilities and repositories, can be divided more evenly over the operating years of a nuclear power plant, the operator furnishes security to cover any difference between the liability at any point in time and funded contributions. At the end of 1997, IVO had a confirmed liability of FIM 2,624 million for nuclear waste management. IVO's nuclear waste management

contribution for 1997 was approximately FIM 210 million. In addition, in the IVO Group's financial statements for 1997, FIM 567 million was entered as an extraordinary provision which covered all of IVO's remaining contribution liability to the Fund at that time. Due to certain amendments to the liability system, a provision of approximately FIM 173 million to cover Fortum's increased contribution liability is to be recorded in 1998. The nuclear power operators are entitled to borrow up to 75 percent of the amount contributed to the Fund under terms similar to a standard lending arrangement. The operator of a nuclear plant is responsible for all costs relating to nuclear waste management and decommissioning of the plant, but is entitled to return of its contributions to the Fund (which may be more or less than the actual costs of waste management and decommissioning).

Pursuant to the Nuclear Liability Act, the operator of a nuclear facility is strictly liable for damage resulting from a nuclear incident at the operator's installation or occurring in the course of transporting nuclear fuels. Shareholders of power companies that own and operate nuclear power plants are not subject to liability under the Nuclear Liability Act. The liability of a nuclear operator for nuclear damage is limited to a maximum amount of 150 million SDRs (approximately FIM 1,085 million at June 30, 1998), which amount must be covered in full by an insurance coverage approved by the Finnish Ministry of Social Affairs and Health. Any damages not covered by insurance will be compensated by the Finnish State up to 25 million SDRs over and above the 150 million SDRs covered by insurance. From January 1, 1999, the liability of a nuclear power plant operator will be increased by the liability amount currently covered by the Finnish State, and will thereafter be limited to a maximum amount of 175 million SDRs. The Nuclear Liability Act implements the Paris Convention and the Brussels Supplementary Convention and its amendments, and has been amended to implement the 1988 Joint Protocol. Finland is a party to the Supplementary Compensation Convention. See "— International Conventions — Nuclear Damage Liability."

Air, Water and Waste

Under the Finnish Air Pollution Control Act, operators are required to plan, construct and operate installations using the best available technology. While the Council of State has set emission limits for SO₂, NO_x and particulates, the pending revision of the LCP Directive will tighten the emission limits for SO₂. Since air pollution legislation in Finland is stringent, this and other pending EU directives affecting air quality will require only minor compliance efforts.

Pursuant to the Finnish Water Act, water pollution must be limited using the best available technology, taking into account the characteristics of the affected body of water. The Water Act also regulates the construction and operation of hydroelectric power facilities. Pursuant to the Finnish Waste Act, companies are required to employ best efforts in efficiently using raw materials, recycling waste materials and properly disposing unusable waste products.

Oil and Chemicals

The Finnish Act and Decree on the Prevention of Pollution from Vessels sets forth, among other provisions, structural requirements for ocean-going vessels transporting oil and petroleum products, and requires such vessels to maintain an oil pollution contingency plan. Also, the Finnish Act and Decree on Oil Pollution on Land requires a contingency plan for handling on-site oil pollution for any oil storage operations in excess of 1,000,000 liters.

Oil pollution and the costs of combating oil pollution are compensated by the Finnish Oil Pollution Compensation Fund. The funds for the Oil Pollution Compensation Fund are collected through an oil pollution charge of FIM 2.20 per full oil ton imported into or transported through Finland. A double charge is collected for oil transported in a tanker vessel not equipped with a double-bottom hull. Each ship in Fortum's fleet is equipped with either a double bottom or complete double hull.

Under the Finnish Chemicals Act, production and industrial handling of hazardous chemicals requires a permit from the Finnish Safety Technology Authority, an agency under the Finnish Ministry of Social Affairs and Health. The permit holder must observe such care and caution as can reasonably be expected when taking into consideration the volume, hazardous nature and handling conditions of the relevant chemical.

Amendment to Environmental Legislation

Pursuant to the IPPC Directive, a new Finnish Environmental Protection Act is expected to be promulgated by the Finnish Parliament in the first half of 1999. According to the IPPC Directive, the new act should take effect by the end of 1999. The Noise Abatement Act, the Air Pollution Control Act and the Finnish

Environmental License Procedures Act will be repealed, and significant amendments will be made to the Neighbor Relations Act, the Water Act and the Waste Act. It is expected that large industrial holders of environmental licenses and permits will have three to five years from the effective date of the Environmental Protection Act to update their licenses and permits to conform to the new requirements.

Environmental Liability

The Finnish Environment Damage Act covers liability and compensation payable for any environmental damage caused by a stationary source, retroactive to June 1, 1995. The Environment Damage Act is based on strict liability and, apart from covering damage to biodiversity, incorporates the other elements of the European Commission's draft environmental liability White Paper.

Sweden

General

New large stationary sources of possible emissions or pollutants (including combustion plants larger than 200 MW, oil refineries and nuclear power plants) require a permit pursuant to the Swedish Natural Resources Act. The provisions of the permit are taken into account for purposes of issuance of the environmental license, which stationary sources are required to have under the Swedish Environmental Protection Act. Certain other stationary sources of possible emissions or pollutants (for example, power plants larger than 10 MW) are also required to obtain a license under the Environmental Protection Act. In order to obtain an environmental license, the applicant is required to conduct an environmental impact assessment.

The Environmental Protection Act is an integrated pollution prevention act that regulates the impact of pollution on the environment as a whole. An environmental license encompasses discharges into the atmosphere, water and soil, as well as waste management. Established emission limits for SO₂, NO_x and other gases are generally more stringent than the requirements of the pending amendments to the LCP Directive, while economic measures (taxes and emission charges) encourage operators to reduce emissions beyond permit conditions. A separate regulatory scheme governs the operation of nuclear power facilities.

As in Finland, extensive revisions are being made to the environmental legislation of Sweden. The new Swedish Environmental Code will consolidate provisions from fifteen separate acts and will provide for stricter fines and punishment for environmental damage as well as more detailed environmental impact assessments before the granting of some categories of permits for public and private activities in conjunction with implementation of the IPPC Directive. The new Environmental Code will take effect on January 1, 1999.

Nuclear Power

Nuclear power plants are required to obtain permits issued by the Swedish Nuclear Power Inspectorate and other government agencies² pursuant to the Swedish Nuclear Activities Act and Nuclear Activities Regulation. Such permits cover safety, the conditions for the use of nuclear energy, waste disposal, decommissioning of the plant, and other aspects of nuclear power generation. Construction of new nuclear power plants has been forbidden in Sweden since the 1980s.

Under the Nuclear Activities Act and Nuclear Activities Regulation, the assessment of whether an existing permit shall be extended or renewed is made on a case-by-case basis. Nuclear activities must be carried out safely and in accordance with Sweden's obligations under international treaties. Such activities must also include safety, readiness and other arrangements sufficient to restrict possible nuclear damage and safeguards to prevent the use of nuclear energy for illegal purposes.

Under the Nuclear Activities Act, producers of nuclear waste are individually responsible for the handling, management and disposal of nuclear waste. The Swedish Nuclear Power Inspectorate establishes the basic guidelines for nuclear waste management.

As in Finland, an operator of a nuclear power plant in Sweden is required to pay an annual amount to Sweden's Nuclear Waste Fund, which is maintained by the government, for as long as the plant is in operation. The charge is set by the government and is based on the amount of power delivered. In addition, a nuclear power plant operator is required to pledge security to the fund up to a certain value in order to cover expenses exceeding the amount paid into the fund. Amounts collected in the fund are to be used to finance the disposal of spent nuclear fuel and other radioactive waste from the plant, the decommissioning and demolition of the plant, and certain expenses incurred by the government in connection with regulation of nuclear power facilities and disposition of nuclear waste.

The charge is determined annually, and is set at an amount that is expected to be sufficient to satisfy these expenses based on a 25-year operational life of the nuclear plant. For plants in operation for more than 25 years, the amount payable each year is set based on the expected additional costs resulting from such extended operation. A nuclear plant owner is entitled to return of its share of any amounts in the fund remaining after payment of expenses of disposition of nuclear waste and decommissioning of the plant. If the amount in the Fund is insufficient to cover nuclear waste management expenses, operators will be required to pay the difference.

The Nuclear Liability Act imposes strict liability on owners of nuclear power plants, and requires such owners to carry third-party nuclear liability insurance. Shareholders of power companies that own and operate nuclear power plants are not subject to liability under the Nuclear Liability Act. For information concerning contractual liability to which Fortum is subject as a shareholder of certain such companies, see “Investment Considerations — Nuclear Power — Disposal of Nuclear Waste.” The liability of a nuclear operator for nuclear damage is limited to a maximum amount of 175 million SDRs, which amount must be covered in full by an insurance coverage approved by the Financial Supervisory Authority. Any damages not covered by insurance will be compensated by the Swedish State up to 175 million SDRs over and above the 175 million SDRs covered by insurance. The Nuclear Liability Act implements the Paris Convention and the Brussels Supplementary Convention, and has been amended to implement the 1988 Joint Protocol.

Environmental Liability

The Swedish Environment Damage Act governs liability and compensation payable for any environmental damage caused by a stationary source. The Environment Damage Act holds polluters to a strict liability standard. Under the Swedish Environmental Protection Act, every company with operations that may damage or harm the environment is required to carry environmental liability insurance.

Compliance with Environmental Requirements

Management believes that Fortum’s operations comply in all material respects with applicable environmental laws, regulations, permits and guidelines both at the EU level and in all jurisdictions where Fortum operates, including Finland and Sweden. While it is too early to predict the effects of implementation of the Kyoto Protocol and certain other current proposals for environmental reforms, management is currently not aware of any provision of applicable existing law, regulation, permit or guideline or any presently proposed new law, regulation, permit or guideline or any presently proposed amendment to any such law, regulation, permit or guideline, that would require such significant expenditure in the future that could reasonably be expected to have a material adverse effect on Fortum’s financial condition or results of operations.

MANAGEMENT

Supervisory Board

The Company is managed by its Board of Directors and its President and Chief Executive Officer, all under the supervision of the Supervisory Board. The business address of the members of the Supervisory Board, the Board of Directors and the President and Chief Executive Officer is c/o Fortum, Snellmaninkatu 13, FIN- 00170 Helsinki.

The Supervisory Board is required to have between ten and 20 members, each of whom is elected by the shareholders at a general meeting of shareholders for a term of one year. In addition, there are currently four representatives of personnel groups who have the right to be present at meetings of the Supervisory Board but who are not members of the Supervisory Board. The Supervisory Board is responsible for the supervision of the Company's management and for ensuring that the Company's affairs are carried out in accordance with sound business principles and in compliance with the Articles of Association of the Company. In addition, it decides upon the number of members of the Board of Directors of the Company and elects the Chairman, Vice Chairman and the other members of the Board of Directors, and, on the proposal of the Board of Directors, nominates the President and Chief Executive Officer of the Company. It is also required to issue a statement for the Annual General Meeting of Shareholders on the Company's annual accounts, its annual consolidated accounts and the auditors' report, and on any proposal of the Board of Directors to issue new shares, convertible bonds or warrants or to enter into a merger or de-merger agreement.

The present members of the Supervisory Board and their principal occupations are as follows:

<u>Name</u>	<u>Year Born</u>	<u>Principal Occupation</u>	<u>Year First Elected</u>	<u>Current Term Expires</u>
Ilkka-Christian Björklund (Chairman)	1947	Special Advisor of Ministry of Trade and Industry	1998	1999
Kimmo Sasi (Deputy Chairman)	1952	Member of Parliament	1998	1999
Pirkko Alitalo	1949	Vice President, Pohjola Group Ltd.	1998	1999
Kaarina Dromberg	1942	Member of Parliament	1998	1999
Ulrika Gyllenberg	1942	Special researcher, VTT Technical Research Centre of Finland	1998	1999
Satu Hassi	1951	Member of Parliament	1998	1999
Tuulikki Hämäläinen	1940	Member of Parliament	1998	1999
Tytti Isohookana-Asunmaa	1947	Member of Parliament	1998	1999
Heikki Järvenpää	1948	Member of Parliament	1998	1999
Timo Järvelähti	1943	Member of Parliament	1998	1999
Timo Laaksonen	1945	Member of Parliament	1998	1999
Jouko K. Leskinen	1943	President and Chief Executive Officer, Sampo Group Ltd.	1998	1999
Leena Luhtanen	1941	Member of Parliament	1998	1999
Erkki Tuomioja	1946	Member of Parliament	1998	1999
Pekka Tuomisto	1940	Director General of SH	1998	1999
Taisto Turunen	1945	Director General, Energy Department, Ministry of Trade and Industry	1998	1999
Matti Vanhanen	1955	Member of Parliament	1998	1999

The present employee representatives at Supervisory Board meetings and their positions in Fortum are as follows:

<u>Name</u>	<u>Year Born</u>	<u>Position</u>	<u>Year First Elected</u>	<u>Current Term Expires</u>
Satu Laiterä	1958	Employee Representative	1998	1999
Tapio Lamminen	1949	Employee Representative	1998	1999
Pentti Pääjärvi	1946	Employee Representative	1998	1999
Esa Paunonen	1956	Employee Representative	1998	1999

Board of Directors

The Board of Directors is responsible for the management of the Company. The Board of Directors decides upon and oversees the implementation of the central strategic and operational guidelines of the Company, approves the organizational structure of the Company and nominates the members of the Corporate Executive Committee. The Board of Directors is required to have between five and seven members, each of whom is elected by the Supervisory Board for a term of four years.

The present members of the Board of Directors are as follows:

<u>Name</u>	<u>Year Born</u>	<u>Position</u>
Matti Vuoria	1951	Chairman of the Board of Directors*
Krister Ahlström	1940	Director, Deputy Chairman of the Board of Directors
Jaakko Ihamuotila	1939	Director*
L.J. Jouhki	1944	Director
Heikki Marttinen	1946	Director, President and Chief Executive Officer*
Heikki Pentti	1946	Director
Gerhard Wendt	1934	Director

* Executive of the Company.

Matti Vuoria is the Chairman of the Board of Directors of the Company. He is the former Secretary General of the Ministry of Trade and Industry and the former chairman of the board of directors of Fingrid. Mr. Vuoria is the vice chairman of the board of directors of Leonia Oyj.

Krister Ahlström is the Deputy Chairman of the Board of Directors of the Company. He is a member of the boards of directors of a number of companies, including A. Ahlstrom Corporation, ABB Oy and Oy Aga Ab. Mr. Ahlström is also the chairman of the supervisory board of Varma-Sampo Mutual Pension Insurance Company and a member of the supervisory board of Enso Oyj and Merita Bank Plc.

Jaakko Ihamuotila is an executive member of the Board of Directors of the Company. He is the former chairman and chief executive officer of Neste. He is also the chairman of the boards of directors of Asko and Neptun Maritime Oyj and a member of the boards of directors of a number of companies, including Pohjola Group Insurance Corporation and Finnair Oyj. Mr. Ihamuotila is also a member of the supervisory board of Merita Bank Plc.

L.J. Jouhki is a managing partner of Thom Companies (Thominvest Oy, Thomproperties Oy and Thomesto Trading Companies Ltd), and was formerly a member of the board of directors of Neste. He is the chairman of the board of directors of Finnlines plc and a member of the boards of directors of a number of companies, including Oyj Hartwall Abp, Sanoma Corporation and UPM-Kymmene Corporation. He is also a member of the supervisory board of Merita Bank Plc.

Heikki Marttinen is the President and Chief Executive Officer of the Company. He is the chairman of the board of directors of both IVO and Neste and is the former chief executive officer of IVO. He is also a member of the supervisory boards of a number of companies, including Varma-Sampo Mutual Pension Insurance Company, Huhtamäki Oyj and Merita Bank plc.

Heikki Pentti is chairman of the boards of directors of Lemminkäinen Oy and Thomesto Trading Companies Ltd. He is also a member of the supervisory board of Oyj Talentum Abp and Merita Bank Plc and a member of the boards of directors of a number of companies, including Myllykoski Corporation.

Gerhard Wendt is chairman of the of the boards of directors of Instrumentarium Corporation and Outokumpu Oyj and was formerly a member of the board of directors of IVO. He is also a member of the boards of directors of a number of companies, including Kone Corporation, A. Ahlstrom Corporation, Assa-Abloy AB and Vaisala Corporation.

Corporate Executive Committee and Heads of Divisions

The Corporate Executive Committee of the Company assists the President and Chief Executive Officer of the Company in the management and coordination of the implementation of the Company's strategic and operational goals. The present members of the Company's Corporate Executive Committee are as follows:*

<u>Name</u>	<u>Year Born</u>	<u>Position</u>
Heikki Marttinen (Chairman) ..	1946	President and Chief Executive Officer
Eero Aittola (Vice Chairman) ..	1942	Corporate Executive Vice President, Chief Financial Officer
Kalervo Nurmimäki	1937	President and Chief Executive Officer of IVO
Jukka Viinanen	1948	President and Chief Executive Officer of Neste
Pekka Leskelä	1958	Corporate Executive Vice President, Corporate Planning
Niilo Oksa	1948	Corporate Executive Vice President, Human Resources
Harri Pynnä	1956	Corporate Executive Vice President, Legal Affairs; General Counsel
Antti Ruuskanen	1952	Corporate Executive Vice President, Communications

* Matti Vuoria, the Chairman of the Board of Directors of Fortum, also participates in the work of the Corporate Executive Committee.

Heikki Marttinen is the President and Chief Executive Officer of the Company. He is the chairman of the boards of directors of both IVO and Neste and is the former chief executive officer of IVO. He is also a member of the supervisory boards of a number of companies, including Varma-Sampo Mutual Pension Insurance Company, Huhtamäki Oyj and Merita Bank plc. Mr. Marttinen holds a Master of Science degree in Economics.

Eero Aittola is the former Chief Financial Officer of Neste. He is the deputy chairman of the board of directors of both IVO and Neste, and a member of the board of directors of Uponor Ltd. Mr. Aittola holds a Master of Science degree in Economics.

Kalervo Nurmimäki is the President and Chief Executive Officer of IVO and a member of the boards of directors of IVO and Neste. He is the chairman of the boards of directors of a number of subsidiaries and associated companies of the Company. Mr. Nurmimäki has been appointed head of Fortum's Power and Heat Division with effect from January 1, 1999 until December 31, 1999. He will retire on April 30, 2000. Mr. Nurmimäki holds a Master of Science degree in Engineering.

Jukka Viinanen is the President and Chief Executive Officer of Neste and a member of the boards of directors of IVO and Neste. He is a member of the boards of directors of a number of companies, including Lassila-Tikanoja Oyj and Asko. He is also a member of the supervisory board of Sampo Insurance Company plc. Mr. Viinanen holds a Master of Science degree in Engineering.

Pekka Leskelä is the former Director of Corporate Planning of IVO. Mr. Leskelä has also served as a group controller and head of group financial planning for IVO. Mr. Leskelä holds a Master of Science degree in Economics.

Niilo Oksa is the former Corporate Vice President of Human Resources of Neste. Mr. Oksa has also served as the head of human resources and administration of Neste Shipping. Mr. Oksa holds a Master of Science degree in Political Science.

Harri Pynnä is a former Industrial Counsellor of the Ministry of Trade and Industry. Previously, he was a commercial banker with Union Bank of Finland Ltd. He is a member of the boards of directors of Outokumpu Oyj and Finnish Industry Investments Ltd. and a deputy member of the board of directors of Leonia Oyj. Mr. Pynnä holds a Master of Laws degree.

Antti Ruuskanen is the former Director of Communications of IVO. Mr. Ruuskanen has also served as an environmental expert in IVO, as a safety engineer in TVO and as an inspector of the Radiation and Nuclear Safety Authority. Mr. Ruuskanen holds a Licenciante of Technology degree in Technical Physics.

The following persons have been appointed Corporate Executive Vice Presidents and to the Company's Corporate Executive Committee, with effect from January 1, 1999.

Tapio Kuula has been appointed head of the Power and Heat Division with effect from January 1, 2000 in connection with the retirement of Mr. Nurmimäki. Mr. Kuula is currently an executive vice president and a member of the board of directors of IVO. He is the chairman or a member of the board of directors of a number of subsidiaries and associated companies of the Company. Mr. Kuula holds Master of Science degrees in Engineering and Economics.

Anders Palmgren has been appointed head of the Engineering Division with effect from January 1, 1999. Mr. Palmgren is currently the deputy chief executive officer and a member of the board of directors of IVO. He is the chairman or a member of the board of directors of a number of subsidiaries and associated companies of the Company. Dr. Palmgren holds a Doctor of Philosophy degree in Engineering.

Pekka Päätiläinen has been appointed head of the Operations and Maintenance Division with effect from January 1, 1999. Mr. Päätiläinen is currently the chief executive officer of IVO Generation Services Ltd. He is the chairman of the board of directors of IVO Generation Service (UK) Ltd. and Imatran Voima IVO Sendi-Prima SDN BHD Malaysia. Mr. Päätiläinen holds a Master of Science degree in Engineering.

Veli-Matti Ropponen has been appointed head of the Oil and Gas Division with effect from January 1, 1999. Mr. Ropponen is currently the deputy chief executive officer of Neste and the executive director of the Oil Division. He is a member of the board of directors of Neste and the chairman or a member of the board of directors of a number of subsidiaries and associated companies of the Company. He is also the deputy chairman of the board of directors of Nynäs Petroleum AB and the deputy chairman of Assurance Foreningen Skuld Committee. Mr. Ropponen holds Master of Science degrees in Engineering and Economics.

Kari Huopalahti has been appointed Corporate Executive Vice President, International Business Development, with effect from January 1, 1999. Mr. Huopalahti is currently an executive vice president and a member of the board of directors of IVO. He is the chairman or a member of the board of directors of a number of subsidiaries and associated companies of the Company. Mr. Huopalahti holds a Master of Science degree in Engineering.

The head of Neste Chemicals is *Georges Marzloff*. He reports to Jukka Viinanen, the President and Chief Executive Officer of Neste. Mr. Marzloff has extensive experience with international chemical companies. Mr. Marzloff holds a Master of Business Administration degree.

Remuneration of Directors and Executive Officers

The aggregate amount of salaries, benefits and fees paid by the IVO Group to the members of IVO's supervisory board and to the members of the boards of directors and the chief executive officers of IVO and its subsidiaries was FIM 29 million for the year ended December 31, 1997. The aggregate amount of salaries, benefits and fees paid by the Neste Group to the members of Neste's supervisory board and to the members of the boards of directors and the chief executive officers of Neste and its subsidiaries was FIM 34 million for the year ended December 31, 1997.

Auditors

Each year, the shareholders of the Company elect a minimum of one and a maximum of three auditors and no more than one deputy auditor, each of whom must be an auditing firm or auditor authorized by the Finnish Central Chamber of Commerce. Currently, the Company's auditors are SVH Pricewaterhouse Coopers Oy and Arthur Andersen Oy, both authorized public accountants, with Mr. Pekka Kaasalainen and Mr. Hannu Vänskä, respectively, serving as responsible auditors.

OWNERSHIP STRUCTURE AND RELATIONSHIP WITH THE FINNISH STATE

Ownership Structure

As of December 10, 1998, the Company's issued outstanding share capital was FIM 13,830,205,620 consisting of 691,510,281 shares with a nominal value of FIM 20 each. Under its Articles of Association, the Company's authorized maximum share capital is FIM 40 billion. Each Share entitles the holder to one vote at general meetings of shareholders.

Set forth below are the shareholders of the Company, their respective holdings at December 10, 1998 and their respective holdings immediately following the completion of the Offerings:

<u>Shareholder</u>	<u>At December 10, 1998</u>		<u>After the Offerings</u>	
	<u>Number of Shares</u>	<u>Holding</u> (%)	<u>Number of Shares</u>	<u>Holding</u> (%)
Finnish State	673,956,585	97.5	592,228,939	75.5
SII	17,553,696	2.5	17,553,696	2.2
Investors in the Global Offering	—	—	59,727,646	7.6
Investors in the Finnish Retail Offering	—	—	22,000,000	2.8
Investors in the Employee Offering	—	—	2,000,000	0.3
Investors in the Exchange Offer	—	—	91,272,354	11.6
Total	<u>691,510,281</u>	<u>100.0</u>	<u>784,782,635</u>	<u>100.0</u>

Management Interests

Prior to the completion of the Offerings, no director or officer of the Company has held Shares or any options or rights to obtain Shares.

Relationship with the Finnish State

The Finnish State currently owns 97.5 percent of the outstanding share capital of the Company (with the remaining share capital owned by SII) and will own 75.5 percent of the outstanding share capital of the Company immediately following the Offerings. It has been the practice of the Finnish State not to intervene in the day-to-day management of the Company, and the Company has conducted and conducts its day-to-day operations in a manner similar to that of other Finnish corporations in which the Finnish State is not in a controlling position of a shareholder. Management believes that the Finnish State will continue to observe such practice.

As the owner of a majority of the outstanding share capital of the Company, the Finnish State has the power to decide all matters submitted for a vote of shareholders, including matters such as the approval of the annual financial statements, declarations of annual reserves and dividends, capital increases, amendments to the Company's Articles of Association and the election and removal of the members of the Supervisory Board of the Company. See "Management — Supervisory Board."

Under the Finnish Act on Audits of State-Controlled Companies, the State Audit Office has the right to conduct audits of companies that are state-controlled, as defined in such act. In connection with an audit, companies are required to disclose such documents as the Audit Office may demand.

The Finnish Parliament has authorized the Council of State to reduce the Finnish State's shareholding in the Company to no less than 50.1 percent. Approval by the Finnish Parliament would be required for any further disposition of the Finnish State's shareholding in the Company. The timing and manner of any further sale of Shares after the Offerings, or its effect on the Company's shareholders, cannot be determined at this time.

The Finnish State has agreed not to sell any Shares or any securities convertible into or exchangeable for Shares for a period of 180 days following the date of this Offering Memorandum, without the prior consent of

the Lead Managers (as defined in “Underwriting”), on behalf of the Managers, which consent shall not be unreasonably withheld.

Guidelines on the Operation of State-Controlled Companies

On June 23, 1994, the Finnish Council of State issued a policy decision on the operations of companies in which the Finnish State has a significant ownership interest (the “Guidelines”). The Guidelines set forth general principles that representatives of the Finnish State are to observe in connection with the exercise of the Finnish State’s shareholder rights and the Finnish State’s internal decision-making relating to the administration of its ownership interests in such companies. The Guidelines relate to companies in which the Finnish state is a majority shareholder as well as, within the limits permitted by the particular company’s ownership structure, companies in which the Finnish State maintains a significant minority shareholding. The Guidelines are not binding upon such companies or their governing bodies but rather serve as guidelines for representatives of the Finnish State in such governing bodies and for each of the ministries responsible for the supervision of such companies.

Pursuant to the Guidelines, companies in which the Finnish State has a significant interest are required to be operated profitably once the operations of such companies have been well-established. The Guidelines specify that such companies should be treated equally with other similar-sized companies in connection with decisions involving general support by the Finnish State to such companies.

As regards dividend distributions, the Guidelines provide a presumption that companies in which the Finnish State has a significant ownership interest should make dividend distributions comparable to general dividend payment levels, taking into consideration profitability trends in the particular company’s industry sector and the possible industrial or other industrial policy-related objectives set for the company.

Pursuant to the Guidelines, decisions relating to expansion of a particular company’s operations within its existing field of business, through acquisitions or the establishment of subsidiaries, shall be made by the appropriate governing bodies of such company. The Guidelines, however, require that decisions involving expansion beyond a company’s existing field of business and other strategic decisions be consented to by the principal shareholder of the company. Under the Companies Act, an amendment to a Finnish corporation’s field of business specified in its articles of association requires approval by a qualified majority of a shareholders’ meeting. If such company has a special position in Finland due to government action or other circumstances, changes in the company’s field of business and any acquisitions by the company are to be monitored by the appropriate ministry.

Under the Guidelines, foreign investments that are of particular importance with respect to a particular state-controlled company or the Finnish economy are in principle to be brought before the Ministerial Committee on Economic Policy prior to a final decision by the company with respect hereto.

Each state-controlled company is also required to give reasonable advance notice to the relevant ministry of any temporary or permanent termination of a substantial number of employees. The Guidelines require that, in the event that a particular ministry, as the Finnish State’s principal representative, wishes to effect a business decision having an impact on a state-controlled company that is contrary to the position of the management of such company, the relevant decision shall be taken at such company’s shareholders’ meeting in accordance with applicable law and the articles of association of the company.

The Guidelines also include general principles for any future broadening of the ownership base in a company in which the Finnish State has a significant ownership interest and other transactions affecting the Finnish State’s ownership, including that (i) decisions shall be taken separately for each company, (ii) the goal for each company is a broad and stable ownership base and (iii) representatives of the Finnish State should be appointed to the governing bodies of each company in proportion to the Finnish State’s ownership interest.

DESCRIPTION OF THE SHARES AND SHARE CAPITAL

General

The Company was incorporated on February 7, 1998. The Company's registration number with the Finnish Trade Register is 728.243 and its registered office is located at Snellmaninkatu 13, FIN-00170 Helsinki, Finland.

According to Section 2 of the Articles of Association of the Company, the Company may engage in the production, procurement, transmission, distribution, supply and sale of electricity, heat, oil and gas, in the oil, energy and chemical industry and trade, merchant shipping and technical planning and in other related businesses. The Company may establish and acquire subsidiaries, associated companies and joint ventures to conduct the aforementioned operations.

Pursuant to its Articles of Association, the Company's issued share capital may not be less than FIM 10 billion nor more than FIM 40 billion. The Company's issued share capital may be increased or decreased within these limits without amendment to its Articles of Association. As of the date of this Offering Memorandum, the Company's paid-in share capital amounted to FIM 13,830,205,620, consisting of 691,510,281 Shares. Each Share has a nominal value of FIM 20. Each Share entitles the holder to one vote at general meetings of shareholders.

In April 1998, the shareholders of the Company resolved to increase the Company's share capital by a maximum of FIM 2,885,539,600 through the issuance of a maximum of 144,276,980 Shares to holders of shares or warrants in Neste tendering their shares or warrants of Neste to the Company pursuant to the Exchange Offer. The Company will issue 91,272,354 new Shares in connection with the Exchange Offer, resulting in an increase of the number of outstanding Shares to 782,782,635 and an increase of the Company's share capital from FIM 13,830,205,620 to FIM 15,655,652,700. The issue of any Shares by the Company pursuant to the Exchange Offer will be registered promptly after the delivery of such Shares, which will occur at the time of, or immediately following, the completion of the Global Offering.

The issuance of 293,104,055 Shares to the Finnish State against the transfer of 81,939,969 shares in Neste from the Finnish State to the Company was registered in June 1998. As a result, the total number of outstanding Shares increased to 293,604,055 and the Company's share capital increased from FIM 10,000,000 to FIM 5,872,081,100. The issuance of 397,906,226 Shares to the Finnish State and the SII against the transfer of 87,174,346 and 4,023,194 shares in IVO from the Finnish State and the SII, respectively, to the Company was registered in June 1998. As a result, the total number of outstanding Shares increased to 691,510,281 and the Company's share capital increased from FIM 5,872,081,100 to FIM 13,830,205,620.

On September 8, 1998, an extraordinary general meeting of shareholders of the Company authorized the Board of Directors to offer not more than 2,000,000 Shares pursuant to the Employee Offering. On November 23, 1998, the Board of Directors of the Company authorized the commencement of marketing of Shares pursuant to the Employee Offering, with a subscription period from November 24 to December 10, 1998.

On September 8, 1998, an extraordinary general meeting of the Company's shareholders authorized the Board of Directors of the Company, at any time not later than September 8, 1999, to issue bonds with warrants to the employees of the Fortum Group. Pursuant to the authorization, the Company may issue not more than 7,500,000 new Shares, representing a maximum increase in share capital of FIM 150,000,000, which corresponded to 1.1 percent of the Company's issued share capital at the time of the authorization. The timing and manner of the issuance of bonds with warrants pursuant to such authorization has not been decided by the Company's Board of Directors.

On November 17, 1998, the extraordinary general meeting of the Company's shareholders also authorized the Board of Directors of the Company, at any time until the annual general meeting of shareholders of the Company in 1999 or by November 17, 1999, at the latest, to issue a maximum of 15,000 warrants to a maximum of 150 key employees of the Fortum Group to be specified by the Company's Board of Directors. The warrants entitle the holders to subscribe to a maximum of 15,000,000 new Shares, representing a maximum increase in share capital of FIM 300,000,000, which corresponded to 2.2 percent of the Company's issued share capital at the time of authorization. The warrants may be exercised during the period from October 1, 2002 through October 1, 2005. The subscription price for Shares is based on the weighted average price for the Shares on the Helsinki Stock Exchange during the period from January 1, 2002 through June 30, 2002 less the percentage by which the increase in the price of the Company's shares exceeds the increase in value of a share price index of selected peer companies of Fortum during the period from April 1, 1999 through August 31, 1999 as

compared to the period from April 1, 2002 through August 31, 2002 multiplied by the factor of two. The minimum subscription price is, however, the weighted average price for the Shares on the Helsinki Stock Exchange during the period from December 15, 1998 through January 15, 1999. The warrants may be exercised if the Company's earnings-per-share ratio and its share performance are the same or better than those of selected peer companies. The timing and manner of the issuance of warrants pursuant to such authorization has not been decided by the Company's Board of Directors.

Copies of the resolutions of the Board of Directors and the extraordinary general meetings of shareholders of the Company authorizing the issue, offer and sale of the Shares in the Employee Offering by the Company may be inspected at the principal executive office of the Company at Snellmaninkatu 13, FIN-00170 Helsinki, during normal business hours on any weekday (public holidays excepted) until the completion of the Global Offering.

Ownership of Shares is represented by entries in a national book-entry registration system. See "The Finnish Securities Market — The Finnish Book-Entry Securities System."

Preemptive Rights

Under Finnish law, existing shareholders of Finnish companies have preferential rights to subscribe, in proportion to their shareholdings, for new shares of such companies as well as for issues of subscription warrants or debt instruments convertible into shares or carrying warrants to subscribe for shares, unless the corporate resolution approving such issue provides otherwise. Under the Companies Act, a resolution waiving preemptive rights must be approved by at least two-thirds of all votes cast and all shares represented at a general meeting.

U.S. holders of Offer Shares may not be able to exercise any preemptive rights and preferential rights in respect of their Offer Shares unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements thereunder is available. The Company intends to evaluate, at the time of any rights offering, the costs and potential liabilities associated with any such registration statement, as well as the indirect benefits to it of enabling the exercise by the holders of Offer Shares of the preemptive rights and preferential rights of their Offer Shares and any other factors that the Company considers appropriate at the time. No assurance can be given that the Company will elect to file such a registration statement.

General Meetings of Shareholders

Under the Companies Act, shareholders exercise their power to decide on corporate matters at general meetings of shareholders. The Company's Articles of Association require that a general meeting be held annually before the end of June to consider statutory accounts, dividends, reports, discharges from liability, rewards to officers and auditors and elections and numbers of members of the Supervisory Board and auditors, as well as matters raised by individual shareholders. Extraordinary general meetings in respect of specific matters are held when considered necessary by the Board of Directors or the Supervisory Board, or when requested in writing by an auditor of the Company or by shareholders representing at least one-tenth of all the issued Shares.

Under the Companies Act and the Articles of Association of the Company, notices of general meetings must be given by an announcement in a Finnish newspaper not earlier than two months and not later than 12 days prior to the general meeting. A shareholder must give notice to the Company of such shareholder's intention to attend a general meeting no later than the date specified in the notice of general meeting, which may not be earlier than five days before the general meeting.

As the Shares have been transferred to the Finnish book-entry securities system, in order to have the right to attend and vote at a general meeting, a shareholder must be registered not later than five days prior to the relevant general meeting in the register of shareholders kept by the Finnish Central Securities Depository Ltd. ("FCSD") in accordance with the Act on the Book-Entry Securities System. See "The Finnish Securities Market — The Finnish Book-Entry Securities System." Voting rights may not be exercised by a shareholder if such shareholder's Shares are registered in the name of a nominee. A beneficial owner wishing to exercise such rights should cancel the nominee arrangement and seek individual registration, which registration must be in place not later than five days prior to the relevant general meeting. There are no quorum requirements for general meetings.

Voting Rights

A shareholder may attend and vote at a general meeting of shareholders in person or through an authorized representative. Each Share is entitled to one vote. At a general meeting, resolutions generally require

the approval of a majority of the votes cast. However, certain resolutions, such as a resolution to amend the Company's Articles of Association, a resolution to issue Shares without having to comply with the shareholders' preferential subscription rights and, in certain cases, a resolution regarding a merger or liquidation of the Company, require a majority of two-thirds of the votes cast and Shares represented at the general meeting.

Dividends and Other Distributions

The payment of any dividend must be authorized by the shareholders at a general meeting.

Under the Companies Act, shareholders' equity is divided into restricted and unrestricted equity. Restricted equity consists of the share capital, the reserve fund, the additional paid-in capital fund and the revaluation fund. Other reserves are included in unrestricted equity. The amount of any dividend is limited to the amount of distributable funds. Distributable funds include the profit for the preceding financial year, retained earnings from previous years and other unrestricted equity less the reported losses, capitalized research costs, activated incorporation costs, acquisition cost of company or parent company shares, and the amount that the articles of association of the company requires to be transferred to the reserve fund or is otherwise to be left undistributed. A parent company of a consolidated group of companies may not distribute more than the amount of distributable equity shown on the parent company's financial statements or the consolidated financial statements, whichever is lower. The dividend may not exceed the amount proposed by the board of directors unless so requested at the annual general meeting by the holders of not less than ten percent of all shares of the company in which case the dividend, if so requested, shall amount to at least one-half of the profit for the last preceding financial period, but shall not exceed the amount of distributable funds as defined above. However, in such case the dividend may not exceed eight percent of the total shareholders' equity of the company. The company may not, under the Companies Act, pay interim dividends based on the current financial year's earnings.

Dividends and other distributions are paid to shareholders or their nominees entered in the register of shareholders on the relevant record date. Such register is maintained by the FCSD through the relevant book-entry registrar. No dividends are payable to shareholders not entered in a book-entry register. All of the Shares of the Company, including the Offer Shares, carry equal rights to dividends and other distributions by the Company (including distributions of assets in the event of the liquidation of the Company).

Under the Companies Act, a company may acquire its own shares using distributable funds. Decisions on the acquisition of a company's own shares must be taken by a general meeting of shareholders, unless the general meeting of shareholders has authorized the board of directors to decide upon stock repurchases. Any such authorization to the board of directors of a company may remain in effect for a period not exceeding one year. A public limited company may neither directly nor through a subsidiary hold its own shares in an amount in excess of five percent of the company's share capital or voting rights.

See "Dividends."

Transfers

Upon a sale of shares through the Finnish Book-Entry Securities System, the relevant shares are transferred from the seller's book-entry account to the buyer's book-entry account as an account transfer. The sale is registered as an advance transaction until the settlement thereof and the payment for the shares, after which the buyer will automatically be registered in the register of shareholders of the relevant company. In the case of registration in the name of a nominee, a sale of shares does not require any entries into the Finnish Book-Entry Securities System unless the nominee is changed pursuant to the sale.

Redemption Clause

The Company's Articles of Association contain a clause under which a shareholder who has acquired either 33⅓ percent or 50 percent of the shares or the voting rights of the Company is required to purchase, pursuant to the Companies Act, the shares of all other shareholders who request such purchase. The Articles of Association of the Company specify that the purchase price of such shares shall be the highest of the following:

- (i) the weighted average trading price of the shares on the Helsinki Stock Exchange during the ten business days prior to the date on which the Company has been notified by the shareholder subject to redemption liability that such shareholder's ownership has reached or exceeded the ownership or voting right ceiling referred to above or, in the absence of such notification or its failure to arrive within the specified period, the date on which the Board of Directors otherwise learns of this or, in the absence of trading, the last preceding trading price;

(ii) the average trading price of the shares on the Helsinki Stock Exchange during the 12 months preceding the date referred to in paragraph (i) above;

(iii) the highest price which the shareholder subject to redemption liability has paid for the shares such shareholder has purchased or otherwise acquired over the twelve months preceding the date referred to in paragraph (i) above; and

(iv) in the event the shareholder subject to redemption liability has failed to notify the Company within the specified period, the highest price which the shareholder subject to redemption liability has paid for the shares that such shareholder has purchased or otherwise acquired over the period of 12 months beginning on the date the redemption liability arose and terminating on the date referred to in paragraph (i) above.

Such shareholder is also obligated to purchase any subscription rights, warrants, convertible bonds and certain other securities issued by the Company if so requested by the holder thereof.

Pursuant to the Finnish Securities Market Act of 1989, as amended (the "Securities Market Act"), a shareholder who acquires in excess of two-thirds of the total voting rights after the commencement of a public quotation of the shares must offer to purchase the remaining shares of the company.

Control of Foreign Ownership

Restrictions on foreign ownership of Finnish companies were abolished as of January 1, 1993. However, under the Act on the Control of Foreigners' Acquisition of Finnish Companies of 1992 (the "Control Act"), clearance by the Ministry of Trade and Industry would be required if a foreign person or entity, other than a person or entity from another member state of the EEA or the Organization for Economic Cooperation and Development ("OECD"), or a Finnish entity controlled by one or more such foreign persons or entities, were to acquire a holding of one-third or more of the voting power of the Company. The Ministry of Trade and Industry could refuse clearance where the acquisition would jeopardize important national interests, in which case the matter is referred to the Finnish Government. In accordance with the treaty by which Finland entered the EEA, the applicability of the clearance requirements of the Control Act was abolished from January 1, 1996 with respect to acquisitions by entities from the member states of the EEA or the OECD.

Foreign Exchange Control

Shares of a Finnish company may be purchased by non-residents of Finland ("non-residents") without any separate Finnish exchange control consent. Non-residents may receive dividends without a separate Finnish exchange control consent, the transfer out of Finland being subject to payment by the company of withholding taxes. Non-residents having acquired shares of a Finnish company may receive shares pursuant to a bonus issue or through participation in a new issue without a separate Finnish exchange control consent. Shares of a Finnish company may be sold in Finland by non-residents, and the proceeds of such sale may be transferred out of Finland in any convertible currency. There are no Finnish exchange control regulations applying to the sale of shares of a Finnish company by non-residents to other non-residents.

Amendments to the Finnish Companies Act

In October 1998, the Finnish Parliament adopted legislation amending the Companies Act with respect to the introduction of the euro. The amended provisions will take effect on January 1, 1999 at the beginning of Stage Three of the EMU, when certain countries within the EU will convert to a single currency. The adopted legislation includes, among others, provisions governing the conversion of the share capital of companies and the nominal value of shares into euro.

Under the newly adopted amendments, all references to Finnish markka with respect to the share capital of a company and the nominal value of shares must be converted into the euro. During a three-year transitional period ending December 31, 2001, the introduction of the euro will be subject to shareholder approval. Since the conversion into euro will lead to fractional values for the nominal value of shares, the amendments contain provisions for the rounding of nominal values and for an exemption from the normal requirement of a qualified majority for amendments to the nominal value of shares. Alternatively, companies may completely abandon all references to the nominal value of shares. Under the newly adopted legislation, the introduction of the euro will not have an effect on the terms of agreements, contracts and other documents of companies unless otherwise agreed.

THE FINNISH SECURITIES MARKET

General

The securities market in Finland is supervised by the Finnish Financial Supervision Authority. The principal statute governing the securities market is the Securities Market Act. The Securities Market Act contains regulations with respect to company and shareholder disclosure obligations, admission to listing and trading of listed securities, public takeovers and insider trading, among other things. The role of the Finnish Financial Supervision Authority is to monitor compliance with these regulations.

The Securities Market Act specifies minimum disclosure requirements for Finnish companies applying for listing on the Helsinki Stock Exchange or making a public offering of securities in Finland. The information provided must be sufficient to enable investors to make a sound evaluation of the security being offered and the issuing company. Finnish listed companies have a continuing obligation to publish regular financial information, and to inform the market of any matters likely to have a material impact on the value of their securities.

A shareholder is required to notify a listed company and the Finnish Financial Supervision Authority when its voting participation in, or its percentage ownership of, issued share capital of a Finnish listed company reaches, exceeds or falls below ten, 20, 33⅓, 50 or 66⅔ percent, calculated in accordance with the Securities Market Act, or when it enters into an agreement or other arrangement having such effect. In October 1998, the Finnish government issued a proposal to the Finnish Parliament according to which the obligation to notify rises when the voting participation or percentage ownership reaches, exceeds or falls below five, ten, 15, 20, 25, 33⅓, 50 or 66⅔ percent. The proposal is expected to take effect in April 1999. If a Finnish listed company receives such information, it must disclose such information to the public and to the Helsinki Stock Exchange.

Pursuant to the Securities Market Act, a shareholder whose holding in a listed company exceeds two-thirds of the total voting rights attached to the shares of the company after the commencement of a public quotation of such shares must offer to purchase the remaining shares of such company. Under the Companies Act, a shareholder holding more than 90 percent of the shares and the votes attaching to the shares in a company has the right to purchase the remaining shares of such company for fair market value. In addition, any shareholder that possesses shares that may be so purchased by a majority shareholder is entitled to require the purchase of its shares. Detailed rules apply for the calculation of the above proportions of shares and votes.

The Securities Market Act also contains provisions relating to the misuse of privileged or inside information. Breach of these provisions constitutes a criminal offense.

The Finnish Book-Entry Securities System

General

Finland has made a gradual changeover from a certificated securities system to the Book-Entry Securities System since August 1, 1991, when the relevant legislation came into effect. Use of the Book-Entry Securities System is mandatory for shares listed on the Helsinki Stock Exchange. The Shares were entered into the book-entry system on April 30, 1998.

Most activities relating to the Book-Entry Securities System are centralized at the FCSD, which provides national clearing and registration services for securities. The FCSD maintains a central Book-Entry Securities System for both equity and debt securities.

The FCSD maintains a register of the shareholders of listed companies and accounts for shareholders that do not wish to utilize the services of a commercial book-entry registrar. The expenses incurred by the FCSD in connection with maintaining such accounts are borne by the issuers participating in the Book-Entry Securities System. Other book-entry registrars consist of credit institutions, investment services companies and other institutions licensed to act as book-entry registrars by the Finnish Council of State (each, a "Registrar"). A book-entry register may also be kept by the Finnish State Treasury and the Bank of Finland, neither of which require a license.

Registration

In order to effect entries in the Book-Entry Securities System, a security holder or such holder's nominee must establish a book-entry account with the FCSD or a Registrar or register its securities through nominee registration. A shared account in the name of the issuer will be opened for shareholders that have not exchanged their security certificates into book-entry interests. All transactions in securities registered with the Book-Entry

Securities System are executed as computerized book-entry transfers. The Registrar confirms book-entry transfers by sending notifications of transactions to the investor holding the respective book-entry account. Investors also receive an annual statement of their holdings as of the end of each calendar year.

Each book-entry account is required to contain specified information with respect to the account holder or the custodian administering the assets of a custodial nominee account. Such information includes the type and number of book-entry securities registered and the rights and restrictions pertaining to the account and to the book-entry securities registered in the account. A custodial nominee account is identified as such on the entry. The FCSD and the Registrars are required to observe strict confidentiality, although certain information (the name, nationality and address of each account holder) contained in the registers must be made available to the public.

Each Registrar is strictly liable for errors and omissions on the registers maintained by it and for any unauthorized disclosure of information. However, if an account holder has suffered a loss as a result of a faulty registration or an amendment to, or deletion of, rights in respect of registered securities and the Registrar is unable to compensate such loss, such account holder is entitled to receive compensation from the FCSD. To cover this contingency, the FCSD maintains a statutory guarantee fund, which is required to reach a level of not less than FIM 110 million by December 31, 2011 in respect of book-entry and settlement operations. The balance of statutory guarantee fund currently stands at FIM 13.3 million.

Trading and Settlement

The trading system of the Helsinki Stock Exchange, the Helsinki Stock Exchange Automated Trading and Information System (HETI), is a decentralized and fully automated order-driven system. Trading is conducted on the basis of trading lots, which are fixed separately for each share series.

Official share trading takes place from 10:30 a.m. to 5:30 p.m. on each trading day. Offers may be placed in the system beginning at 9:30 a.m. during a pre-trading period. Offers are matched from 10:20 to 10:30 a.m. to determine the opening quotations of the day. Contract transactions may continue to be registered during after-market trading from 5:35 to 5:55 p.m. and from 9:00 to 9:25 a.m. the following morning within the price limits arrived at during the official share trading.

The transactions are normally cleared in the FCSD's automated clearing and settlement system (KATI) on the third banking day after the trade date unless otherwise agreed by the parties.

Custody of the Shares and Nominees

Shares may be held in the book-entry register of either the FCSD or a Registrar. Finnish depositaries for both Cedel Bank and Euroclear have accounts within the Book-Entry Securities System and, accordingly, shareholders may hold their Shares through their accounts with Cedel or Euroclear.

A non-Finnish shareholder may appoint a custodian (or certain non-Finnish organizations approved by the FCSD) to act as a nominee shareholder on its behalf. A nominee shareholder is entitled to receive dividends and to exercise all share subscription rights and other financial rights attaching to the shares held in its name. It may not, however, exercise any administrative rights attaching to such shares (such as the right to attend and vote at general meetings of the company). A beneficial owner wishing to exercise such rights must terminate the nominee arrangement and must obtain registration of such shares in such owner's own name not later than five days prior to the relevant general meeting. A nominee is required to disclose to the Finnish Financial Supervision Authority and the relevant company on request the name of the beneficial owner of any shares registered in the name of such nominee, where the beneficial owner is known, as well as the number of shares owned by such beneficial owner.

Shareholders wishing to hold their shares in the Book-Entry Securities System in their name and who do not maintain a custody account in Finland are required to open a custody account and a convertible Finnish markka account at an authorized Registrar in Finland. Upon the receipt of details regarding the account to be opened, the relevant Registrar will open individual custody accounts and convertible Finnish markka accounts for each subscriber.

TAXATION

The following summary is based on tax laws of Finland and the United States as in effect on the date of this Offering Memorandum, and is subject to changes in Finnish or United States law, including changes that could have a retroactive effect. The following summary does not take into account or discuss the tax laws of any country other than Finland or the United States. Prospective purchasers in all jurisdictions are advised to consult their own tax advisors as to the Finnish, United States or other tax consequences of the purchase, ownership and disposition of Offer Shares.

Finnish Taxation

General

Residents and non-residents of Finland are treated differently for tax purposes. Individuals domiciled or resident in Finland are subject to tax on their worldwide income. Non-residents are taxed on Finnish source income only.

Generally, an individual is deemed a resident of Finland if such individual resides in Finland for more than six consecutive months or if the permanent home or dwelling of such individual is in Finland. Earned income, including salary, is taxed at progressive rates while capital income, including dividend income from a company listed on the Helsinki Stock Exchange, is taxed at a flat rate, which currently is 28 percent.

Companies

Finnish companies are subject to national corporate income tax on their worldwide income. With effect from January 1, 1996, the rate of such tax is 28 percent.

Finland applies an imputation (*avoir fiscal*) system for profits distributed as dividends in order to eliminate double taxation of companies and their shareholders. Under the *avoir fiscal* system, there is a minimum tax payable to the Finnish tax authorities by a Finnish company depending on the amount of profit distributed as dividends. For the tax year 1998, the applicable minimum tax is 7/18 of the dividends distributed to the shareholders. To the extent that this minimum tax exceeds or is less than the corporate tax charge payable for the same fiscal year to the Finnish taxation authorities calculated on taxable income, a tax surplus will be established or a supplementary tax liability will be imposed (as appropriate). Any tax surplus generated may be used, for a period of ten years, to offset any supplementary tax which may become payable in subsequent years. Generally, in the event that more than 50 percent of the shares of the relevant company is transferred during the year, a tax surplus is established or, thereafter, the right to utilize the tax surplus is forfeited. For this purpose, a corporate shareholder that holds at least 20 percent of such company's shares and has had its own share capital subject to a similar change in ownership is deemed to have transferred its holding in the company. The National Tax Board may, however, upon application grant an exemption from such restriction.

Shareholders

The following is a summary of certain Finnish tax consequences relating to the purchase, ownership and disposition of Offer Shares.

Tax Credit on Dividends

A tax credit is available to resident shareholders on the payment of dividends by a Finnish company equal to 7/18 of the dividend paid, as described above. Therefore, no taxes are generally payable by shareholders in respect of dividends received from a Finnish company. The tax credit is not generally available to a holder who is not under the Finnish tax laws generally liable for tax in Finland and does not engage in trade through a permanent establishment or a fixed place of business in Finland (a "non-resident"). Shareholders who are non-residents may, however, be entitled to the tax credit in part where there is a double taxation treaty with Finland that contains the appropriate provisions. Currently, the only such tax treaty in force is with Ireland, entitling certain shareholders resident in Ireland to a tax credit equal to one-half of the credit available to residents in Finland.

Withholding Tax on Dividends

Non-residents are subject to Finnish withholding tax on dividends paid by a Finnish company. In the absence of any applicable tax treaty, the rate of such withholding tax is 28 percent. Finland has entered into

double taxation treaties with many countries pursuant to which the withholding tax rate is reduced on dividends paid to persons entitled to the benefits under such treaties. In the case of the treaties with the following countries, Finnish withholding tax rates are generally reduced to the percentages given: Austria: 10 percent; Canada: 15 percent; Denmark: 15 percent; France: zero; Germany: 15 percent; Ireland: 15 percent; Italy: 15 percent; Japan: 15 percent; The Netherlands: zero; Norway: 15 percent; Spain: 15 percent; Sweden: 15 percent; Switzerland: 5 percent; the United Kingdom: zero; and the United States: 15 percent. A further reduction in the withholding tax rate is usually available to corporate shareholders for distributions on qualifying holdings (usually at least 10 or 25 percent of the capital of the distributing company). The Finnish company paying the dividend is responsible for deducting any applicable Finnish withholding tax.

A reduction of such withholding tax rate can be obtained at source upon the submission of a Source Tax Card or the required information (name, date of birth, any personal or corporate code in the home country and address) to the payor prior to the payment of dividends. If such a Source Tax Card or such information is not submitted in a timely manner, a refund of tax withheld in excess of the applicable treaty rate may be obtained upon application to the local tax authority.

No withholding tax is levied under Finnish laws on dividends paid to entities which reside in the EU and directly hold at least 25 percent of the capital of the distributing Finnish company, provided that such entities are not entitled to the tax credit under the *avoir fiscal* system and are subject to a general corporation tax in their respective countries of residency, as specified in the directive 90/435/EEC.

Finnish Capital Gains and Other Taxes

Any capital gains arising from the sale of shares by Finnish resident individuals and estates are taxed as capital income. Any gain or loss would be calculated as the sales price less the original acquisition costs and the selling expenses. Alternatively, individuals and estates may choose to apply a capital allowance of 30 percent. The capital allowance will be lowered to 20 percent in the year 1999. Finnish resident individuals must report any sales of securities made in the tax year in their tax return (Form 9A). Capital gains are taxed at a flat rate of 28 percent. Capital losses are deductible only from gains arising in the same year and the following three years. Since capital losses are not deductible from any other capital income than from capital gains, they will not be taken into account when calculating the capital income deficit set forth in the Income Tax Act. Thus, capital losses do not affect the amount of the deficit-credit deductible from the taxes under the deficit-credit scheme.

Any capital gains arising from the sale of shares by Finnish resident companies are taxed as ordinary income. Capital losses pertaining to business assets are fully deductible from taxable income in the same year and, through the Finnish loss carry-forward system, the subsequent ten years. Capital losses arising from the sale of shares belonging to the non-business income source of a company can only be deducted from capital gains arising the same year and three subsequent years within the same income source. The applicable corporate tax rate is currently 28 percent.

Non-residents will normally not be subject to Finnish taxes on capital gains realized on the transfer of Offer Shares. Transfers of Offer Shares by non-residents by way of gift or by reason of the death of the owner are subject to Finnish gift or inheritance tax, respectively, if either the transferor or the transferee is a resident of Finland, unless Finland has waived its rights in a tax treaty to impose such a tax.

Finnish Transfer Tax

There is no transfer tax payable in Finland on share transfers made on the Helsinki Stock Exchange. If the transfer is not made on the Helsinki Stock Exchange, a transfer tax at the rate of 1.6 percent of the relevant sales price is payable by the buyer. However, if the buyer is a non-resident, the seller must collect the tax from the buyer. If the seller and buyer are both non-residents or non-Finnish legal entities, the transfer of shares will be exempt from Finnish transfer tax. No transfer tax is payable in connection with newly issued shares. The Selling Shareholder has undertaken to pay any transfer taxes payable in connection with the sale of the Offer Shares in the Offerings.

U.S. Taxation

The following discussion is a summary of certain U.S. federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of Offer Shares. This summary addresses only the U.S. federal income tax considerations of holders that will hold Offer Shares as capital assets. This summary does not address aspects of U.S. federal income taxation that may be applicable to holders that are subject to

special tax rules, such as banks, insurance companies, dealers or traders in securities or currencies, tax-exempt entities, persons that will hold Offer Shares as a position in a “straddle” or as part of a “hedging” or “conversion” transaction or “constructive sale” for U.S. federal income tax purposes, persons that have a “functional currency” other than the U.S. dollar or are holders of 10 percent or more (by voting power or value) of the stock of the Company. This summary is based on the Internal Revenue Code of 1986, as amended, existing and proposed Treasury Regulations, administrative pronouncements and judicial decisions, in each case as in effect and available on the date hereof. All of the foregoing are subject to change (possibly with retroactive effect) or differing interpretations which could affect the tax consequences described herein.

For the purposes of this summary, a “United States Holder” is a holder of Offer Shares that is for U.S. federal income tax purposes (i) a citizen or resident of the United States; (ii) a partnership or corporation created in or under the laws of the United States or any State thereof (including the District of Columbia); (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (iv) a trust if (a) a U.S. court can exercise primary supervision over the administration of such trust and (b) one or more United States persons have the authority to control all of the substantial decisions of such trust. Notwithstanding the preceding sentence, to the extent provided in U.S. Treasury Regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to such date, that elect to continue to be treated as United States persons also will be United States Holders. A “Non-United States Holder” is a holder of Offer Shares that is not a United States Holder.

Each prospective purchaser should consult its own tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of Offer Shares.

Dividends

Subject to the discussion below under “Passive Foreign Investment Company Considerations,” distributions of cash or property (other than Shares, if any, distributed *pro rata* to all shareholders of the Company) with respect to Offer Shares will be included in income by a United States Holder to the extent such distributions are made from the current or accumulated earnings and profits of the Company, as determined under U.S. federal income tax principles. Such dividends generally will be treated as foreign-source income. Such dividends will not be eligible for the dividends-received deduction generally allowed to corporate United States Holders. To the extent, if any, that the amount of any distribution by the Company exceeds the Company’s current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of the United States Holder’s adjusted tax basis in the Offer Shares and thereafter as capital gain.

Any such dividend paid in Finnish markka will be included in the gross income of a United States Holder in an amount equal to the U.S. dollar value on the date of receipt of the Finnish markka distributed (including the amount of any Finnish withholding tax thereon), calculated by reference to the exchange rate in effect on the date of receipt by the United States Holder regardless of whether the Finnish markkas are converted into U.S. dollars at that time. A United States Holder may elect to deduct in computing its taxable income or, subject to certain complex limitations on foreign tax credits generally, may credit against its U.S. federal income tax liability, Finnish withholding tax at the rate applicable to such United States Holder. For purposes of calculating the U.S. foreign tax credit, dividends paid by the Company generally will constitute “passive income,” or in the case of certain United States Holders, “financial services income.” Holders should consult their tax advisors regarding the availability of, and limitations on, any such foreign tax credit.

A Non-United States Holder of Offer Shares generally will not be subject to U.S. federal income or withholding tax on dividends received on Offer Shares, unless such income is effectively connected with the conduct by such Non-United States Holder of a trade or business in the United States.

Shares Received by Employees Subject to U.S. Income Taxation

Any employee who is subject to U.S. federal income tax on his or her compensation from the Company and who purchases Shares at a price representing a discount from the fair market value of the Offer Shares will be subject to U.S. federal income and employment taxes with respect to such discount. Such employee should recognize ordinary income at the time of the receipt of such Shares equal to the fair market value of such Shares minus the amount paid for such Shares. The issuance of the Shares at a discount to such employee may be subject to U.S. wage withholding.

Sale or Exchange of Offer Shares

Subject to the discussion below under “Passive Foreign Investment Company Considerations,” a United States Holder generally will recognize gain or loss on the sale or exchange of Offer Shares equal to the difference

between the amount realized on such sale or exchange and the United States Holder's adjusted tax basis in the Offer Shares. Such gain or loss will be capital gain or loss. In the case of a non-corporate United States Holder, the marginal U.S. federal income tax rate applicable to such gain will be lower than the marginal U.S. federal income tax rate applicable to ordinary income if such United States Holder's holding period for such Offer Shares exceeds one year. Gain, if any, recognized by a United States Holder generally will be treated as United States source income for U.S. foreign tax credit purposes. Prospective investors should consult their tax advisors regarding the treatment of capital losses (the deductibility of which is subject to limitations).

A Non-United States Holder of Offer Shares generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of such Offer Shares unless (i) such gain is effectively connected with the conduct by such Non-United States Holder of a trade or business in the United States or (ii) in the case of any gain realized by an individual Non-United States Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

Passive Foreign Investment Company Considerations

A non-United States corporation will be classified as a "passive foreign investment company" (a "PFIC") for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (i) 75% or more of the corporation's gross income is passive income or (ii) on average at least 50% of the gross value of the corporation's assets is attributable to assets that produce "passive income" or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, certain royalties, rents, and gains from commodities and security transactions.

Based on the Company's estimated gross income, the average value of its gross assets and the nature of its business, the Company believes that it will not be classified as a PFIC for its current taxable year. However, the PFIC rules with respect to commodities income are unclear. The IRS could take the position that certain income earned by the Power and Heat Division is passive. Thus, there is a small risk that the Company would be classified as a PFIC. The Company's status in future years will depend on the Company's income and assets in those years. The Company has no reason to believe that its income, assets or activities will change in a manner that would cause it to be classified as a PFIC. If the Company were a PFIC, a United States Holder of Offer Shares generally would be subject to potentially punitive imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and certain distributions with respect to, the Offer Shares.

If the Company were a PFIC, a United States Holder of Offer Shares could make a variety of elections that may alleviate the tax consequences referred to above. Under recently-issued Temporary U.S. Treasury Regulations, a United States Holder of Offer Shares could make one such election retroactively if a number of conditions are satisfied, including that such United States Holder reasonably believed that the Company was not a PFIC in a specific year and, if the United States Holder owns two percent or more of the vote or value of any class of shares of the Company, the United States Holder filed a "Protective Statement" stating such reasonable belief in its United States federal income tax return for that year. The "Protective Statement" will apply to the first taxable year for which it was filed and to each subsequent taxable year. A United States Holder may make such an election retroactively without filing a Protective Statement if, for each year to which the retroactive election would apply, (i) the United States Holder held less than two percent of the stock of the Company (by vote and value) and (ii) the United States Holder received a statement from the Company or its counsel that the Company reasonably believes that it is not or should not constitute a PFIC for such year. However, it is not anticipated that such an annual statement will be provided by the Company or its counsel in future years, nor does the Company anticipate providing certain information that may be necessary for making such election. United States Holders should consult their own tax advisors regarding the tax consequences which would arise if the Company were treated as a PFIC.

Information Reporting and Backup Withholding Tax

United States information reporting requirements and backup withholding tax generally will apply to certain payments to certain non-corporate holders of Offer Shares. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, Offer Shares by a payor within the United States to a holder of Offer Shares (other than an "exempt recipient," which includes corporations, Non-United States Holders that provide an appropriate certification and certain other persons). A payor within the United States will be required to withhold 31 percent of any payment of proceeds from the sale or redemption of Offer Shares within the United States to a holder (other than a corporation or an "exempt recipient") if such

holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with such backup withholding requirements. Any amounts withheld under the backup withholding rules from a payment to a United States Holder will be refunded (or credited against such holder's U.S. federal income tax liability, if any), provided the required information is furnished to the U.S. Internal Revenue Service.

United States Treasury Regulations issued on October 6, 1997, and a recent Internal Revenue Service Notice announcing amendments to such regulations, would modify certain of the rules discussed above generally with respect to payments on the Offer Shares made after December 31, 1999. In particular, a payor within the United States will be required to withhold 31 percent of any payments of dividends on, or proceeds from the sale of, Offer Shares within the United States to a holder (other than an exempt recipient such as a corporation or a Non-United States Holder that provides an appropriate certification) if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. In the case of such payments by a payor within the United States to a foreign partnership (other than payments to a foreign partnership that qualifies as a "withholding foreign partnership" within the meaning of such United States Treasury Regulations and payments to a foreign partnership that are effectively connected with the conduct of a trade or business in the United States), the partners of such partnership will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information reporting requirements. Moreover, a payor may rely on a certification provided by a Non-United States Holder only if such payor does not have actual knowledge or a reason to know that any information or certification stated in such certificate is unreliable.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO OWNERSHIP OF OFFER SHARES. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

UNDERWRITING

The Global Offering consists of the International Offering and the Finnish Offering. Morgan Stanley & Co. International Limited (“Morgan Stanley”), UBS AG acting through its division Warburg Dillon Read (“Warburg Dillon Read”), and Conventum Markets Oy (“Conventum”) are acting as advisers (“the Advisers”) to the Finnish State in respect of the Global Offering. Morgan Stanley and Warburg Dillon Read are also acting as Joint Lead Managers of the International Offering (the “International Lead Managers”) and Conventum (together with Evli Securities Plc (“Evli”)) and Merita Corporate Finance Ltd (“Merita Corporate Finance”) are acting as Joint Lead Managers of the Finnish Offering (the “Finnish Lead Managers” and, together with the International Lead Managers, the “Lead Managers”).

The Global Offering

Each of the institutions named below (the “Managers”) has severally agreed, subject to the terms and conditions contained in an underwriting agreement to be entered into among the Company, the Selling Shareholder and the Managers, to purchase from the Selling Shareholder, or to procure purchasers for, the number of Offer Shares set forth opposite their respective names:

<u>Managers</u>	<u>Number of Offer Shares</u>
<i>International Offering</i>	
Morgan Stanley	11,250,000
Warburg Dillon Read	11,250,000
Evli	1,875,000
Merita Corporate Finance	625,000
Total International Offering	<u>25,000,000</u>
<i>Finnish Offering</i>	
Evli	15,627,442
Merita Corporate Finance	8,681,912
Leonia Bank plc	2,604,573
Opstock Ltd	2,604,573
Morgan Stanley	2,604,573
Warburg Dillon Read	<u>2,604,573</u>
Total Finnish Offering	<u>34,727,646</u>
Total	<u><u>59,727,646</u></u>

In consideration of the agreement by the Managers to purchase from the Selling Shareholder, or to procure purchasers for, the number of Offer Shares set forth above, the Selling Shareholder has agreed to pay to the Managers a commission of 2.80 percent of the aggregate offering price for such Offer Shares. In addition, the Selling Shareholder has agreed to pay the Advisers a fee representing 0.55 percent of the aggregate proceeds of the Finnish Retail Offering and the Employee Offering.

The Shares to be sold in the Finnish Retail Offering are being underwritten pursuant to a separate agreement whereas the Shares to be issued in the Exchange Offer and the Employee Offering are not being underwritten.

The Managers have entered into an agreement (the “Managers’ Agreement”) that provides for the coordination of their activities. Under the terms of the Managers’ Agreement, the Managers in each geographic area have agreed not to offer for sale any Offer Shares in any other geographic area until the completion of the distribution of the Offer Shares in the Global Offering. The Managers’ Agreement also provides, among other things, that the International Lead Managers shall have the authority to manage the orderly distribution of the Offer Shares in the International Offering, which may include the transfer of Offer Shares among the Managers in response to market demand. Except as otherwise agreed, the price of any Offer Shares so transferred will be the offering price set forth on the cover of this Offering Memorandum.

Each of the Company and the Selling Shareholder has agreed that it will not, for a period commencing on the date of this Offering Memorandum and ending 180 days after such date issue, offer, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Shares held by each of them at the date of

commencement of the Offerings, in each case without the prior consent of the Lead Managers, as representatives of the Managers, which consent shall not be unreasonably withheld; provided, however, that such restriction does not apply to any issuance of bonds with warrants, options, or Shares underlying such warrants or options pursuant to existing employee incentive programs of the Company.

The Company and the Selling Shareholder have agreed to indemnify the Managers and certain related parties against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Managers may be required to make in respect thereof. The Selling Shareholder has agreed to reimburse the Managers for certain of their expenses in connection with the Global Offering.

Selling Restrictions

General

No action has been taken in any jurisdiction by the Company, the Selling Shareholder or the Managers that would permit a public offering of the Shares, other than in Finland, in connection with the Global Offering. No offer or sale of Offer Shares may be made in any jurisdiction except under circumstances that will result in compliance with the applicable laws thereof. Persons to whom this Offering Memorandum comes are required by the Company, the Selling Shareholder and the Managers to inform themselves about and to observe any restrictions as to the offering of Shares and the distribution of this Offering Memorandum.

United Kingdom

Each Manager has represented and warranted that (a) it has not offered or sold and, prior to the date that is six months after the closing of the Global Offering, will not offer or sell any Offer Shares to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which do not constitute an offer to the public in the United Kingdom for purposes of the Public Offers of Securities Regulations 1995, (b) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Shares in, from or otherwise involving the United Kingdom, and (c) it has only issued or passed on and will only issue or pass on in the United Kingdom any document in connection with the issue of the Shares to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom the document may otherwise lawfully be issued or passed on.

Certain Relationships

Certain of the Managers have performed services for, and have normal banking relationships with, the Group in the ordinary course of business.

Finnish Retail Offering

In conjunction with the Global Offering, the Selling Shareholder is offering to the public in Finland 22,000,000 Shares at a public offering price equal to the offering price indicated on the cover of this Offering Memorandum. The Selling Shareholder is offering to investors in the Finnish Retail Offering one free Share for every 20 Shares purchased in the Finnish Retail Offering, subject to a minimum holding period of six months. No such free Shares are being offered in respect of any Offer Shares offered in the Global Offering.

Employee Offering

In connection with the Finnish Retail Offering, the Company is offering a maximum of 2,000,000 newly-issued Shares to employees of Fortum (with certain exceptions) at the same price per Share as the price per Offer Share in the Finnish Retail Offering, less a cash discount of ten percent. The Shares issued in connection with the Employee Offering carry no entitlement to free Shares.

The Exchange Offer

Pursuant to the Exchange Offer, the Company is issuing and offering 91,272,354 Shares to former shareholders and warrant holders of Neste participating in the Exchange Offer, in exchange for shares and warrants of Neste transferred to the Company by such former shareholders and warrant holders.

The number of Shares to be issued and sold by the Company pursuant to the Exchange Offer will be equal to the number of Shares the Company is obligated to deliver to former shareholders and warrant holders of Neste pursuant to the terms of the Exchange Offer. The Company will receive no consideration as a result of the

issuance of Shares pursuant to the Exchange Offer other than the transfer to the Company of shares and warrants of Neste. Until December 3, 1998, former shareholders and warrant holders of Neste who elected to participate in the Exchange Offer had the right to cancel their subscriptions for Shares and receive from the Company cash consideration of FIM 168.10 for each share or FIM 81.60 for each warrant of Neste previously held by them plus, in each case, an additional amount accruing at an annual rate of four percent from and including May 15, 1998 to the date of payment. Former shareholders of Neste entitled to a total of 140,974 Shares used their cancellation right and received total cash consideration of FIM 24.2 million. See “Formation of Fortum — Combination of IVO and Neste.” None of the former warrant holders of Neste cancelled their acceptance of the Exchange Offer.

Notice to Investors

The Offer Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the requirements of the Securities Act. Accordingly, the Offer Shares are being offered and sold only (a) to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A thereunder and (b) to investors outside the United States in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

Until 40 days after commencement of the Global Offering, an offer or sale of the Offer Shares within the United States by any dealer (whether or not participating in the Global Offering) may violate the registration requirements of the Securities Act if such an offer or sale is made otherwise than pursuant to Rule 144A.

Each purchaser of Offer Shares which is in the United States will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

- (1) The purchaser (i) is a QIB, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Offer Shares for its own account or for the account of a QIB.
- (2) The purchaser understands that the Offer Shares are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the Offer Shares have not been and will not be registered under the Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any Offer Shares, such Offer Shares may be offered, resold, pledged or otherwise transferred only (i) to a person whom the seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with the provisions of Rule 903 or Rule 904 under the Securities Act, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available) or (iv) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (iv) in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of such Offer Shares from it of the resale restrictions referred to in (A) above.
- (3) Each QIB understands that any of its Offer Shares delivered in certificated form will, until the second anniversary of their date of original issuance, unless otherwise agreed by the Company and the holder thereof, bear a legend substantially to the following effect:

“THIS SHARE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND THIS SHARE MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM.

EACH PURCHASER OF THIS SHARE IS HEREBY NOTIFIED THAT THE SELLER OF THIS SHARE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A UNDER THE SECURITIES ACT.

THE HOLDER OF THIS SHARE AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SHARE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (I) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A

TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND (B) THE PURCHASER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SHARE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.”

- (4) The purchaser shall not deposit the Offer Shares into any unrestricted American depositary receipt facility established or maintained by a depositary bank, unless and until such time as such Offer Shares are no longer “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.

LEGAL MATTERS

Certain legal matters in connection with the Offerings will be passed upon for the Company and the Selling Shareholder by White & Case LLP, international counsel to the Company and the Selling Shareholder, and for the Managers by Freshfields, international counsel to the International Managers. Certain legal matters in connection with the Offerings with respect to Finnish law will be passed upon for the Company and the Selling Shareholder by Roschier-Holmberg & Waselius, Attorneys Ltd. and for the Managers by Hannes Snellman, Attorneys at Law Ltd.

AUTHORIZED PUBLIC ACCOUNTANTS

The pro forma consolidated balance sheets of Fortum as of December 31, 1996 and 1997 and the statements of income and cash flow for each of the three years ended December 31, 1997 are included in this Offering Memorandum have been reviewed by SVH Pricewaterhouse Coopers Oy and Arthur Andersen Oy, authorized public accountants, as indicated in their reports included herein.

SVH Pricewaterhouse Coopers Oy (SVH Coopers & Lybrand Oy) has audited the historical consolidated financial statements of the IVO Group for the years ended December 31, 1995, 1996 and 1997 and issued unqualified opinions on them.

Arthur Andersen Oy (Arthur Andersen Kihlman Oy) has audited the historical consolidated financial statements of the Neste Group for the years ended December 31, 1995, 1996 and 1997 and issued unqualified opinions on them.

GLOSSARY

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in this Offering Memorandum.

“Adhesive resins”	Primarily formaldehyde-based resins used in the manufacture of products such as chipboard and plywood.
“Aromatics”	Hydrocarbons characterized by having at least one benzene ring and known as aromatics because of their distinctive, sweet odor. Common aromatics include toluene and xylene.
“Barrels” or “bbl”	Barrels of crude oil.
“Base-load power”	Power generation that meets steady year-round demand for electricity.
“Base oil”	The main component of lubricant blends.
“Biofuel”	Fuel derived from organic materials, such as wood.
“Bitumen”	The bottom product of crude oil vacuum distillation. A black or dark brown solid or semi-solid organic compound that gradually softens and turns to liquid when heated.
“Boe”	Barrels of oil equivalent.
“Boiler”	Equipment in which water is heated by the application of an external heat source to provide a supply of hot water or steam.
“Bpd”	Barrels per day.
“Brent crude oil”	A light, low-sulfur crude oil from the North Sea.
“Capacity”	At any given moment, the maximum power at which a power station or unit can be operated. The net capacity of a nuclear power plant is the maximum power that can be supplied by the plant to the grid. Gross capacity refers to net capacity increased by the maximum amount of power required by the power plant for its own use.
“Catalytic cracking”	A process used to break down large hydrocarbon molecules into smaller ones through the use of a catalyst and elevated temperatures, thus allowing heavy oils to be converted into lighter products. Fluid catalytic cracking and thermofoor catalytic cracking are two types of this basic process.
“CCGT power plant”	Combined-cycle gas-turbine power plant. A power plant in which exhaust gases, typically from the combustion of natural gas, are used to drive a gas turbine directly and then are routed through a boiler to produce steam to drive a steam turbine.
“CHP”	Combined heat and power generation. A method of power generation where the thermal energy passed through the turbine is utilized for industrial purposes and/or district heating.
“City Diesel”	An industry term for low-sulfur, low-aromatic diesel fuels.
“Coal-fired power plant”	A power plant in which a steam turbine is driven by the steam produced by burning coal in a boiler.
“Coal”	A fuel substance of plant origin, composed largely of carbon with varying amounts of mineral matter. Coal belongs to a series of carbonaceous fuels that differ in the relative amounts of moisture, volatile matter, and fixed carbon they contain; the most useful contain the largest amounts of carbon and the smallest amounts of moisture and volatile matter. The highest grade of coal is anthracite, or hard coal, which is nearly pure carbon and is used as a household fuel. Bituminous coal, or soft coal, with a lower carbon content, is used as an industrial fuel and in making coke. Lignite and peat are the lowest in carbon content.

“CO ₂ ”	Carbon dioxide, a significant greenhouse gas.
“Compressor station”	A station at which gas pressure is boosted to maintain gas flow through a pipeline.
“Condensate”	Natural gas condensates formed during gas production and transmission.
“Condensing power”	A method of power generation where electric energy is generated in a turbine by condensing steam using cooling water.
“Cracking”	The conversion of large hydrocarbon molecules into smaller ones. Cracking is carried out either at high temperatures and high pressure (thermal cracking), or with the aid of a catalyst (catalytic cracking and hydrocracking). The cracking process enables greater quantities of saturated hydrocarbons suitable for gasoline and other light fractions to be recovered from crude oil.
“Crude distillation capacity”	The maximum amount of crude oil that can be distilled at a refinery in a year.
“Distillates”	See “Condensate.”
“Distribution”	The transfer of electricity via low-voltage networks.
“District heating”	Means of providing heating to a number of buildings from a centrally located source.
“Dwt”	Dead-weight tons. A vessel’s cargo-carrying capacity in tons.
“Electricity company”	A company which is both a seller and a distributor of electricity and possibly also has electricity generation capacity.
“Energy company”	A company that conducts operations in the energy sector, which includes businesses relating to oil, gas, power, electricity and heat.
“EL-EX”	The Finnish electricity exchange.
“Embrittlement”	A process that weakens a material, decreasing its bearing capacity.
“Feedstocks”	Crude oil and other hydrocarbons used as basic materials in a refining or manufacturing process.
“Fossil fuel”	Coal, coal products, lignite, natural gas, crude liquid petroleum or other petroleum products.
“Gas oils”	Distillates, intermediates, somewhat heavier than kerosene, often used as diesel fuel.
“Gasoline”	A light liquid petroleum product with a boiling range of 30-200°C which is typically used as a fuel for internal combustion engines.
“Gas turbine”	A high-speed machine used for converting heat energy from the exhaust gases produced during combustion into mechanical work. Natural gas or light fuel oil can be used as fuel.
“Gelcoats”	An unreinforced polyester coating applied to the surface of an object to improve its surface properties.
“Generator”	A company that produces power.
“Grid system”	Network of high voltage lines used for electricity transmission.
“GW”	Gigawatt. A unit of power. 1 GW = 1,000 MW.

“GWh”	Gigawatt hour. A unit of energy; the electricity or heat generated in one hour with the effect of 1 GW.
“Heat company”	A company that produces heat in the form of district heat (hot water) or process steam, and distributes and supplies it to customers.
“Heating oil”	A refined petroleum product used for heating purposes.
“Heating plant”	A plant that generates only steam and/or hot water.
“Heavy fuel oil”	Fuel oil with a distillation range of over 350°C. Heavy fuel oil is used in heat plants, power stations and industrial furnaces.
“High-level waste”	Nuclear waste that contains a very large amount of radioactive substances, the treatment of which requires radiation protection measures and sufficient cooling. High-level nuclear waste includes radioactive materials contained in spent nuclear fuel.
“Hydroelectric power”	Electricity generated by utilizing the downward movement of water.
“Hydroelectric power plant”	A power plant utilizing a water flow to turn hydro-turbines.
“Intermediate-level waste”	Nuclear waste which contains an intermediate amount of radioactive substances, the treatment of which requires radiation protection measures but not cooling. Intermediate-level wastes include ion-exchange resins used for purifying nuclear reactor water.
“International refining margin”	The average difference between the cost of Brent crude oil and other refinery feedstocks and the average price for refined products produced by complex refineries in Northwestern Europe.
“Intermediates”	Chemicals produced during the intermediate phases of the manufacturing process of another chemical.
“ISO”	The International Organization for Standardization.
“ISO 9002”	International standards established by the ISO to certify quality management systems.
“ISO 14001”	An international standard established by the ISO to certify environmental management systems.
“kV”	Kilovolt. A unit of voltage. 1 kV = 1,000 V (volts).
“kW”	Kilowatt. A unit of power. 1 kW = 1,000 W.
“kWh”	Kilowatt hour. A unit of energy; the electricity or heat generated in one hour with the effect of 1 kW.
“Light fuel oil”	A fuel oil with an ignition temperature over 55°C. Light fuel oil is used in oil-fired heating plants and boilers, and as a diesel-equivalent to power some types of machinery.
“Load factor”	Ratio of the energy that is produced by a facility during a certain period to the energy that it could have produced at maximum capacity under continuous operation during the whole of that period.
“Low-level waste”	Nuclear waste which contains a small amount of radioactive materials, the treatment of which requires only minor radiation protection measures. Low-level waste includes the protective clothing used in the nuclear power plant and other similar items that have been contaminated by radioactive substances but are not radioactive by nature.

“LPG”	Liquefied petroleum gas. A gas mixture used for fuel purposes, containing propane, propene, butane, or butene as its main components, that has been liquefied to enable it to be transported and stored under pressure.
“Lubricants”	Fluids used to reduce friction and wear between solid surfaces (typically metals) in relative motion. Lubricants are generally derived from petroleum.
“MPG”	Monopropylene glycol, a raw material used in the production of polyesters.
“mSv”	Millisievert. A unit of radiation dosage. 1,000 mSv = 1 Sv (sievert). The average annual per capita radiation dose in Finland is approximately 4 mSv.
“MTBE”	Methyl 562 tertiary butyl ether, a high-octane component, or oxygenate, used in the production of low-emission gasoline.
“MW”	Megawatt. A unit of power. 1 MW = 1,000 kW (kilowatt) = 1,000,000 W (watt). The power of a normal incandescent lamp is 25 to 100 W.
“MWh”	Megawatt hour. A unit of electrical or thermal energy; the electricity or heat generated in one hour with the effect of 1 MW.
“Naphtha”	A low-octane member of the gasoline family used as a feedstock by the chemicals industry, as a feedstock for catalytic reforming, and in the production of hydrogen.
“Natural gas”	Any hydrocarbons or mixture of hydrocarbons and other gases consisting primarily of methane which at normal operating conditions is in a gaseous state.
“NexCC”	Neste catalytic cracking.
“NO _x ”	Nitrogen oxides. Permanent nitrogen compounds, some of which destroy stratospheric ozone and some of which are “greenhouse” gases that may contribute to global warming.
“NPG”	Neopentyl glycol. A polyol intermediate used in the production of polyester plastics and points.
“Nord Pool”	The Norwegian-Swedish electricity exchange.
“Nuclear fuel”	Material containing fissile nuclides which, when placed in a reactor, enables a self-sustaining nuclear chain reaction.
“Nuclear power plant”	A power plant where energy is generated by a controlled nuclear fission reaction.
“Operator”	The company appointed to conduct operations under the license or concession governing an oil or gas field.
“OTC”	The over-the-counter market.
“Oxo products”	Oxo products are used in many applications primarily by the paint, coatings and plastics industries. Butyraldehydes, butanols, 2-ethyl hexanol, phthalic anhydride, dioctylphthalate (DOP) and 2-ethylhexanoic acid are used as solvents, plasticizers and other applications, and as raw materials in the manufacture of other products.
“PAO”	Polyalphaolefin. The main component of synthetic lubricants.
“Peak-load power”	Electricity generation required to meet peak-load demand for electricity.

“Peat”	Soil material consisting of partially-decomposed organic matter, formed by the slow decay of aquatic and semi-aquatic plants in swamps and bogs and used as fuel in energy production.
“Petrochemicals”	“Building block” chemicals used in the production of polymers and a variety of other products.
“Point pricing system”	Electricity transmission and distribution pricing system under which payment of a single fee entitles the electricity seller to transmit electricity to customers regardless of distance from the transmission or distribution point.
“Polyester resins”	Resins generally used together with fiberglass to produce reinforced plastic products.
“Polymers”	Substances produced by polymerization and combining a set of identical or different monomers into a chain- or net-like structures. Polymers in the chemicals industry typically contain thousands of molecules, and are used to produce plastics, rubbers and man-made fibers.
“Polystyrene”	A styrene-based plastic used in a wide variety of consumer goods and, in its expanded form, in insulation materials and packaging.
“Pressurized water reactor”	A light-water nuclear reactor in which heat is transferred from the reactor core to a heat exchanger via water kept under high pressure, so that high temperatures can be maintained in the primary system without boiling the water. Steam is generated in a secondary system.
“Probable reserves”	Probable reserves of petroleum are the estimated quantities, as of a specific date, that analysis of geological and engineering data indicate may be economically recoverable from already-discovered deposits with a reasonably high degree of probability, which suggests the likelihood of their existence, but not sufficient to be classified as proved. Due to uncertainties as to whether and to what extent such probable reserves may be expected to be recoverable in the future, the estimates are generally given as a range but may be given as a single intermediate figure in which all uncertainties have been incorporated.
“Process steam”	Steam used for thermal energy for industrial purposes.
“Proven developed reserves”	The crude oil and natural gas reserves expected to be recovered through existing wells using existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as “proven developed reserves” only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.
“Proven reserves”	<p>The estimated quantities of crude oil, natural gas, and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions (prices and costs as of the date the estimate is made). Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalation-based future conditions.</p> <p>(i) Reservoirs are considered proven if economic producibility is supported by either actual production or a conclusive formation test. The area of a reservoir considered proven includes (A) that portion delineated</p>

by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves that can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(iii) Estimates of proven reserves do not include the following: (A) oil that may become available from known reservoirs but is classified separately as "indicated additional reserve;" (B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (C) crude oil, natural gas, and natural gas liquids that may occur in undrilled prospects; and (D) crude oil, natural gas, and natural gas liquids that may be recovered from oil shales, coal, gilsonite and other such sources.

"PWR"	A light-water reactor in which heat is transferred from the reactor core to a heat exchanger via water kept under high pressure (the primary circuit). Steam is generated in a secondary circuit to operate the connected turbine and generator.
"Radioactive"	Where the nucleus of an atom emits ionizing radiation.
"Refinery"	A facility used to process crude oil. The basic process unit in a refinery is a crude oil distillation unit, which splits crude oil into various fractions through a process of heating and condensing. Simple, or hydroskimming, refineries normally have crude distillation, catalytic reforming, and hydrotreating units. The demand for lighter petroleum products, such as motor gasoline and diesel fuel, has increased the need for more sophisticated processing. Complex refineries have vacuum distillation, catalytic cracking, or hydrocracking units. Cracking units process vacuum oil into gasoline, gas oil, and heavy fuel oil.
"Reformulated gasoline"	An advanced type of motor gasoline formulated to produce lower environmental emissions than conventional gasolines.
"Renewable energy"	Renewable energy sources include wood and biomass, as well as solar, wind and tidal energy, and hydroelectric power. Non-renewable sources include crude oil, natural gas, coal and uranium.
"SO ₂ "	Sulfur dioxide, the combustion product of sulfur, which is formed through the use of fuels containing sulfur.
"Solvent"	A liquid that is used for diluting or thinning a solution. A liquid that absorbs another liquid, gas, or solid in order to form a homogeneous mixture.
"Spot market"	With respect to commodities such as oil, a term used to describe the international trade in one-off cargoes or shipments, in which prices closely follow demand and availability. With respect to electricity, short-term daily spot trading.

“Styrene”	A colorless, flammable and water-soluble liquid made from ethylene and benzene; used in making synthetic plastics and rubbers.
“Substation”	Location where the voltage level of electricity is transformed. A switching substation or transformer substation.
“Supply”	Retail sale and marketing of electricity, or procurement of fuels, or a method of meeting demand for various products and services.
“Switch-yard”	Area with transmission- and distribution-related switches.
“Synthesis gas”	Synthesis gas is a mixture of carbon monoxide and hydrogen, containing approximately equal amounts of both components. In addition, it may contain smaller amounts of other gases such as carbon dioxide, nitrogen and/or water vapour. Synthesis gas is usually produced by gasification of organic materials such as natural gas, middle distillates or biomass.
“TAME”	Tertiary amyl ether, a high-octane component, or oxygenate, used in the production of low-emission gasoline.
“Ton”	1 metric ton (1,000 kilograms) or approximately 2,205 pounds.
“Transformer”	Device that transforms the voltage level of electricity.
“Transmission”	The transfer of electricity via high-voltage networks or grids.
“Turnkey contract”	A contract in which a contractor agrees to undertake all work required to complete the entire project and such contractor assumes the risk in relation to such completion.
“TW”	Terawatt. A unit of power. 1 TW = 1,000 GW (gigawatt-hour) = 1,000,000 MW (megawatt) = 1,000,000,000 kW (kilowatt).
“TWh”	Terawatt hour. A unit of energy; the electricity or heat generated in one hour with the effect of 1 TW.
“VHVI base oil”	Very high viscosity index base oil, a key component of high-quality motor oils that reduce engine fuel consumption.
“Vinyl”	Polyvinyl chloride, a vinyl resin widely used in the construction industry in the form of pipes, cables and coatings.
“VOCs”	Volatile organic compounds. VOCs are released through leaks and wherever volatile substances such as solvents and gasoline come into contact with the air. The largest single source of VOCs is the displacement gases released during oil loading and unloading operations.
“VVER-type nuclear power plant”	Russian-type pressurized-water reactor.

CONVERSION TABLE

1 barrel	= 42 U.S. gallons
1 barrel of oil equivalent	= 1 barrel of crude oil = 6,000 cubic feet of natural gas

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FORTUM GROUP

PRO FORMA INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 1997 and 1998

and at September 30, 1997 and 1998

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REPORT OF AUTHORIZED PUBLIC ACCOUNTANTS

We are the joint auditors of Fortum Corporation (the "Company"). We have read the pro forma interim consolidated financial statements of the Company for the nine months ended September 30, 1998 and 1997 included in the Offering Memorandum. These financial statements consist of pro forma interim consolidated income statements for nine months periods ended September 30, 1997 and 1998 and a pro forma interim consolidated balance sheet as of September 30, 1998 and present the combined results of Imatran Voima Oy group ("IVO") and Neste Oyj group ("Neste") as if they had been combined on January 1, 1995. The pro forma interim consolidated financial statements reflect intragroup eliminations and certain other adjustments to conform the accounting policies of IVO and Neste to those of Fortum. The pro forma interim consolidated financial statements have not been audited or reviewed and accordingly we do not express such an opinion. The pro forma interim consolidated financial statements are not intended to present the actual results as if the combination had occurred on January 1, 1995. All information included in the pro forma interim consolidated financial statements, which are prepared in accordance with generally accepted accounting principles in Finland, is the responsibility of the Company.

Based on our reading of the pro forma interim consolidated financial statements, nothing came to our attention that caused us to believe that the method of combining the historical financial statements of Neste and IVO and the pro forma adjustments applied thereto were inconsistent with the methodology applied by the Company in preparing the pro forma consolidated financial statement for the three years ended December 31, 1997, 1996 and 1995.

Helsinki, December 10, 1998

Arthur Andersen Oy
Authorized Public Accountants

Hannu Vänskä
Authorized Public Accountant

SVH Pricewaterhouse Coopers Oy
Authorized Public Accountants

Pekka Kaasalainen
Authorized Public Accountant

FORTUM GROUP
PRO FORMA INTERIM CONSOLIDATED INCOME STATEMENTS
(unaudited)

	<u>Note</u>	<u>Nine months ended September 30,</u>	
		<u>1997</u>	<u>1998</u>
		<i>(FIM in millions)</i>	
Net sales	1		
Continuing operations		38,864	34,149
Acquired operations		3,593	4,558
Discontinued operations		1,031	—
Eliminations		(481)	(663)
		<u>43,007</u>	<u>38,044</u>
Share of profits of associated companies		284	224
Other operating income		360	319
Operating expenses		(38,435)	(33,905)
Depreciation	3	<u>(2,047)</u>	<u>(2,292)</u>
Operating profit	4		
Continuing operations		2,018	1,564
Acquired operations		776	846
Discontinued operations		385	—
Eliminations		(10)	(20)
		<u>3,169</u>	<u>2,390</u>
Financial income and expenses		(1,086)	(921)
Profit before extraordinary items and taxes		2,083	1,469
Extraordinary items	5	<u>2,726</u>	<u>(24)</u>
Profit before taxes		<u>4,809</u>	<u>1,445</u>
Income taxes	6	(444)	(499)
Minority interests		(214)	(124)
Net profit for the period		<u><u>4,151</u></u>	<u><u>822</u></u>

FORTUM GROUP
PRO FORMA INTERIM CONSOLIDATED BALANCE SHEETS
(unaudited)

	<u>Note</u>	<u>At September 30, 1998</u>	<u>At December 31, 1997</u>
		<i>(FIM in millions)</i>	
Fixed assets and other long-term investments		51,969	52,440
Current assets			
Inventories		3,663	4,383
Receivables		7,447	8,757
Cash and marketable securities		4,162	3,809
Total		<u>15,272</u>	<u>16,949</u>
Total assets	7,8,9	<u>67,241</u>	<u>69,389</u>
Shareholders' equity		23,404	23,374
Minority interests		1,197	1,744
Provisions for liabilities and charges		290	219
Deferred tax liabilities		4,664	4,252
Long-term liabilities		22,770	25,377
Short-term liabilities		<u>14,916</u>	<u>14,423</u>
Total shareholders' equity and liabilities	7,8,9	<u>67,241</u>	<u>69,389</u>

FORTUM GROUP

NOTES TO THE PRO FORMA INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Net sales by division

	Nine months ended September 30,	
	1997	1998
	<i>(FIM in millions)</i>	
Exploration and Production	904	714
Oil	27,322	21,790
Gas	2,447	2,801
Power and Heat		
Continuing operations	4,203	4,046
Acquired operations	3,593	3,798
Eliminations	(36)	(549)
Total	7,760	7,295
Operation and Maintenance	896	1,007
Engineering	1,527	1,391
Energy Measurement	293	399
Chemicals		
Continuing operations	3,373	3,471
Acquired operations	—	760
Discontinued operations	361	—
Eliminations	(62)	(1)
Total	3,672	4,230
Other operations	608	680
Grid Services	670	—
Total	46,099	40,307
Internal invoicing		
Continuing operations	(2,709)	(2,150)
Other	(383)	(113)
Total	(3,092)	(2,263)
Net sales	43,007	38,044

2. Average number of personnel by division

	Nine months ended September 30, 1998
Exploration and Production	280
Oil	4,126
Gas	430
Power and Heat	
Continuing operations	831
Acquired operations	2,015
Total	2,846
Operation and Maintenance	3,134
Engineering	2,501
Energy Measurement	730
Chemicals	
Continuing operations	2,032
Acquired operations	689
Total	2,721
Other operations	2,213
Average number of personnel	18,981

FORTUM GROUP
NOTES TO THE PRO FORMA INTERIM
CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

3. Depreciation by division

	Nine months ended September 30,	
	1997	1998
	<i>(FIM in millions)</i>	
Exploration and Production	299	332
Oil	583	621
Gas	55	66
Power and Heat		
Continuing operations	378	451
Acquired operations	366	490
Total	<u>744</u>	<u>941</u>
Operation and Maintenance	11	21
Engineering	18	25
Energy Measurement	22	24
Chemicals		
Continuing operations	145	151
Acquired operations	—	43
Discontinued operations	11	—
Total	<u>156</u>	<u>194</u>
Other operations	69	78
Grid Services	97	—
Total	<u>2,054</u>	<u>2,302</u>
Eliminations		
Continuing operations	(6)	(10)
Other	(1)	—
Total	<u>(7)</u>	<u>(10)</u>
Depreciation	<u>2,047</u>	<u>2,292</u>

FORTUM GROUP
NOTES TO THE PRO FORMA INTERIM
CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

4. Operating profit by division

	Nine months ended September 30,	
	1997	1998
	<i>(FIM in millions)</i>	
Exploration and Production	363	73
Oil	519	739
Gas	272	260
Power and Heat		
Continuing operations	688	664
Acquired operations	776	767
Total	<u>1,464</u>	<u>1,431</u>
Operation and Maintenance	48	22
Engineering	12	(10)
Energy Measurement	23	48
Chemicals		
Continuing operations	167	89
Acquired operations	—	37
Discontinued operations	21	—
Total	<u>188</u>	<u>126</u>
Other operations and associated companies		
Other operations	(218)	(376)
Associated companies	179	120
Total	<u>(39)</u>	<u>(256)</u>
Grid Services	346	—
Total	<u>3,196</u>	<u>2,433</u>
Eliminations		
Continuing operations	(17)	(23)
Other	(10)	(20)
Total	<u>(27)</u>	<u>(43)</u>
Operating profit	<u>3,169</u>	<u>2,390</u>

5. Extraordinary items

	Nine months ended September 30,	
	1997	1998
	<i>(FIM in millions)</i>	
Extraordinary income	3,575	67
Extraordinary expenses	(849)	(91)
Total	<u>2,726</u>	<u>(24)</u>

FORTUM GROUP
NOTES TO THE PRO FORMA INTERIM
CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

6. Income taxes

	Nine months ended September 30,	
	1997	1998
	<i>(FIM in millions)</i>	
Taxes for the period and previous periods (1)	1,148	520
Change in deferred tax liabilities	(704)	(21)
Total	<u>444</u>	<u>499</u>

(1) Accrued taxes for the period.

7. Investments by division

	Nine months ended September 30,	
	1997	1998
	<i>(FIM in millions)</i>	
Exploration and Production	570	1,021
Oil	818	414
Gas	167	113
Power and Heat		
Continuing operations	2,012	493
Acquired operations	<u>2,110</u>	<u>5,695</u>
Total	<u>4,122</u>	<u>6,188</u>
Operation and Maintenance	26	29
Engineering	25	48
Energy Measurement	34	44
Chemicals		
Continuing operations	164	100
Acquired operations	—	37
Discontinued operations	<u>8</u>	<u>—</u>
Total	<u>172</u>	<u>137</u>
Other operations	228	101
Grid Services	<u>150</u>	<u>—</u>
Total	<u>6,312</u>	<u>8,095</u>
Eliminations		
Continuing operations	(8)	87
Other	<u>(12)</u>	<u>—</u>
Total	<u>(20)</u>	<u>87</u>
Investments	<u>6,292</u>	<u>8,182</u>

FORTUM GROUP
NOTES TO THE PRO FORMA INTERIM
CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

8. Identifiable assets by division

	<u>At September 30, 1998</u>	<u>At December 31, 1997</u>
	<i>(FIM in millions)</i>	
Exploration and Production	4,614	4,302
Oil	9,516	10,487
Gas	1,740	1,808
Power and Heat		
Continuing operations	8,890	11,180
Acquired operations	<u>22,737</u>	<u>16,825</u>
Total	<u>31,627</u>	<u>28,005</u>
Operation and Maintenance	93	90
Engineering	491	441
Energy Measurement	226	214
Chemicals		
Continuing operations	1,869	1,908
Acquired operations	607	605
Discontinued operations	—	178
Total	<u>2,476</u>	<u>2,691</u>
Other operations and associated companies		
Other operations	1,846	1,308
Associated companies	<u>940</u>	<u>4,979</u>
Total	<u>2,786</u>	<u>6,287</u>
Grid Services	—	34
Total	<u>53,569</u>	<u>54,359</u>
Eliminations		
Continuing operations	<u>(212)</u>	<u>(286)</u>
Identifiable assets	<u><u>53,357</u></u>	<u><u>54,073</u></u>

9. Liabilities

	<u>At September 30, 1998</u>	<u>At December 31, 1997</u>
	<i>(FIM in millions)</i>	
Interest-bearing liabilities	27,099	26,611
Cash and marketable securities	4,162	3,809
Interest-bearing net debt	<u><u>22,937</u></u>	<u><u>22,802</u></u>

FORTUM GROUP
NOTES TO THE PRO FORMA INTERIM
CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

10. Contingent liabilities

	<u>At September 30, 1998</u>	<u>At December 31, 1997</u>
	<i>(FIM in millions)</i>	
Contingent liabilities		
Pledges granted for own debt	2,225	4,087
Real estate mortgages for own debt and other commitments	2,305	2,960
Company mortgages for own debt and other commitments	352	373
Other mortgages for own debt and other commitments	378	350
Guarantees on behalf of		
Persons referred to in §11:7 of the Companies Act	0	0
Associated companies	1,520	320
Others	1,187	1,230
Total	<u>2,707</u>	<u>1,550</u>
Other contingent liabilities	1,433	2,398
Total	<u><u>9,400</u></u>	<u><u>11,718</u></u>
 Operating lease liabilities		
Due within a year	157	141
Due after a year	559	292
Total	<u><u>716</u></u>	<u><u>433</u></u>
 Liability for nuclear waste disposal(1)	2,624	2,624
Share of reserves in the nuclear waste disposal fund	(1,856)	(1,648)
Liabilities in the balance sheet	(567)	(775)
Entry of additional costs(2)	(130)	—
Net liability(3)	<u><u>71</u></u>	<u><u>201</u></u>

(1) The liability for 1998 will be specified at the end of the financial year.

(2) During the financial year, increase in the assumed liability is accrued.

(3) Net liability not entered as of September 30, 1998 corresponds to interest income of the fund for the four subsequent years.

FORTUM GROUP
NOTES TO THE PRO FORMA INTERIM
CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

11. Derivatives

Interest and currency derivatives	At September 30, 1998			At December 31, 1997		
	Contract or notional value	Fair value	Not recognised as income	Contract or notional value	Fair value	Not recognised as income
	<i>(FIM in millions)</i>					
FRAs and bond futures	325	0	0	7,284	1	1
Interest rate swaps	7,393	(113)	(113)	5,529	(14)	(14)
Interest rate options						
Purchased	200	0	0	120	0	0
Written	1,404	(18)	(18)	1,355	(36)	(36)
Forward foreign exchange contracts	6,727	141	22	18,163	(39)	(5)
Currency swaps . . .	3,145	124	0	2,613	173	1
Currency options						
Purchased	816	4	4	760	(4)	(4)
Written	811	10	10	733	0	0
Oil futures and forward instruments	Volume	Fair value	Not recognised as income	Volume	Fair value	Not recognised as income
	<i>(thousands of barrels)</i>	<i>(FIM in millions)</i>	<i>(FIM in millions)</i>	<i>(thousands of barrels)</i>	<i>(FIM in millions)</i>	<i>(FIM in millions)</i>
Sales contracts	16,826	(47)	—	12,867	89	—
Purchase contracts	8,308	15	—	9,132	(50)	—
Options						
Purchased	981	0	—	275	0	—
Written	937	1	—	600	0	—
Electricity derivatives	Volume	Fair Value	Not recognised as income	Volume	Fair Value	Not recognised as income
	<i>(TWh)</i>	<i>(FIM in millions)</i>	<i>(FIM in millions)</i>	<i>(TWh)</i>	<i>(FIM in millions)</i>	<i>(FIM in millions)</i>
Sales contracts	17	108	137	6	(22)	(5)
Purchase contracts	15	(130)	(130)	9	1	1
Options:						
Purchased	0	0	0	0	0	0
Written	0	0	0	0	0	0

The fair value of derivative contracts subject to public trading is based on market prices as of the balance sheet date. The fair values of other derivatives are based on the present value of cash flows resulting from the contracts and, in respect of options, on evaluation models.

Other contingent liabilities include a rent liability not exceeding DEM 60 million, which is tied to the price development of petrochemicals and plastics in the four-year period ending in 1999. This liability will not materialize at market prices on the balance sheet date.

FORTUM GROUP

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

**For the years ended
December 31, 1995, 1996 and 1997
and at
December 31, 1996 and 1997**

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REPORT OF AUTHORIZED PUBLIC ACCOUNTANTS

We are the joint auditors of Fortum Corporation (the "Company"). We have reviewed the pro forma consolidated financial statements of the Company for the years ended December 31, 1997, 1996 and 1995 (the "pro forma consolidated financial statements") included in the Offering Memorandum in accordance with generally accepted auditing standards in Finland. These pro forma consolidated financial statements present the combined results of Imatran Voima Oy group ("IVO") and Neste Oyj group ("Neste") as if they had been combined on January 1, 1995. The pro forma consolidated financial statements reflect intra-group eliminations and certain other adjustments to conform the accounting policies of IVO and Neste to those of Fortum, as described in the notes to the pro forma consolidated financial statements. SVH Pricewaterhouse Coopers Oy (SVH Coopers & Lybrand Oy) has issued unqualified opinions on the historical consolidated financial statements of IVO and Arthur Andersen Oy (Arthur Andersen Kihlman Oy) has issued unqualified opinions on the historical consolidated financial statements of Neste for the years ended December 31, 1997, 1996 and 1995. The most recent audit opinions for IVO and Neste are dated March 9, 1998 and February 23, 1998, respectively. The pro forma consolidated financial statements are not intended to present the actual results as if the combination had occurred on January 1, 1995. All information included in the pro forma consolidated financial statements is the responsibility of the Company.

Arthur Andersen Oy did not audit or review the historical consolidated financial statements of IVO. Such statements are included in the pro forma consolidated financial statements of the Company. Such statements were audited by SVH Pricewaterhouse Coopers Oy and the opinion on these financial statements, in so far as it relates to the amounts included for IVO, is solely the responsibility of SVH Pricewaterhouse Coopers Oy.

SVH Pricewaterhouse Coopers Oy did not audit or review the historical consolidated financial statements of Neste. Such statements are included in the pro forma consolidated financial statements of the Company. Such financial statements were audited by Arthur Andersen Oy and the opinion on these financial statements, in so far as it relates to the amounts included for Neste, is solely the responsibility of Arthur Andersen Oy.

A review is substantially less in scope than an audit, the objective of which is the expression of an opinion on the results of operations and financial position of the Company. Accordingly, we do not express such an opinion.

Based on our review, nothing has come to our attention that causes us to believe that the pro forma consolidated financial statements do not give, for the purpose described above, a true and fair view of the results of operations and financial position of the Company as of and for the years ended December 31, 1997, 1996 and 1995 in accordance with generally accepted accounting principles in Finland.

Helsinki, December 10, 1998

Arthur Andersen Oy
Authorized Public Accountants

Hannu Vänskä
Authorized Public Accountant

SVH Pricewaterhouse Coopers Oy
Authorized Public Accountants

Pekka Kaasalainen
Authorized Public Accountant

FORTUM GROUP
PRO FORMA CONSOLIDATED INCOME STATEMENTS
(unaudited)

	Note	Year ended December 31,		
		1995	1996	1997
		<i>(FIM in millions)</i>		
Net sales	1			
Continuing operations		50,882	52,588	54,134
Acquired operations		0	2,378	5,355
Discontinued operations		1,740	1,786	1,096
Eliminations		(773)	(684)	(541)
		<u>51,849</u>	<u>56,068</u>	<u>60,044</u>
Share of profits of associated companies		452	67	444
Other operating income	1	663	488	628
Operating expenses	2	(47,224)	(50,902)	(53,946)
Depreciation	3	(2,222)	(2,456)	(2,763)
Operating profit				
Continuing operations		2,641	2,176	2,658
Acquired operations		(1)	493	1,163
Discontinued operations		886	603	595
Eliminations		(8)	(7)	(9)
		<u>3,518</u>	<u>3,265</u>	<u>4,407</u>
Financial income and expenses	4	(1,024)	(963)	(1,451)
Profit before extraordinary items and taxes		2,494	2,302	2,956
Extraordinary items	5	24	207	1,939
Profit before taxes		2,518	2,509	4,895
Income taxes	6	(1,082)	(773)	(547)
Minority interests		(61)	(165)	(308)
Net profit for the period		<u>1,375</u>	<u>1,571</u>	<u>4,040</u>

FORTUM GROUP
PRO FORMA CONSOLIDATED BALANCE SHEETS
(unaudited)

	<u>Note</u>	<u>At December 31,</u>	
		<u>1996</u>	<u>1997</u>
		<i>(FIM in millions)</i>	
Fixed assets and other long-term investments			
Intangible assets	7		
Intangible rights		104	96
Goodwill		295	363
Goodwill on consolidation		385	468
Other long-term expenditure		631	821
		<u>1,415</u>	<u>1,748</u>
Tangible assets	7		
Land and water areas		3,912	3,950
Buildings and structures		8,149	9,256
Machinery and equipment		19,023	20,352
Other tangible assets		1,248	1,426
Advances paid and construction in progress		1,834	1,713
		<u>34,166</u>	<u>36,697</u>
Other long-term investments	10, 11		
Shares and holdings	12	11,102	13,060
Loans receivable		817	877
Other investments		103	58
		<u>12,022</u>	<u>13,995</u>
Current assets			
Inventories			
Raw materials and supplies		2,530	2,671
Work in progress		379	466
Products/finished goods		1,052	971
Other inventories		244	275
		<u>4,205</u>	<u>4,383</u>
Receivables	13		
Trade receivables		6,667	6,951
Loans receivable		40	412
Accrued income and prepaid expenses		913	804
Other receivables		422	590
		<u>8,042</u>	<u>8,757</u>
Investments			
Shares and holdings		—	1
Marketable securities		161	222
		<u>161</u>	<u>223</u>
Cash and cash equivalents		2,362	3,586
Total assets		<u>62,373</u>	<u>69,389</u>

FORTUM GROUP
PRO FORMA CONSOLIDATED BALANCE SHEETS
(unaudited)

		At December 31,	
	Note	1996	1997
		<i>(FIM in millions)</i>	
Shareholders' equity		19,712	23,374
Minority interests		2,767	1,744
Provisions for liabilities and charges	16	82	219
Deferred tax liabilities		4,720	4,252
Liabilities	17		
Long-term			
Bonds		5,330	6,033
Convertible bonds		334	386
Loans from financial institutions		5,958	8,925
Pension loans		2,126	1,917
Advances received		95	492
Accruals and deferred income		143	57
Other long-term liabilities		4,368	7,567
Total		<u>18,354</u>	<u>25,377</u>
Current			
Loans from financial institutions		6,077	1,889
Pension loans		29	25
Advances received		201	330
Trade payables		4,953	4,632
Accruals and deferred income		2,370	2,559
Other current liabilities		3,108	4,988
Total		<u>16,738</u>	<u>14,423</u>
Total shareholders' equity and liabilities		<u>62,373</u>	<u>69,389</u>

FORTUM GROUP
PRO FORMA CONSOLIDATED CASH FLOW STATEMENTS
(unaudited)

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM in millions)</i>		
Cash flow from operating activities			
Operating profit			
Operating profit	3,518	3,265	4,407
Depreciation	2,222	2,456	2,763
Change in provisions	(117)	(45)	78
Undistributed earnings of associated companies	(324)	429	(219)
Divesting activities, net	(436)	(287)	(370)
Other items	(48)	67	14
Operating profit before changes in working capital	<u>4,815</u>	<u>5,885</u>	<u>6,673</u>
Changes in working capital			
Decrease (Increase) in trade and other short-term receivables	241	(821)	167
Decrease (Increase) in inventories	576	(205)	(32)
(Decrease) Increase in interest-free liabilities	(209)	1,163	161
	<u>608</u>	<u>137</u>	<u>296</u>
Funds generated from operations	<u>5,423</u>	<u>6,022</u>	<u>6,969</u>
Interest paid, net	(1,256)	(1,199)	(1,436)
Realized foreign exchange gains and losses	(12)	138	74
Income taxes paid	(545)	(884)	(1,270)
Net cash from operating activities	<u>3,610</u>	<u>4,077</u>	<u>4,337</u>
Cash flow from investing activities			
Capital expenditures	(3,501)	(6,620)	(10,008)
Proceeds from sales of fixed assets	1,680	982	6,637
	<u>(1,821)</u>	<u>(5,638)</u>	<u>(3,371)</u>
Cash flow before financing activities	<u>1,789</u>	<u>(1,561)</u>	<u>966</u>
Cash flow from financing activities			
Capital investment by minority shareholders,			
increase (decrease)	(8)	(22)	393
Payment of long-term liabilities	(3,944)	(5,609)	(5,190)
Proceeds from long-term liabilities	1,611	3,155	6,855
Proceeds from (Payment of) short-term borrowings	(185)	1,400	(933)
Proceeds from (Payment of) interest-bearing receivables	512	149	(374)
Dividends paid	(215)	(468)	(533)
Share issue	688	—	—
Other financing activities	55	(1)	(1)
	<u>(1,486)</u>	<u>(1,396)</u>	<u>217</u>
Net increase (decrease) in cash and marketable securities	<u>303</u>	<u>(2,957)</u>	<u>1,183</u>
Reconciliation (cash and marketable securities)			
as reported for at the beginning of the period	5,113	5,438	2,523
Foreign exchange adjustment	22	42	103
	<u>5,135</u>	<u>5,480</u>	<u>2,626</u>
As reported for at the end of the period	<u>5,438</u>	<u>2,523</u>	<u>3,809</u>
Net increase (decrease) in cash and marketable securities	<u>303</u>	<u>(2,957)</u>	<u>1,183</u>

FORTUM GROUP
NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Accounting policies and principles

All of the consolidated financial statements of Fortum Corporation (the "Company" and, together with its subsidiaries, "Fortum," "Fortum Group" or the "Group") are presented in pro forma format as if IVO and Neste had been combined into the Company as of January 1, 1995.

The pro forma financial statements of Fortum are prepared in accordance with Finnish GAAP.

In the pro forma consolidated financial statements, the accounting principles of IVO and Neste have been harmonized in all material respects and changes have been accounted for in respect of the years 1995, 1996 and 1997. The changes have been further described in the italicized text below. The pro forma financial information has not been adjusted for the potential benefits or savings that may result from the Combination, nor does it reflect the potential costs to Fortum of effecting the Combination. However, the pro forma financial information reflects the payment of asset transfer taxes of FIM 517 million by the Company in connection with the transfer to it of the IVO shares and the Neste shares.

Consolidation

The pro forma consolidated financial statements include the Company and all those companies in which the Company holds directly or indirectly more than 50 percent of the voting rights, except for certain housing companies which are not necessary to give a true and fair view of the results and financial position of the Group.

Fortum's pro forma consolidated financial statements have been prepared using the pooling-of-interests method. The acquisition cost of IVO and Neste shares has been eliminated against the share capital of IVO and Neste and the difference arising from the elimination of mutual shareholdings has been entered as a decrease in the shareholders' equity.

The financial statements of IVO and Neste have been consolidated according to the acquisition cost method. The difference between the acquisition cost of subsidiaries and shareholders' equity at the time of acquisition, arising from the elimination of mutual shareholdings, has been allocated to fixed assets at the time of acquisition to the extent that their fair market value at the time exceeded the book value. Items allocated to the fixed assets are depreciated according to the depreciation plan of the underlying asset. The rest of the difference is entered as goodwill on consolidation, which is amortized over its estimated lifetime to a maximum of 20 years. In calculating goodwill on consolidation, voluntary reserves and accumulated depreciation above the plan, less deferred tax liabilities, have been included in equity. For Neste subsidiaries acquired before 1997, other than in the United States, the difference between the acquisition cost of subsidiaries and the shareholders' equity (excluding the equity share of the untaxed reserves) was treated mainly as goodwill on consolidation and amortized accordingly. The effect of the difference between these two accounting practices in calculating goodwill has been immaterial to net profit.

Subsidiaries acquired during the year are consolidated from the date of acquisition. Likewise, subsidiaries divested during the accounting period are included in the consolidated financial statements until the date of divestment.

Intergroup transactions, receivables, liabilities, unrealized profits and internal profit sharing have been eliminated. Minority interests have been reported separately in the income statement and the balance sheet.

Associated companies material to Fortum, in which the Group holds between 20 percent and 50 percent of the voting rights, have been consolidated using the equity method. Accordingly, the Company's share of the net profit of an associated company and its share of other changes in the equity, less depreciation on goodwill of consolidation, is entered as income in the income statement and added to the value of the shares in the consolidated balance sheet. The dividends received are deducted from the balance sheet value of the shares. However, the Birka Energi group, which has a very significant impact on Fortum's financial position, has been consolidated using the proportionate method. With the proportionate consolidation method, a company's figures are consolidated on a line-by-line basis according to the parent company's ownership. Fortum's share of profits of associated companies that are not related to Fortum's operations are included in the financial items.

FORTUM GROUP

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (unaudited)

Net sales

Net sales include sales revenues from actual operations and exchange rate differences on trade receivables, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer, and statutory stockpiling fees.

Trading sales include the value of wet cargo deliveries and the net result of derivative contracts.

In the consolidated pro forma financial statements Neste's credit losses, freights and other delivery expenses, which have previously been entered as sales adjustments in the annual accounts, have been entered under other operating expenses.

Other operating income

Other operating income includes gains on the sales of fixed assets, as well as all other operating income not related to the sales of products or services, such as rents.

Foreign currency items

Receivables and liabilities denominated in foreign currencies have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the income statement. Conversion differences relating to financing have been entered net under financial income or expenses. In respect of IVO, unrealized exchange gains on long-term loans, foreign currency deposits and loan receivables have been included in accruals in the balance sheet.

Since 1998 the above mentioned unrealized exchange rate gains will be entered in the income statement.

Translation differences arising from the shareholders' equity of foreign subsidiaries and associated companies have been netted by hedging results and entered under consolidated shareholders' equity.

The income statements of companies outside of Finland have been translated into Finnish markka using an annual average exchange rate based on month-end exchange rates, while the balance sheets have been translated employing the exchange rate quoted on the balance sheet date. The resulting translation differences have been entered under non-restricted equity. The fixed assets of subsidiaries operating in high-inflation countries such as Russia and the Baltic states are revalued to the exchange rate on the effective date of acquisition.

Derivative instruments

Fortum enters into derivative financial instruments such as forward contracts, options, and currency swaps to hedge its exposure to fluctuations in foreign exchange rates. The interest element relating to derivatives is accrued as interest income or expense over the period to maturity. Derivatives used to hedge loans or receivables in the balance sheet and any other derivative contracts included in the net position are valued employing the exchange rate quoted on the balance sheet date, and foreign exchange gains or losses are recognized in the income statement. Loans and related currency swaps have been netted in the balance sheet. Foreign exchange gains or losses on derivatives that hedge future cash flow are recognized once the underlying income or expense occurs.

Option premiums are treated as advances paid or received until the options mature or elapse. The difference between the paid or received premium and the closing price of the option on the balance sheet date is entered in the income statement. However, revenue can only be recognized to the extent of expenses having been charged for the underlying transaction.

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

Fortum also enters into commodity derivatives as part of its trading and hedging activities. These instruments are marked-to-market, and any losses arising from such instruments used for purposes other than hedging are expensed. Gains or losses on derivatives used for hedging purposes are recognized as income or

FORTUM GROUP

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (unaudited)

expense once the underlying income or expense occurs. In the consolidated financial statements, commodity options are treated in the same way as currency options. Until 1997 Neste expensed only probable losses expected in the following 12 months.

Sales and procurement contracts

Probable losses on sales and procurement contracts have been estimated and expensed. Until 1997, Neste expensed probable losses expected in the following 12 months.

Fixed assets and depreciation

The balance sheet value of fixed assets consists of historical costs less depreciation and other deductions, plus any revaluations permitted by local regulations. Some foreign companies have also capitalized direct acquisition costs and interests relating to the construction period.

Depreciation according to plan is straight-line depreciation based on the probable lifespan of investments. Depreciation on oil and gas reserves and production equipment is calculated using the unit-of-production method. Peat bogs are depreciated according to use. The depreciation periods used for different asset groupings are as follows:

Hydroelectric power plant buildings, structures and machinery	40-50 years
Other power plant buildings, structures and machinery	25 years
Substation buildings, structures and machinery	30-40 years
Transmission lines	15-40 years
Other buildings and structures	20-40 years
Other tangible assets	20-40 years
Other machinery and equipment	5-20 years
Other long-term investments	5-10 years

Acquisition costs are depreciated at the end of their actual lifespan at the latest, irrespective of their planned lifespan. Sales and scrapping losses are recorded either as other operating expenses or extraordinary expenses.

Oil and gas reserves are valued for each field on the basis of future cash flows, in line with the practice of the country concerned. If required, the balance sheet value of capitalized expenditure is reduced by additional depreciation.

Finance leases

Due to a change in the accounting policy for the consolidated pro forma financial statements, properties acquired through finance leasing agreements have been recognized as assets and liabilities in the balance sheet. Depreciation on fixed assets and interest expenses on debt, instead of rental expenses, have been entered in the income statement. As a result of this change in the accounting policy, operating profit improved by FIM 39 million, FIM 145 million and FIM 199 million in the year ended December 31, 1995, 1996 and 1997 respectively. Financial expenses increased by the same amounts and interest-bearing debt increased by FIM 2,781 million and FIM 2,787 million as of December 31, 1996 and 1997 respectively.

Investments

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

Inventories

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

Identifiable assets

Identifiable assets include fixed assets and working capital.

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NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (unaudited)

Marketable securities

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

Oil exploration expenditures

Oil exploration expenditures are recorded using the successful efforts method, under which projects are capitalized and either depreciated according to the plan or expensed once it has been established that commercially exploitable oil or gas reserves have not been discovered.

Research and development

Research and development expenditures have been recorded as annual expenses with the exception of investments in buildings and equipment.

Income recognition of long-term projects

Income from long-term projects is recognized according to percentage of completion. A provision has been made for expected losses from long-term projects, as well as for costs arising during the warranty period.

Pension expenses

Pension expenses have been entered in the results in line with the practice observed in the host countries in which Fortum operates. The compulsory liabilities deficit of the Neste Pension Foundation (previously the Neste Corporation Joint Pension Foundation) as well as the liabilities on pensions granted by Fortum itself have been included in pension costs and entered as a provision in the balance sheet.

Extraordinary items

Any profits or losses made on the sales of assets not associated with the business operations of Fortum have been entered as extraordinary income or expenses. Profits and losses associated with withdrawing from a business, or significantly reducing Fortum's presence in a business, have also been entered in a similar fashion.

Deferred tax liabilities

In the consolidated accounts, voluntary reserves and accumulated depreciation above the plan have been divided into shareholders' equity and deferred tax liabilities. *Beginning January 1, 1998, deferred tax assets on loss carry-forwards will be recognized in deferred tax liabilities. As a result of the change, a total of FIM 112 million for deferred tax assets for previous periods will be entered directly in shareholders' equity in the statutory and pro forma financial statements.*

Provisions

Foreseeable future expenses and losses that no longer accrue corresponding revenues and which Fortum is committed or obliged to settle, and whose monetary value can reasonably be assessed, are entered as expenses in the income statement and included as provisions in the balance sheet. These items include expenses relating to the decommissioning of production platforms, guarantee reserves, expenses relating to the future clean-up of proven environmental damage, and long-term projects.

Acquired and discontinued operations

In the consolidated pro forma financial statements acquired operations are those operations which have been acquired during the years 1995 to 1998 and discontinued operations those which have been disposed during the years 1995 to 1998.

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NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (unaudited)

1. Net sales and other operating income

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM in millions)</i>		
Effect on net sales of income recognition from contracts in progress			
Net sales from contracts in progress entered as income according to the percentage of completion.			
For the financial year	347	662	630
For previous financial years	268	366	616
Total	<u>615</u>	<u>1,028</u>	<u>1,246</u>
 Net sales by market area			
Finland	21,075	22,714	25,347
Other Nordic Countries	2,808	6,338	7,303
Baltic Rim	1,825	2,121	3,012
Other European countries	4,915	6,511	7,285
USA and Canada	3,882	5,054	6,013
Other international sales	17,344	13,330	11,084
Net sales	<u>51,849</u>	<u>56,068</u>	<u>60,044</u>
 Other operating income			
Gains on the sale of fixed assets	571	321	528
Other	92	167	100
Total	<u>663</u>	<u>488</u>	<u>628</u>

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NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (unaudited)

2. Expenses

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM in millions, except personnel data)</i>		
Operating expenses			
Change in product inventories	168	(148)	23
Materials and supplies			
Purchases	38,985	42,119	44,076
Change in inventories	344	52	(80)
External services	513	710	852
Personnel expenses	3,201	3,531	3,962
Rents	244	242	257
Other operating expenses	3,769	4,396	4,856
Total	<u>47,224</u>	<u>50,902</u>	<u>53,946</u>
Wages, salaries, and indirect employee costs			
Wages and salaries	2,449	2,773	3,083
Pension costs	357	315	438
Other indirect employee costs	395	443	441
Total	<u>3,201</u>	<u>3,531</u>	<u>3,962</u>
Salaries, wages and other remunerations			
To Supervisory Boards, Boards of Directors and Managing Directors	57	69	63
Other personnel	2,380	2,690	2,993
Total	<u>2,437</u>	<u>2,759</u>	<u>3,056</u>
Average number of personnel	14,490	16,083	17,619

3. Depreciation

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM in millions)</i>		
Depreciation according to the plan(1)			
Intangible rights	21	25	22
Goodwill	21	40	51
Other long-term expenditure	102	104	110
Buildings and structures	413	437	445
Machinery and equipment	1,521	1,734	1,995
Other tangible assets	99	86	105
Total	<u>2,177</u>	<u>2,426</u>	<u>2,728</u>
Goodwill on consolidation	47	32	39
Negative goodwill on consolidation	(2)	(2)	(4)
Total	<u>2,222</u>	<u>2,456</u>	<u>2,763</u>

(1) Depreciation based on the estimated economic life of assets.

FORTUM GROUP

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (unaudited)

4. Financial income and expenses

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM in millions)</i>		
Dividend income	18	41	38
Interest income from long-term investments	66	58	69
Other interest income	358	285	224
Other financial income	50	43	25
Exchange differences	21	139	(43)
Share of profits of associated companies	2	1	2
Interest expenses	(1,473)	(1,495)	(1,744)
Other financial expenses	(66)	(35)	(22)
Total	<u>(1,024)</u>	<u>(963)</u>	<u>(1,451)</u>

5. Extraordinary items

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM in millions)</i>		
Extraordinary income			
Gain on the sale of the grid	—	—	3,485
Other gains on the sales of fixed assets	144	200	129
Other	12	47	30
Total	<u>156</u>	<u>247</u>	<u>3,644</u>
Extraordinary expenses			
Write-offs and sales losses	(80)	(25)	(1,098)
Liability covered for nuclear waste disposal	—	—	(567)
Other	(52)	(15)	(40)
Total	<u>(132)</u>	<u>(40)</u>	<u>(1,705)</u>
Extraordinary items total	<u>24</u>	<u>207</u>	<u>1,939</u>

6. Income taxes

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM in millions)</i>		
Taxes on regular business operations	1,072	765	528
Taxes on extraordinary items	10	8	19
Total	<u>1,082</u>	<u>773</u>	<u>547</u>
Taxes for the period	642	857	1,310
Taxes for previous periods	15	96	(22)
Change in deferred tax liabilities	425	(180)	(741)
Total	<u>1,082</u>	<u>773</u>	<u>547</u>

FORTUM GROUP

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

7. Fixed assets and other long-term investments

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Intangible rights		
Acquisition cost as of 1 January	166	222
Exchange rate differences and other adjustments	23	11
Increases	42	41
Decreases	9	14
Accumulated depreciation according to plan	118	164
Balance sheet value as of 31 December	<u>104</u>	<u>96</u>
Goodwill		
Acquisition cost as of 1 January	226	531
Exchange rate differences and other adjustments	295	13
Increases	11	217
Decreases	1	0
Accumulated depreciation according to plan	236	398
Balance sheet value as of 31 December	<u>295</u>	<u>363</u>
Goodwill on consolidation		
Acquisition cost as of 1 January	1,079	783
Exchange rate differences and other adjustments	(299)	12
Increases	11	162
Decreases	5	75
Accumulated depreciation according to plan	385	401
Balance sheet value as of 31 December	<u>401</u>	<u>481</u>
Negative goodwill on consolidation		
Acquisition cost as of 1 January	(31)	(36)
Increases	(5)	(1)
Decreases	(3)	0
Accumulated depreciation according to plan	(17)	(24)
Balance sheet value as of 31 December	<u>(16)</u>	<u>(13)</u>
Other long-term expenditure		
Acquisition cost as of 1 January	1,592	1,586
Exchange rate differences and other adjustments	(36)	7
Increases	80	498
Decreases	50	489
Accumulated depreciation according to plan	955	781
Balance sheet value as of 31 December	<u>631</u>	<u>821</u>
Land and water areas		
Acquisition cost as of 1 January	839	3,787
Exchange rate differences and other adjustments	(4)	53
Increases	2,991	91
Decreases	39	54
Accumulated depreciation according to plan	23	25
Revaluations	148	98
Balance sheet value as of 31 December	<u>3,912</u>	<u>3,950</u>

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NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (unaudited)

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Buildings and structures		
Acquisition cost as of 1 January	9,905	12,487
Exchange rate differences and other adjustments	2	170
Increases	2,692	1,822
Decreases	111	432
Accumulated depreciation according to plan	4,789	5,205
Revaluations	450	414
Balance sheet value as of 31 December	<u>8,149</u>	<u>9,256</u>
Machinery and equipment		
Acquisition cost as of 1 January	27,253	34,591
Exchange rate differences and other adjustments	275	645
Increases	8,183	5,951
Decreases	1,113	4,339
Accumulated depreciation according to plan	15,575	16,508
Revaluations	0	12
Balance sheet value as of 31 December	<u>19,023</u>	<u>20,352</u>
Other tangible assets		
Acquisition cost as of 1 January	1,559	1,707
Exchange rate differences and other adjustments	91	213
Increases	76	154
Decreases	18	51
Accumulated depreciation according to plan	460	597
Balance sheet value as of 31 December	<u>1,248</u>	<u>1,426</u>
Advances paid and construction in progress		
Acquisition cost as of 1 January	716	1,834
Exchange rate differences and other adjustments	20	90
Increases	1,338	427
Decreases	240	638
Balance sheet value as of 31 December	<u>1,834</u>	<u>1,713</u>

8. Revaluations

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Land areas	148	98
Buildings	430	414
Machinery and equipment	—	12
Other shares and holdings	74	44
Total	<u>652</u>	<u>568</u>

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NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (unaudited)

9. Proven crude oil, condensate and natural gas reserves, in million of boe

Net equity	Total	Norway	Middle East
Reserves as of December 31, 1995	193	173	20
Revisions of previous estimates	8	8	—
Increases due to improvement in recovery	—	—	—
Extensions and discoveries	0	0	—
Purchase/sale of reserves	(1)	0	(1)
Production	(12)	(9)	(3)
Reserves as of December 31, 1996	188	172	16
Revisions of previous estimates	1	—	1
Increases due to improvement in recovery	—	—	—
Extensions and discoveries	1	—	1
Purchase/sale of reserves	(1)	0	(1)
Production	(12)	(9)	(3)
Reserves as of December 31, 1997	177	163	14

The proven developed and undeveloped oil and gas reserves have been calculated in accordance with North Sea and Middle East practices. Fortum's own estimates fall in line with the quantities of field operating companies. The value of the oil and gas reserves owned by Fortum totalled FIM 5.0 billion as of December 31, 1997. This value is equivalent to future cash flow discounted at 10 percent interest assuming a crude oil price of U.S.\$18.0 per barrel. The equivalent asset value in the balance sheet is approximately FIM 4.3 billion. The proven and probable reserves at the end of 1997 were 258 million barrels.

10. Share holdings, and loan receivables included in long-term investments

	At December 31,	
	1996	1997
	(FIM in millions)	
Associated companies		
Shares	8,502	8,129
Loans receivable	111	426
Total	8,613	8,555
Market value of listed companies' shares in fixed assets		
Other shares and holdings		
Book value	1,033	1,046
Market value	1,196	1,170
	163	124

11. Major associated companies

	Currency Units	Shareholders' equity as of 31 December 31, 1997 (millions)	Profit 1997 (millions)	Holding %
Borealis Group	DKK	9,063	1,364	50
Asko Group	FIM	2,430	450	25
Nynäs Petroleum Group	SEK	1,147	138	50
Teollisuuden Voima Oy	FIM	547	140	27

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NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (unaudited)

12. Shareholdings as of December 31, 1997

	No. of shares	Holding %		Nominal share value	Book value as of December 31, 1997
				(FIM or currency unit in thousands)	
Group shares					
(book value more than FIM 10 million)					
AB Hudik Kraft	12,000	100.00	SEK	12,000	30,864
AB Hälsingekraft	149,000	100.00	SEK	149,000	662,551
AB Skandinaviska Elverk	2,000,000	100.00	SEK	200,000	2,539,310
AS Linjebygg	7,667	57.10	NOK	2,492	10,585
Asunto Oy Kuutoset	7,893	100.00		789	21,085
Brännälven Kraft AB	40,000	6.80	SEK	10,000	166,771
Cajero AB, former Västkraft	2,000	100.00	SEK	2,000	521,990
Eastex Crude Company (General Partnership) . .		70.00	USD	—	23,754
Enermet Ltd	600,000	100.00	NZD	600	21,625
Enermet A.G.	5,000	100.00	CHF	5,000	18,535
Enermet Oy	400,000	100.00		40,000	136,628
Enermet Pty. Ltd	626,750	100.00	AUD	1,254	14,070
EPS Downstream Danmark A/S	13,300	100.00	DKK	13,300	25,187
Estonian Transoil A/S	400	100.00	EEK	40,000	18,873
ETV Eröterv Rt.	48,465	75.00	HUF	485	15,873
Gasum Oy	39,750,000	75.00		795,000	795,000
Gullspång Kraft AB	82,050,591	92.91	SEK	410,253	6,964,407
Gullspång Nät AB	30	100.00	SEK	300	2,430,186
Gullspång Nät Hälsingland AB	500	100.00	SEK	200	320,768
Gullspång Nät SEV AB	3,100	100.00	SEK	310	1,651,235
Gullspång Nät Småland AB	500,000	100.00	SEK	50,000	549,040
Gullspång Nät Yngeredsfors AB	800,000	100.00	SEK	80,000	823,560
Gullspång Värme AB	2,000	100.00	SEK	2,000	37,208
Helsinkikaasu Oy	120,000	75.00		6,000	27,707
Hudiksvalls Energiverk AB	2,000	100.00	SEK	2,000	55,627
Imatran Voima Holding B.V.	51	100.00	NLG	51	236,484
Imatran Voima Malaysia B.V.	13,456	100.00	NLG	13,456	66,421
Infrarödt teknik Aktiebolag	25,000	100.00	SEK	2,500	21,000
IVO Energi AB	100	100.00	SEK	50,000	156,101
IVO Energy Limited	5,382,000	100.00	GBP	5,382	42,713
IVO Generation Services Ltd.	5,000	100.00		50,000	50,000
IVO Power Engineering Ltd	11,000	100.00		110,000	111,350
IVO Transmission Services Ltd.	5,000	100.00		50,000	50,000
Karåsen Kraft AB	816,000	100.00	SEK	81,600	91,955
Kiinteistö Oy IVOn Vanhakaupunki	1,600	100.00		16,000	64,000
Kotkan Kaasuenergia Oy	380	71.25		1,900	10,541
Krems Chemie AG	760,970	89.53	ATS	760,970	257,563
Latvian Traffic Service	5	100.00	LVL	202	15,967
Lidköping Energi AB	500	100.00	SEK	500	17,844
Ljusnarsbergs Energi AB	50,000	100.00	SEK	5,000	22,281
Länsiverkot Oy	5,000	100.00		5,000	10,004
Länsivoima Oy	4,246,608	65.10		42,466	890,825
Merikarvian Sähkö Oy	526	100.00		117	14,000
NCT Hong Kong Ltd.	200	100.00	HKD	200	18,889
Neste Chemicals Benelux Holding B.V.	173,406	100.00	NLG	78,380	173,822
Neste Chemicals GmbH	1	100.00	DEM	1,052	15,296
Neste Chemicals Holding Inc.	1,000	100.00	USD	1	110,994
Neste Chimie France S.A.	302,992	99.99	FRF	30,299	26,799
Neste Coordination Center N.V.	572,500	100.00	BEF	5,725,000	730,861
Neste Corporate Holding Inc.	142	100.00	USD	0	220,493

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	No. of shares	Holding %	Nominal share value		Book value as of December 31, 1997
			<i>(FIM or currency unit in thousands)</i>		
Neste Crude Oil Inc.	1,000	100.00	USD	1	13,114
Neste Deutschland Holding GmbH	50	100.00	DEM	50	22,777
Neste Eesti A/S	1,246	100.00	EEK	1,246	16,361
Neste Finance B.V.	237,001	100.00	NLG	237,001	1,315,341
Neste Gas Aktiebolag	50,000	100.00	SEK	5,000	10,295
Neste Investments	30,910,002	100.00	USD	30,910	464,229
Neste Kemi Danmark A/S	14,000	100.00	DKK	7,000	22,205
Neste Lämpö Oy	2,000	100.00		10,000	49,940
Neste Markkinointi Oy	20,352,000	100.00		203,520	1,100,972
Neste MTBE S.A.	600,000	100.00	PTE	600,000	12,410
Neste Oel GmbH	1	100.00	DEM	6,457	19,548
Neste Oil Holding (U.S.A.) Inc	1,000	100.00	USD	1	110,994
Neste Oil Inc.	3,000	100.00	USD	3	78,555
Neste Oil Poland Ltd.	6,809	100.00	PLZ	1,815	69,504
Neste Oil Services Inc.	1,000	100.00	USD	1	139,263
Neste Oxo Aktiebolag	100	100.00	SEK	100	37,942
Neste PAO N.V.	55,000	100.00	BEF	550,000	80,509
Neste Petroleum (Canada) Inc.	25,025,000	100.00	CAD	25,025	95,469
Neste Polyester Inc.	100	100.00	USD		25,060
Neste Polyester S.A.	90,394	99.98	FRF	22,599	76,891
Neste Resins B.V.	76,000	100.00	NLG	16,188	118,188
Neste Resins Corporation	200	100.00	USD		176,303
Neste Resins Oy	10,000	100.00		10,000	41,487
Neste Sverige AB	5,980,530	100.00	SEK	598,053	580,151
Osakeyhtiö Malminkatu 16	1,600	100.00		160	115,780
Oy Tersil Ab	15,000	100.00		1,500	16,350
Oy Tertrade Ab	15,000	100.00		1,500	14,420
Parteboda Kraft AB	1,000	10.12	SEK	100	219,648
Petro Service A/O	100	100.00	RUR		18,727
Tehokaasu Oy	7,200	100.00		18,000	23,190
Tidelands Oil Production Company Partnership		80.00	USD	—	23,591
Tivedsenergi AB	100	100.00	SEK	1,000	11,942
UAB Neste Lietuva	1	100.00	LTL	1,202	16,070
Uddeholm Kraft AB	5,953,332	100.00	SEK	595,333	898,207
Voxnan Kraft AB	1,000	10.10	SEK	100	884,432
Värmlandsenergi AB	53,613,270	100.00	SEK	536,133	752,997
Värmlandskraft—OKG-delägarna AB	420	73.00	SEK	420	81,601
Östernärkes Kraft AB	15,297	46.90	SEK	1,530	30,981
Shareholdings in associated companies					
(book value more than FIM 10 million)					
AB Aroskraft	17,638	39.20	SEK	17,638	95,412
AB Nynäs Petroleum	33,765	49.99	SEK	33,765	272,225
Asko Oyj	8,702,015	24.66		87,020	368,371
Birka Kraft AB	6,500	50.00	SEK	6,500	19,903
Blåsjöns Kraft AB	6,000	50.00	SEK	6,000	159,255
Borealis A/S	2,000,000	50.00	DKK	2,000,000	3,614,000
Budapesti Erömu Rt	571,629	42.70	HUF	5,716,290	135,726
Closed Joint Stock Company SeverTek	20,000	20.00			29,431
Creative Pultrusions Inc.	4,355	25.00	USD	4	21,683
Etelä-Pohjanmaan Voima Oy	1,319	27.90		13,190	169,286
Finnish Power Grid Plc	834	25.10		83,400	166,800
Gulsele AB	120,000	50.00	SEK	120,000	420,443
Härjeåns Kraft AB	31,558	46.20	SEK	3,156	45,131

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	No. of shares	Holding %	Nominal share value	Book value as of December 31, 1997
			<i>(FIM or currency unit in thousands)</i>	
Katrineholm Energi AB	66,150	49.00	SEK 6,615	116,671
Keuruun Sähkö Oy	1,744	34.90	17	14,530
Kuljetusristikko Oy	3,786	45.19	189	18,565
Lanor Oy	145,864	47.09	145,864	297,560
Lappeenrannan Lämpövoima Oy	1,800	50.00	18,000	18,000
Neste Trifinery Petroleum Services Company Partnership		50.00	USD	21,710
Pamilo Oy	265,580	49.00	26,558	148,126
Sallilan Sähkölaitos Oy	27,250	46.00	1,363	48,598
Stensjöns Kraft AB	220,000	50.00	SEK 11,000	267,887
Teollisuuden Voima Oy	189,877,285	26.60	189,877	741,166
Tuusulanjärvi Energy Ltd	147,000	30.00	14,700	29,400
Utility Competetive Advantage Fund, L.L.C. ..		20.00	USD 10,000	54,153
Uudenmaan Sähköverkko Oy	500,000	50.00	5,000	10,000
UVCC II Parallel Fund, L.P.		33.30	USD 4,832	18,883
Ångefallens Kraft AB	5,000	50.00	SEK 500	53,608
Other shareholdings				
(book value more than FIM 10 million)				
Finnair Oyj	1,097,620	1.35	5,488	25,607
Imatran Seudun Sähkö Oy	13,307	12.40	399	11,036
Karlshamnnsverkets Kraftgrupp AB	27,000	18.00	SEK 2,700	123,443
Kemijoki Oy	412,907	16.90	41,291	1,638,580
Kesko Oyj	340,000	0.38	3,400	19,928
Korsselbränna AB	51,840	16.20	SEK 5,184	227,443
OAO Lenenergo	20,953,333	2.70	RUR 20,953	68,268
Mellansvensk Kraftgrupp AB (1)	20,006	28.20	SEK 20,006	607,685
Nokian Lämpövoima Oy	19,900	19.90	199	26,000
OKG AB	56,250	19.60	SEK 5,625	1,215,704
Powertek Berhad	15,367,600	6.68	MYR 15,368	63,943
Saudi European Petrochemical Company Ibn Zahr	98,832	10.00	SAR 98,832	88,301
Silja Oy Ab	1,203,836	5.52	24,077	44,542
The Cogeneration Public Company Limited ...	59,576,522	11.18	THB 595,765	93,028
Union Power Development Company Limited	1,260,000	14.90	THB 126,000	16,646
Vakka-Suomen Voima Oy	14,194	16.70	213	13,809
Vakuutusosakeyhtiö Pohjola	462,060	1.14	2,310	24,212
Vakuutusosakeyhtiö Sampo	359,420	0.58	1,797	15,341
Vattenfall Naturgas Ab	31,610	10.00	1,517	53,296
Värmlandskraft-Forsmarksdelägarna AB	30	13.20	SEK 30	40,752
Älvkraft i Värmland AB (2)	750,000	23.80	SEK 75,000	51,473
Housing and real estate	N/A	N/A	N/A	134,247
Associated companies and other shares and holdings (book value less than FIM 10 million)	N/A	N/A	N/A	198,246
Shares in telephone companies and connection fees	N/A	N/A	N/A	24,159
Associated companies and other shares and holdings, total	N/A	N/A	N/A	12,202,211

- (1) The company owns shares entitling it to part of the electricity generated by the Forsmark nuclear power plant in Sweden. According to the Articles of Association, the purpose of this company is not to yield profit; it sells the received electricity on to its shareholders at a price that covers the company's costs. The ownership share of Gullspång Kraft AB is 24 percent and that of IVO Energi AB, 4 percent.
- (2) Fortum's share of voting rights is equal to 44.1 percent. Fortum has the right to a share of the generated power in proportion to its ownership interest, but does not have right to the company's profit. Fortum has consolidated this company in its consolidated pro forma financial statements due to an option agreement, under which it has decided to exercise its option to increase its shareholding in the company to 100 percent.

FORTUM GROUP

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (unaudited)

13. Financial assets

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Receivables due after one year or later		
Trade receivables	1	1
Accrued income and prepaid expenses	84	73
Total	85	74
Receivables from associated companies		
Trade receivables	199	243
Loans receivable	9	10
Accrued income and prepaid expenses	7	65
Other receivables	0	4
Total	215	322

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

Net amounts on a project basis of contracts in progress, advance payments made and prepayments and accrued income, and advance payments received and accruals, relating to income from contracts in progress, are included in the balance sheet in prepayments and accrued income or in accruals separately by project.

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Contracts in progress included in inventories	4	—
Advance payments for inventories	286	167
Prepayments and accrued income	767	1,044
Deductions in inventories and financial assets	1,057	1,211
Advance payments received	938	1,044
Accruals	119	167
Deductions in liabilities	1,057	1,211

15. Accumulated depreciation above the plan (1)

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Intangible assets	247	274
Buildings and structures	2,292	2,357
Machinery and equipment	11,199	11,299
Other tangible assets	61	65
Total	13,799	13,995

(1) In the pro forma consolidated balance sheet, voluntary reserves and accumulated depreciation above the plan are divided into shareholders' equity and deferred tax liabilities.

FORTUM GROUP

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

16. Reserves and provisions

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Voluntary reserves(1)		
Transitional reserve	1,991	—
Other reserves	1,804	1,854
Total	<u>3,795</u>	<u>1,854</u>
Deferred tax liability in voluntary reserves	1,063	521
Provisions for liabilities and charges		
Pensions	20	100
Other provisions	62	119
Total	<u>82</u>	<u>219</u>

(1) In the pro forma consolidated balance sheet, voluntary reserves and accumulated depreciation above the plan are divided into shareholders' equity and deferred tax liabilities.

17. Liabilities

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Interest-bearing liabilities	24,468	26,611
Interest-free liabilities	10,624	13,189
Total	<u>35,092</u>	<u>39,800</u>

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Interest-bearing liabilities		
Loans in Finnish markka	6,609	8,535
Foreign currency loans	17,859	18,076
Total	<u>24,468</u>	<u>26,611</u>

Due dates of long-term liabilities

<u>Year</u>	<i>(FIM in millions)</i>
1998	1,354
1999	3,922
2000	1,899
2001	2,409
2002	3,511
2003 and later	13,636
Total	<u>26,731</u>

FORTUM GROUP

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (unaudited)

Liabilities due after five years

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Bonds	2,780	1,661
Loans from financial institutions	3,259	3,283
Pension loans	1,894	1,832
Other long-term liabilities	4,311	6,860
Total	<u>12,244</u>	<u>13,636</u>

Liabilities to associated companies

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Long-term liabilities	615	618
Advances received	4	2
Trade payables	136	131
Accruals and deferred income	38	531
Other current liabilities	6	288
Total	<u>799</u>	<u>1,570</u>

18. Bonds, debentures and other notes

Issuing year	Maturity year	At December 31,	
		1996	1997
		<i>(FIM in millions)</i>	
Imatran Voima Oy			
1987 CHF loan	1996-1997	69	—
1988 DEM loan no. 4/88/518	1998	149	151
1991 USD loan	2001	163	190
1991 USD loan	2002-2011	371	434
1991 USD loan	2011	163	190
1992 USD loan	2002	232	271
1992 USD loan	2005	209	244
1992 USD loan	2007	279	325
Gullspång Kraft Ab			
1973 SEK loan	1973-1998	2	1
1974 SEK loan	1974-1999	3	2
1993 SEK loan no. SE 0000209488	2003	202	206
1996 SEK loan no. SE 0000310708	1999	135	137
1996 SEK loan no. SE 0000325714	2001	135	137
1996 SEK loan no. SE 0000337651	1999	135	137
1997 SEK loan no. SE 0000384323	2000	—	137
1997 SEK loan no. SE 0000386088	1999	—	206
1983 SEK loan	1983-1998	5	3
Neste Finance B.V. 1992	1999-2007	1,788	2,088
Neste Markkinointi Ltd 1993 I	1998	47	23
Neste Oy			
1989 USD loan no. 4/89/550	1999	1,161	1,355
1992 I	2002	100	100
1993 I no. 4/93/035	1998	25	12
Total		<u>5,372</u>	<u>6,349</u>

FORTUM GROUP

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

19. Contingent liabilities

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Contingent liabilities		
Pledges granted for		
Own debt	4,623	4,087
Other commitments	10	—
Total	<u>4,633</u>	<u>4,087</u>
Real estate mortgages for own debt and other commitments	2,968	2,960
Company mortgages for own debt and other commitments	74	373
Other mortgages for own debt and other commitments	343	350
Guarantees		
Persons referred to in § 11:7 of the Companies Act	1	0
Associated companies	281	320
Others	1,133	1,230
Total	<u>1,415</u>	<u>1,550</u>
Other contingent liabilities	1,074	2,398
Total	<u>10,507</u>	<u>11,718</u>
Operating leasing liabilities		
Due within a year	132	141
Due after a year	364	292
Total	<u>496</u>	<u>433</u>
Liability for nuclear waste disposal	2,594	2,624
Share of reserves in the Nuclear Waste Management Fund	(1,376)	(1,648)
Liabilities in the balance sheet		
Annual fee	(182)(1)	(208)(1)
Extraordinary items entered	—	(567)(1)
Net liability (2)	<u>1,036(1)</u>	<u>201(1)</u>

(1) Mortgaged bearer papers as security.

(2) Net liability not entered as of December 31, 1997 corresponds to interest income of the fund for the three subsequent years.

FORTUM GROUP

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Group liabilities for which pledges, mortgages or other equivalent guarantees have been given		
Pledges	3,452	3,487
Mortgages	2,114	1,594
Total	<u>5,566</u>	<u>5,081</u>

Derivatives

	At December 31,			
	1996		1997	
Interest and currency derivatives	Contract or notional value	Fair value	Contract or notional value	Fair value
		<i>(FIM in millions)</i>		
FRAs and bond futures	21,077	5	7,284	1
Interest rate swaps	4,919	(54)	5,529	(14)
Interest rate options				
Purchased	—	—	120	0
Written	1,161	(41)	1,355	(36)
Forward foreign exchange contracts	19,415	73	18,163	(39)
Currency swaps	2,699	(167)	2,613	173
Currency options				
Purchased	130	(1)	760	(4)
Written	130	1	733	0
	volume	Fair value	volume	Fair value
Oil futures and forward instruments	1000 bbl	<i>(FIM in millions)</i>	1000 bbl	<i>(FIM in millions)</i>
Sales contracts	18,256	(65)	12,867	89
Purchase contracts	20,502	74	9,132	(50)
Options				
Purchased	540	(1)	275	0
Written	5,734	(48)	600	0
	At December 31, 1997			
Electricity derivatives	Volume	Fair value		
	<i>(TWh)</i>	<i>(FIM in millions)</i>		
Sales contracts	6	(22)		
Purchase contracts	9	1		
Options				
Purchased	0	0		
Written	0	0		

The fair value of off-balance-sheet hedging contracts is insignificant.

The fair values of derivative contracts subject to public trading are based on market prices as of the balance sheet date. The fair values of other derivatives are based on the present value of cash flows resulting from the contracts, and, in respect of options, the fair value is based on evaluation models.

Other contingent liabilities include a rent liability not exceeding DEM 60 million, which is tied to the price development of petrochemicals and plastics in the four-year period ending in 1999. This liability will not materialize at market prices on the balance sheet date.

FORTUM GROUP

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

20. Divisional segment information

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM in millions)</i>		
Net sales by division			
Exploration and Production	822	1,229	1,244
Oil	35,789	36,577	37,882
Gas	2,841	3,283	3,655
Power and Heat			
Continuing operations	5,952	6,578	5,838
Acquired operations	—	2,378	5,141
Eliminations	—	(19)	(83)
Total	5,952	8,937	10,896
Operation and Maintenance	740	930	1,371
Engineering	1,405	1,974	2,179
Energy Measurement	330	386	413
Chemicals			
Continuing operations	4,703	4,198	4,557
Acquired operations	—	—	214
Discontinued operations	686	582	425
Eliminations	(92)	(77)	(67)
Total	5,297	4,703	5,129
Other operations	822	943	887
Grid Services	1,001	1,101	671
Total	54,999	60,063	64,327
Internal invoicing			
Continuing operations	(2,469)	(3,407)	(3,892)
Other	(681)	(588)	(391)
Total	(3,150)	(3,995)	(4,283)
Net sales	51,849	56,068	60,044
Depreciation by division			
Exploration & Production	304	344	392
Oil	805	800	804
Gas	68	70	83
Power and Heat			
Continuing operations	571	539	519
Acquired operations	—	205	499
Total	571	744	1,018
Operation and Maintenance	8	14	15
Engineering	18	23	25
Energy Measurement	26	27	29
Chemicals			
Continuing operations	156	176	192
Acquired operations	—	—	10
Discontinued operations	40	25	10
Total	196	201	212
Other operations	93	95	96
Grid services	135	135	97
Total	2,224	2,453	2,771
Eliminations			
Continuing operations	—	6	(7)
Other	(2)	(3)	(1)
Total	(2)	3	(8)
Depreciation	2,222	2,456	2,763

FORTUM GROUP

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

	Year ended December 31,		
	1995	1996	1997
	<i>(FIM in millions)</i>		
Operating profit by division			
Exploration and Production	176	459	532
Oil	1,014	282	544
Gas	332	362	372
Power and Heat			
Continuing operations	787	907	932
Acquired operations	(1)	493	1,134
Total	786	1,400	2,066
Operation and Maintenance	49	92	92
Engineering	13	29	80
Energy Measurement	22	34	32
Chemicals			
Continuing operations	607	296	148
Acquired operations	—	—	5
Discontinued operations	(26)	35	20
Total	581	331	173
Other operations and associated companies			
Other operations	(399)	(214)	(160)
Associated companies	379	(80)	349
Total	(20)	(294)	189
Grid Services	590	610	347
Total	3,543	3,305	4,423
Eliminations			
Other operations	(17)	(33)	(11)
Other	(8)	(7)	(9)
Total	(25)	(40)	(20)
Operating profit	<u>3,518</u>	<u>3,265</u>	<u>4,407</u>
Investments by division			
Exploration and Production	530	396	852
Oil	1,820	842	1,090
Gas	30	377	150
Power and Heat			
Continuing operations	535	603	2,393
Acquired operations	61	10,579	4,934
Eliminations	—	—	(20)
Total	596	11,182	7,307
Operation and Maintenance	15	21	37
Engineering	31	90	35
Energy Measurement	90	19	44
Chemicals			
Continuing operations	186	328	253
Acquired operations	—	—	494
Discontinued operations	18	12	9
Total	204	340	756
Other operations	87	144	321
Grid Services	84	122	144
Total	3,487	13,533	10,736
Eliminations			
Continuing operations	26	(38)	(38)
Other	(10)	(9)	(15)
Total	16	(47)	(53)
Investments	<u>3,503</u>	<u>13,486</u>	<u>10,683</u>

FORTUM GROUP

NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS—(Continued) (unaudited)

	At December 31,	
	1996	1997
	<i>(FIM in millions)</i>	
Identifiable assets by division		
Exploration and Production	3,413	4,302
Oil	10,641	10,487
Gas	1,688	1,808
Power and Heat		
Continuing operations	9,442	11,180
Acquired operations	12,970	16,825
Total	22,412	28,005
Operation and Maintenance	50	90
Engineering	340	441
Energy Measurement	179	214
Chemicals		
Continuing operations	1,923	1,908
Acquired operations	—	605
Discontinued operations	214	178
Total	2,137	2,691
Other operations and associated companies		
Other operations	1,520	1,308
Associated companies	5,540	4,979
Total	7,060	6,287
Grid services	2,068	34
Total	49,988	54,359
Eliminations		
Continuing operations	(178)	(286)
Other	(71)	—
Total	(249)	(286)
Identifiable assets	49,739	54,073

	Year ended December 31,		
	1995	1996	1997
Average number of personnel by division			
Exploration and Production	82	79	81
Oil	4,400	4,456	4,337
Gas	467	438	430
Power and Heat			
Continuing operations	925	820	827
Acquired operations	—	955	2,140
Total	925	1,775	2,967
Operation and Maintenance	1,771	2,097	2,465
Engineering	1,474	2,012	2,199
Energy Measurement	511	544	603
Chemicals			
Continuing operations	1,954	2,002	1,986
Acquired operations	—	—	168
Discontinued operations	733	424	225
Total	2,687	2,426	2,379
Other operations	1,934	2,018	2,158
Grid services	239	238	153
Average number of personnel	14,490	16,083	17,772

BIRKA ENERGI

PRO FORMA INCOME STATEMENT INFORMATION RELATING TO BIRKA ENERGI

For the year ended December 31, 1997

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PRO FORMA INCOME STATEMENT INFORMATION RELATING TO BIRKA ENERGI

The pro forma information shown below and on the following page is presented to illustrate the consolidated results of Fortum and Birka Energi on a pro forma basis, as if the formation of Birka Energi had taken place as of January 1, 1997. Financial information has been derived from the audited consolidated financial statements of Gullspång and Stockholm Energi, the audited financial statements of Stadshuset AB and the Pro Forma Consolidated Financial Statements for the year ended December 31, 1997. The pro forma information below and on the following page has been prepared based on the general assumptions indicated below and on the following page. Due to the limited availability to Fortum of information relating to Birka Energi and Stockholm Energi, the pro forma information is preliminary in nature, and is subject to revision upon receipt of more detailed accounting and other information. The pro forma information has not been adjusted for the potential benefits or savings, or the costs to Birka Energi and Fortum, of effecting the formation of Birka Energi.

The information included on this and the following page should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements and the other information included elsewhere in this Offering Memorandum. The financial statements of Gullspång, Stadshuset AB and Stockholm Energi are prepared in accordance with Swedish GAAP. Swedish GAAP differs in certain significant respects from U.S. GAAP. The board of directors may make certain modifications to the accounting policies of Birka Energi, which could cause this information to change significantly.

The pro forma income statement information of Birka Energi have been prepared using the acquisition cost method. Birka Energi is to be accounted for as an associated company. Pro forma income statement information relating to Birka Energi has been included in the Fortum Group pro forma income statement information (including a 50 percent shareholding in Birka Energi) using the proportionate consolidation method.

Certain adjustments have been made to eliminate nonrecurring restructuring costs (SEK 220 million) and to reflect the proposed outcome of financial arrangements agreed upon, in connection with the combination. The interest rate used in these adjustments is five percent.

Birka Energi Pro Forma Information

The following table presents pro forma information with respect to Birka Energi reflecting the formation of Birka Energi, as well as the adjustments made to the results of operation of Gullspång and Stockholm Energi to derive such pro forma information for the period indicated:

	Year ended December 31, 1997			
	Gullspång	Stockholm	Adjustments ⁽¹⁾	Birka
	Actual	Actual		Energi
	(audited)	(audited)	(unaudited)	Pro Forma
			(FIM in millions)	(unaudited)
INCOME STATEMENT DATA				
Net sales	3,940	4,628	604	9,172
Share of profits of associated companies	15	25	(126)	(86)
Other operating income	2	274	7	283
Operating expenses	(2,851)	(3,260)	(226)	(6,337)
Depreciation	(306)	(472)	(325)	(1,103)
Operating profit	800	1,195	(66)	1,929
Financial income and expenses	(255)	(683)	(296)	(1,234)
Profit before extraordinary items and taxes	545	512	(362)	695
Extraordinary items	0	(72)	72	—
Profit before taxes	545	440	(290)	695
Income taxes	(158)	(119)	74	(203)
Minority interests	(6)	—	—	(6)
Net profit for the period	381	321	(216)	486

(1) Including Birka Energi AB, formerly Stadshuset AB.

**PRO FORMA INCOME STATEMENT INFORMATION RELATING
TO BIRKA ENERGI — (Continued)**

Fortum Pro Forma Information

The following table presents pro forma information with respect to Fortum reflecting the formation of Birka Energi, as well as the adjustments made to the pro forma results of operations of Fortum, to derive such pro forma information for the period indicated:

	Year ended December 31, 1997			
	Fortum Group Pro Forma <i>(unaudited)</i>	Gullspång (deducted) <i>(unaudited)</i>	Birka Energi 50% and Eliminations Pro Forma <i>(unaudited)</i>	Fortum Group Pro Forma (including 50% of Birka Energi) <i>(unaudited)</i>
				<i>(FIM in millions)</i>
INCOME STATEMENT DATA				
Net sales	60,044	(3,899)	4,208	60,353
Share of profits of associated companies	444	(15)	(51)	378
Other operating income	628	(1)	141	768
Operating expenses	(53,946)	2,630	(2,778)	(54,094)
Depreciation (1)	(2,763)	335	(433)	(2,861)
Operating profit	4,407	(950)	1,087	4,544
Financial income and expenses	(1,451)	595	(940)	(1,796)
Profit before extraordinary items and taxes	2,956	(355)	147	2,748
Extraordinary items	1,939	—	—	1,939
Profit before taxes	4,895	(355)	147	4,687
Income taxes (1)	(547)	122	(78)	(503)
Minority interests	(308)	190	(3)	(121)
Net profit for the period	4,040	(43)	66	4,063

(1) The deferred tax liabilities related to group goodwill have been presented on a net basis in the Fortum Group pro forma consolidated financial statements according to Finnish accounting practice.

SUMMARY OF MAJOR DIFFERENCES BETWEEN FINNISH GAAP AND U.S. GAAP

Fortum Group's pro forma consolidated financial statements are prepared in accordance with Finnish GAAP, which differ in certain significant respects from U.S. GAAP. Fortum Group has not prepared any reconciliation between Finnish and U.S. GAAP. Set forth below is a brief description of certain major differences between Finnish GAAP and U.S. GAAP as of September 30, 1998. The organizations that promulgate U.S. GAAP have projects ongoing that could have a significant impact on future comparisons such as this. This description is not intended to provide a comprehensive listing of such differences specifically related to Fortum or to the industries in which it operates. U.S. GAAP is generally more restrictive and comprehensive than Finnish GAAP regarding recognition and measurement of transactions, account classification and disclosure requirements. No attempt has been made to identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the pro forma financial information or notes thereto.

Business Combinations

Both the purchase method and the pooling-of-interests method are used to account for business combinations, as appropriate, under Finnish GAAP and U.S. GAAP. However, the conditions under which a business combination may be accounted for as a pooling-of-interests are more restrictive under U.S. GAAP. Further, when these conditions are met, the pooling-of-interests method is required under U.S. GAAP.

Where the purchase method of accounting is used U.S. GAAP is more prescriptive regarding the determination of the fair value of the acquired business and the recording of provisions for reorganizing the acquired business.

The treatment of untaxed reserves in the allocation of purchase price and resulting determination of goodwill has in the past been different under Finnish GAAP and U.S. GAAP. This different accounting treatment may result in higher goodwill amounts shown in Finnish financial statements.

Under Finnish GAAP, goodwill arising from business combination is amortized to income over 5 to 20 years. U.S. GAAP requires goodwill to be capitalized and amortized over its estimated useful life which may not exceed 40 years.

Under U.S. GAAP, companies under common control are combined based on the historical book values of their assets and liabilities. Any acquisition of shares from minority shareholders, whether for cash or shares, is recorded at fair value. Accordingly, the net assets are stepped-up to fair value to the extent that shares are acquired from the minority shareholders. The costs associated with the combination are charged to expenses.

Under Finnish GAAP, companies under common control may be combined based on fair values. Shares acquired from minority shareholders are recorded at cost. Costs associated with the combination may be capitalized or charged to income.

Consolidation

The general principle under Finnish GAAP is that all majority-owned subsidiaries should be consolidated. In exceptional cases, majority-owned subsidiaries with basically no operations need not be consolidated as long as their effect on earnings and distributable equity is immaterial. Under U.S. GAAP, majority-owned subsidiaries, which the company is deemed to control, are all required to be consolidated.

Under Finnish GAAP, jointly controlled entities are consolidated using either the equity method of accounting or by applying the proportionate method. Under U.S. GAAP, jointly-controlled entities are consolidated using the equity method of accounting. Proportional consolidation is prohibited except in certain specific industries (for example the upstream oil and gas, and mining industries).

Deferred Income Taxes

Finnish GAAP allows but does not require accounting for deferred income taxes in consolidated financial statements. In Finland, companies are permitted to make certain appropriations to untaxed reserves and to record accelerated depreciation for tax purposes. In order to qualify for as a tax deduction under Finnish law, such

voluntary entries must be recorded in the statutory financial statements. Such accounting entries are reversed in the consolidated financial statements and a related deferred tax is recognized. Under certain circumstances the recognition of deferred tax assets related to tax loss carry-forwards is accepted.

U.S. GAAP requires recognition of deferred income taxes in full using the liability method. Under this method, deferred tax liabilities and assets are determined on the basis of temporary differences between the book and tax bases of assets and liabilities using enacted tax rates. Deferred tax assets are recognized to the extent tax benefits are “more likely than not” to be realized. In addition, the tax effects of certain other U.S. GAAP adjustments would need to be recorded.

Furthermore, under U.S. GAAP deferred taxes are recognized in respect of the difference between the fair value attributable to the net assets of an acquired business and their underlying tax basis. The deferred tax recognized directly impacts the amount of goodwill calculated.

Leases

In the consolidated financial statements, Finnish GAAP allows, but does not require, leases to be accounted for as capital leases if substantially all the benefits and risks of ownership have been transferred to the lessee.

Under U.S. GAAP, a lease agreement that transfers substantially all the benefits and risks of ownership is accounted for as an acquisition of an asset and the incurrence of an obligation by the lessee (a capital lease) and as a sale of financing by the lessor (a sales-type, direct financing, or leveraged lease). Other leases are accounted for as operating leases. U.S. GAAP is also more restrictive on the recognition of gains arising from sale and leaseback transactions.

Fees and Direct Costs of Loans and Leases

Under Finnish GAAP, fees and direct costs of loans may either be capitalized or expensed. Fees and direct costs of leases are expensed.

Under U.S. GAAP, nonrefundable fees and direct costs of originating and acquiring loans and leases are required to be capitalized and recognized over the contract life using the interest method, rather than through immediate recognition at the date of the transaction.

Asset Revaluation

Finnish GAAP permits revaluations of certain non-depreciable tangible fixed assets to their fair value with any resulting revaluation surplus recorded directly in shareholders’ equity.

The revaluation of fixed assets is not permitted under U.S. GAAP (except in connection with certain purchase transactions).

Capitalization of Interest and Indirect Costs

Under Finnish GAAP, interest charges and indirect costs incurred during the construction of certain assets may either be capitalized or expensed.

Under U.S. GAAP, if certain criteria are met the estimated amount of interest and indirect cost incurred in connection with capital projects is included in property, plant and equipment and depreciated over the lives of the related assets. The amount of interest capitalized is determined by reference to the average interest rates on outstanding borrowings.

Imputation of Interest

Finnish GAAP does not address the imputation of interests.

Under U.S. GAAP, in certain instances, when a note is exchanged for property, good of services, and the interest rate of the note differs from current market interest rates, the obligation is required to be valued using current market interest rates and the amount of the related asset or services is adjusted accordingly.

Transactions in Foreign Currencies

Under Finnish GAAP, exchange gains and losses arising from long-term debt can be deferred. Foreign currency derivative contracts can be accounted for as hedges without specific designation as hedge instruments.

Under U.S. GAAP, all unrealized gains and losses on foreign currency denominated monetary balances, except for those effectively hedged by currency swap agreements, are recognised in income for the period. Only for those financial instruments which are designated in advance as hedges and qualify for hedge accounting are exchange gains and losses deferred.

Commodity Transactions

Under Finnish GAAP, those derivative and other trading contracts which expire within the following year can be valued at the lower of cost or market or valued marked-to-market.

Under U.S. GAAP, all derivatives and trading contracts are marked-to-market and the resulting gains and losses are recorded in the income statement.

Valuation of Investments in Marketable Securities

Under Finnish GAAP, short-term investments in marketable securities are recorded at the lower of cost or market value; adjustments reflecting changes in market value are included in net income. Long-term investments in marketable securities are recorded at the lower of cost or market value, determined on an individual security basis. Write-downs for significant permanent declines in value are included in net income. Write-downs can subsequently be reversed if the estimated recoverable value of the investment increases.

Under U.S. GAAP, investments in equity securities with readily determinable fair values and debt securities are required to be classified into one of the following three categories and accounted for as noted below:

- Debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at amortized cost;
- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading and reported at fair value, with unrealized gains and losses included in earnings currently; and
- All other debt and equity securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of applicable taxes, in a separate component of shareholders' equity.

Pensions and Other Post Retirement Benefits

Finnish GAAP does not specifically address the accounting for pensions and other post retirement benefits such as healthcare. Generally, companies in a consolidated group account for such benefits in accordance with local conditions and practices in the countries in which they operate. In Finland, pension schemes are generally defined benefit plans with retirement, disability, death and termination benefits and are generally funded through payments to insurance companies or to trustee-administered funds as determined by periodic actuarial calculations. The funding assumes no future increase in salary levels and no increase in the market value of the pension fund assets.

Under U.S. GAAP, pensions and other post retirement benefits are accounted for on an accrual basis using specific actuarial methodologies with amounts reflected in the income statement systematically over the working lives of the employees covered by such plans. Furthermore, future salary increases must be taken into account in determining the pension liabilities and other future personnel benefits.

Research and Development Costs

Under Finnish GAAP, research and development costs may either be capitalized or expensed. Under U.S. GAAP, research and development costs are expensed as incurred.

Inventories

Under Finnish GAAP, production overhead costs may either be capitalized as a component of inventory or expensed immediately as a period cost. U.S. GAAP requires the capitalization of production overhead as a component of inventory.

Nuclear Plant Decommissioning

Presently, under Finnish GAAP, decommissioning costs are charged to income based on the calculations of the Nuclear Waste Management Fund. The total decommissioning cost estimated by the Fund is expensed. Investment earnings on assets dedicated to the Nuclear Waste Management Fund are accounted for by the Fund as credits to the estimated costs. Previously, Finnish GAAP allowed unfunded decommissioning costs to be treated as off-balance sheet liabilities.

Under U.S. GAAP, the total estimated decommissioning cost can be accounted for as a liability based on future cash flows and as a corresponding increase to the nuclear plant asset. The increase in asset value is amortized to operating expenses. Return on investment on assets dedicated to the external Nuclear Waste Management Fund is recorded as investment income.

Oil and Gas Accounting

Under Finnish GAAP, capitalized costs are amortized on the unit-of-production method based on proven and probable oil and gas reserves. Under U.S. GAAP, amortization is based on proven oil and gas reserves.

Under Finnish GAAP, write-downs for any permanent losses in value are recorded. Under U.S. GAAP long-lived assets to be held and used should be reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. In performing the review for recoverability, the company is required to estimate the future cash flows on a well-by-well or field-by-field basis. If the expected future cash flow (undiscounted and without interest charges) is less than the carrying value of the asset, an impairment loss is recognized in the income statement based on the estimated fair value of the asset. For oil and gas properties this fair value is generally based on the discounted value of the estimated future cash flows.

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