

1 April 2008

Translation from Finnish original

* * * *

Shareholders, ladies and gentlemen,

Fortum had yet another successful year in 2007. We made good progress in the implementation of our strategy and took major steps towards our vision: "To be the benchmark power and heat company excelling in sustainability".

Our growth strategy progressed in all of our key markets. Our Nordic investment programme went ahead as planned, and a new hydropower plant came on line in Avesta, Sweden. The construction projects for a combined heat and power plant in Suomenoja, Finland, as well as waste- and biomass-based plants in Sweden advanced. In late 2007 we were granted an environmental permit for the new Värtan biopower plant in Stockholm. We also started an assessment of environmental impacts in Finland concerning a third nuclear power unit, which would be constructed next to the two existing units in Loviisa.

Our growth in the Baltic countries and Poland was based on acquisitions and on plant investments that enable the utilisation of new biofuels.

We have developed our customer service. In Sweden, we continued the installation of automated meter-reading systems, and the first service based on the system was introduced to customers. (The energy panel service enables customers to follow their electricity consumption on our webpage and, for example, compare their consumption in different periods.)

The "Energihjälpen" energy service got a good reception in Sweden, and a corresponding service will be launched in Finland this year. Fortum has also set up a new unit that offers energy efficiency services to companies.

In Russia, we made a strategic decision to focus on production and sold our holding in Lenenergo, a power distribution company operating in the St Petersburg region. I still wish to emphasise that this was done completely at Fortum's own initiative, once an interested buyer was found and the price was right. The sales income covered Fortum's prior investments in Russia. After the divestment, Fortum still holds a valuable blocking minority in territorial generating company TGC-1. We also took part in the share issue of TGC-1 and maintained our holding, slightly over 25%, in the company. We are still the second largest owner. The share issue proceeds will be used to fund a comprehensive investment programme, which will strengthen the company's position on Russia's developing electricity market.

Our long-term, systematic strategy and the efficiency of our operations made 2007 successful also in financial terms.

1 April 2008

We achieved our best performance ever although the market conditions were extremely challenging. Thanks to a flexible production portfolio, the high availability of our power plants and efficient price hedging, we achieved a wholesale price for power that was 7% up on the previous year – even though the electricity price on the Nordic power exchange was 43% lower than in 2006.

Based on our good performance, the Board of Directors proposes a per-share dividend of 1.35 euros. We will discuss this later in the meeting.

In addition to posting an excellent result in 2007, we exceeded our main financial targets and our cash flow remained strong.

Competition for customers remained tough all year. I am glad to note that Fortum's image improved among consumers and that the number of Finnish customers saw a considerable increase. Especially Fortum's eco-labelled electricity has found its way to consumers. Our eco-labelled Norppasähkö accounts for 90% of all eco-electricity sold in Finland. In Sweden, Fortum's Bra Miljöval accounts for as much as 95% of eco-labelled electricity sales.

When our customers select an electricity contract, they can clearly see that Fortum is committed to sustainable development in its operations.

This commitment has had an impact, and last year our targets became even clearer. We added to our vision the goal to excel in sustainability. We tightened our emission targets for both electricity and heat in the EU. We also agreed to increase energy efficiency and thus reduce emissions outside the Union.

We set up a new unit to assess and develop business opportunities related to renewable energy sources, mainly wind power in the first phase. We have strengthened our operations that support sustainable development and have also initiated and carried out several measures aimed at reducing non-production CO2 emissions. For example, all of our facilities now use electricity produced without carbon dioxide emissions.

Our environmentally benign investment programme will increase carbon-free production by some 9 terawatt hours in the coming years.

We are convinced that investments in sustainable development will lead to success – and already have proof of this.

In late 2006, Storebrand, a Norwegian financial conglomerate, published a global report of the most responsible power companies. Among the forty-four companies assessed, Fortum was ranked number one and we were recognised as "Best in Class". We received praise especially for our environmentally friendly production structure.

Last September, Fortum was once again included in the global Dow Jones Sustainability Index – for the fifth time in history. Only four other Finnish companies have been listed on the index, and Fortum is the only Nordic power and heat company on it.

1 April 2008

Fortum was also the only Nordic power and heat company chosen for the worldwide Carbon Disclosure Leadership Index. The selected companies are the best in their field in terms of their commitment to curbing climate change and their climate reporting.

Early this year, we learned that Fortum had been selected for the list of the world's one hundred most responsible companies. The selection was made by Carbon Disclosure Project, which is a worldwide organisation formed by hundreds of institutional investors. In addition to Fortum, the list includes four other Finnish companies, and only four other power companies in the world.

Fortum's long-term goal is to become a power company whose production does not cause any CO₂ emissions. Stricter emissions targets and our goals for structural and organic growth will increase the significance of research and development.

Fortum has been blamed for not spending enough on R&D. We have increased our R&D investments in recent years, as can be seen, for example, by calculating their share of turnover. We are at a good European level in this respect and fully comparable to other companies in the field.

We are convinced that our way to conduct R&D is the right one. By networking with leading co-operation partners, such as universities and equipment and plant manufacturers, we ensure that top expertise is used in the most efficient way possible. Naturally, we also maintain our own resources, and add to them if needed, in a number of selected strategic key areas.

We drew up a new research strategy last year, and launched several new technology development programmes based on it. We also made inroads into future technologies.

Examples include our research on the use of lignin – a forest industry by-product – as a possible bioenergy alternative, our investments in companies that develop wave power and our decision to invest in clean technology funds. A highly promising field of future technology comprises the capture and storage of carbon dioxide. Our CO₂ capture experiment at the Värtan plant in Stockholm was successful. We also launched co-operation projects in Norway and Finland. Our goal is for the Meri-Pori power plant to be included in the EU's CO₂ capture demonstration programme, which will start in 2015.

Everything I have talked about so far is proof of the consistent work that Fortum has carried out for quite some time. This work is based on our strong vision about the direction in which the EU's energy market is heading and the type of player that will be competitive in the market. We have long talked about market convergence and its benefits to both customers and society. Integrated markets will enable us to more efficiently meet the demands set by security of supply, competitiveness and climate change.

Recent development in the EU underlines the Commission's strong will to further develop the internal energy market. Many of the EU's legislative proposals this year and last year show that the Union's energy and climate policies are developing in the right direction. An internal energy market is now a clear target. The goal is to create a well operating market that is as efficient and highly competed as possible. This will be achieved when both the wholesale and retail electricity markets converge.

1 April 2008

Fortum claimed a major win a few weeks ago when the Finnish Market Court stated that Fortum does not hold a dominant market position in the power generation and wholesale market. The Market Court overruled the conditional decision given by the Finnish Competition Authority concerning Fortum's acquisition of E.ON Finland. In June 2006, the Competition Authority decided that the acquisition could go through only if Fortum gave up some of its production capacity. We fulfilled the condition without delay, but filed a complaint with the Market Court, which now stated that the market area in power generation and wholesale covers at least Finland and Sweden. We saw this as an important win in a question of principle.

The Swedish competition authority, Konkurrensverket, stated around a year ago that no national markets exist. The market has already become Nordic in nature, and no party has a dominant market position. The Finnish Market Court has now arrived at the same conclusion.

In its energy package published in January 2007, the EU pledged to search for a solution that would bring together the goals set for Europe's competitiveness, security of supply and sustainable development. According to the EU's objectives, CO₂ emissions must be reduced by 20%, energy efficiency must be increased by 20% and renewable energy sources must account for 20% of overall consumption by the year 2020. The objectives are extremely challenging, seeing that the need for new production is estimated at some 1,300 terawatt hours by 2020. In order to reach the goals at the lowest possible costs, we need a well-operating, efficient energy market

Future ownership structures of transmission system operators are currently under examination. In general, collaboration between operators is considered to be essential to market integration. In September, the European Commission presented its energy package for the internal market, which aims to speed up energy market integration. The package proposes a number of measures. Discussions have shown that the biggest – and presumably the most difficult – task will be to implement the Commission's proposal of full ownership unbundling in electricity transmission.

Fortum has nothing against ownership unbundling – should that be the decision – as long as all players are treated equally. The main point is to find a solution that ensures the progress of energy market integration and guarantees that grid operations are impartial, transparent and can be developed efficiently.

Several EU member countries, headed by Germany and France, have opposed the Commission's proposal. However, a compromise seems to be around for ownership unbundling in electricity. The ball was set rolling a few weeks ago when E.ON announced it would divest its holding in the grid network in Germany.

The fastest way to create an internal electricity market in Europe is to work through regional markets. The current integration of Nordic and Continental European electricity markets is a good example of this. It will lead to a joint North European electricity market. The development of distribution connections and their market-driven utilisation based on a common set of rules have led to notable enhancements – as integration is supposed to do.

1 April 2008

In January 2008, the Commission specified the EU's energy and climate policy targets and legislative objectives. Emissions trade will continue to be the cornerstone of the Union's climate policy after 2012. Emissions allowances will be centrally distributed, and full-scale auctioning of allowances will be adopted in power generation. In other words, electricity production will not get any free emissions allowances in the future.

The EU will take full responsibility for the climate policy concerning the emissions trading sector. This means that national measures targeting the emissions trading sector, such as the taxation of district heating fuels, can no longer be justified on the grounds of climate policy.

The primary goal of climate policy must be to reduce CO₂ emissions. The focus lies on enhanced energy efficiency, the auctioning of emissions allowances, as well as the promotion of carbon-free – including nuclear – and renewable energy.

Renewable energy must be promoted, but the targets are extremely challenging. A great deal of additional support is needed for the goals to be achieved. For Finland to reach its target – which means increasing the share of renewable energy from 28.5% in the comparison year to 38% – we need additional investments in the energy system that amount to nearly one billion euros a year. For the support to be as cost-effective as possible, it should be based on market terms. The best solution, in our view, is green certificate trading – preferably encompassing all of the EU. We find it to be contradictory that the development of emissions trading has led to an EU-wide climate policy, but the targets for renewable energy sources and the obligations to increase their use have been set on national level.

Fortum is one of Europe's cleanest producers. The EU energy package sets targets for energy efficiency, energy technology development and carbon capture. Fortum is prepared for these challenges caused by climate change.

Fortum has taken climate change seriously for years and has contributed to mitigating it. We have pioneered investments in carbon-free production. We face the future confidently, having born our responsibility to both shareholders and consumers.

Fortum's own statistics on environmental impacts also show that we have succeeded as a pioneer. Last year, 89% of our electricity produced without CO₂-emissions, while renewable energy sources accounted for 40% of electricity production and 34% of heat production. Fortum Markets is the largest retailer of eco-labelled electricity in the Nordic countries.

We also participate in climate work outside the European Union. Early this year we signed a contract with TGC-1 on the adoption of Kyoto mechanisms in northwestern Russia.

Fortum gets emission reduction units worth some five million tonnes. This corresponds to around half of Fortum's annual carbon dioxide emissions. The emission reduction units are related to joint implementation projects that are carried out at TGC-1's production facilities during the Kyoto period 2008–2012 of the European emissions trading scheme.

1 April 2008

TGC-1's future projects include reconstruction of hydropower plants, expansion and reconstruction of combined heat and power generation facilities, as well as improvements to the energy efficiency of the district heating network. We also benefit financially in the form of emissions allowances. Fortum can use the received emission reduction units to offset part of its own emissions in the EU, once the projects have been completed and their emission reduction has been verified.

The agreement with TGC-1 was the biggest ever trade in emission reduction units in Russia. I do not expect it to be the last of its kind for us.

As a responsible energy producer, Fortum also wants to take responsibility for the environment on a larger scale. Strategic growth does not exclude responsibility for a cleaner future.

Like any developing company that has its eyes set on the future, Fortum has aimed at consistent growth in its core markets in recent years.

We have also made it clear that our goal is to strengthen our position in the rapidly developing and growing Russian electricity market. We secured our expansion in Russia in February this year, when Fortum won an auction and acquired the Russian territorial generating company TGC-10.

TGC-10 is an important step in the implementation of our strategy. This acquisition gives Fortum a unique opportunity to achieve a strong position in one of the world's biggest energy markets.

The Russian electricity market is currently the world's fourth largest – two and a half times the size of the Nordic electricity market. The demand for electricity in Russia is expected to nearly double by 2020. That corresponds to the consumption of two Nordic markets. This calls for enormous new investments and enhancement to existing production.

Russia has consistently reformed its electricity market, aiming to deregulate wholesale and privatise a significant share of electricity production capacity. The aim is to create the appropriate conditions for investments that are essentially needed to meet the rapidly increasing demand. The market has developed as planned, and a realistic goal is for market deregulation to be completed in 2011.

The delicate balance between electricity demand and supply, the planned increases in gas prices and the need for new production capacity have led to expectations of rising electricity prices in Russia. Market deregulation and a positive price outlook, as well as TGC-10's location in a region where the demand for electricity is growing particularly strongly, give Fortum a unique opportunity to achieve profitable growth in line with its strategy.

TGC-10 is located in a region that is seeing Russia's fastest growth in electricity demand: 6 to 8 per cent a year. The Urals region is the core area for Russia's oil and gas industry and energy-intensive industry. What also makes TGC-10 a unique opportunity is that it is one of the country's most efficient production companies. It has the best capacity utilisation rate of all the territorial generating companies, and its production consists of efficient combined heat and power production.

The acquisition of TGC-10 will increase Fortum's electricity production by half in a few years' time. Heat production will double instantly. The acquisition, the TGC-10 investment programme

1 April 2008

that will be completed by 2013 and Fortum's Nordic growth investments will make Fortum an important "mid-level" player in the gradually converging European and Russian electricity markets.

Although the production of TGC-10 consists of relatively efficient combined heat and power production, we believe that our competence can be used to considerably enhance operations. In addition, the reduction of emissions will enable the use of Kyoto mechanisms and, consequently, the creation of added value.

The value creation from TGC-10 is based on rapid growth in the demand and production of electricity, on price development, as well as on operational enhancements worth at least 30 million euros.

The first phase of the deal has now been completed, bringing Fortum's share of the company to 76%. Our goal is to reach a 100-per-cent holding this year. The overall value of the deal will be, at the most, 2.7 billion euros. Part of this – a 1.3-billion-euro increase in share capital – will be used to finance the company's investment programme of approximately 2.2 billion euros. In other words, the share capital increase will come to Fortum, which will use it to carry out the agreed investment programme.

We are no longer looking for new investments in Russia. Fortum's integration team, under the lead of director Tapio Kuula, will be heading towards Chelyabinsk tomorrow. His team will be in charge of taking over the company, implementing integration and enhancing operations. Furthermore, his team will ensure successful implementation of the investment programme. By the end of this year, around 50 Fortum employees will be working in various TGC-10 units.

The transaction is fully loan-financed. We will maintain our good financial flexibility after the acquisition – that is, the possibility to finance future growth projects –, and our capital structure will remain efficient. Although the acquisition will slightly dilute Fortum's per-share results in the next two years, we believe that Russia's overall market development, our enhancement measures and the investment programme will enable positive development in the future.

Fortum has more than 50 years of experience in successful co-operation with the Soviet Union and Russia. Over the years we have carried out joint projects, purchased fuel and electricity, exported Fortum's competence, as well as become shareholders first in Lenenergo, a power company in the St Petersburg region, and later in TGC-1, a territorial generating company in the north-west of the country.

Furthermore, we have had the chance to take part in the preparation and implementation of the electricity market reform currently under way in Russia. Our long-term experience of deregulated electricity markets has been of interest in Russia, and our skills as an expert in the field are respected in the country. This makes me very proud.

Fortum is indisputably a world-class expert in the operation and maintenance of production plants. Several comparative surveys focusing on the type of production rank our facilities at the absolute top. If we commit ourselves to improving the energy efficiency of Russian power plants and in this way reduce specific emissions, I believe Fortum, as a company, can bring about considerable

1 April 2008

improvements. Not only does this refer to enhanced operations in terms of environmental impact but also to clear financial benefits.

We are ready to take over TGC-10. I believe that our growth in Russia will benefit our owners, the company and the environment. Fortum's management is convinced that this will become a part of Fortum's success story.

Our acquisition in Russia does not restrict the implementation of new, profitable growth projects, if and when such emerge.

In addition, we are determinedly carrying out our Nordic investment programme. Once it has been completed, we will have increased our production capacity by some 1,300 megawatt hours and our production by some 10 terawatt hours, 90% of which is carbon-free.

We are also conducting an environmental impacts assessment concerning the third nuclear power plant unit in Loviisa.

We continue to assess other growth opportunities as well, especially those related to growth in renewable electricity production and in combined heat and power production.

I finally wish to talk about Fortum's invaluable work in the past decade, the fruits of which have also benefited our shareholders.

In the 21st century, Fortum's strategy has consistently focused on developing the company's position as a strong player in the Nordic countries and around the Baltic Sea. We have developed from a national player into an international company. We enjoy a strong position in our core business. Our production structure has been fine-tuned to competitively meet the EU's environmental targets. Considerable added value has been created for our shareholders.

In the new millennium we have consistently focused and developed our business in line with our strategy. We have undergone an enormous industrial transformation, including business arrangements worth 18 billion euros.

Most of our ten-billion-euro acquisitions have been made to achieve the target defined in our strategy: to become a leading power and heat company. Fortum is now the leading company in the Nordic countries and a specialist in the power and heat business. In line with our strategy for regional focus, we have developed Fortum's market position in northwestern Russia, Poland and the Baltic countries – and most recently elsewhere in Russia as well.

Today we are a significant player not only in northwestern Russia but in all of the country.

In this millennium, we have invested around 7 billion euros in carbon-free production. Volumes have increased and quality has improved. Our long-term investments have born fruit. Our production portfolio is now one of Europe's cleanest – and most competitive. We have increased the share of all carbon-free forms of production: hydropower, nuclear power, wind power and biofuels.

1 April 2008

Although the availability of emissions-free hydropower is not constant, we have maintained our position as an electricity producer with one of the EU's lowest CO₂ emission rates in recent years. This gives us a clear competitive advantage. The EU adopted emissions trading a few years ago, meaning that CO₂-free electricity production is rewarded and emissions-heavy production sanctioned. Our competitors have higher production expenses, which puts Fortum into a clearly better position to achieve good financial results. Our investments and our consistent strategy implementation in the 21st century have also enabled good share price development, increase in shareholder value and return of capital to shareholders.

Fortum is proud of its achievements. Our goal in the future is to be a CO₂-free power and heat producer – at least in the EU countries. Our ambitious goals also form a foundation for our objectives in other regions – such as Russia, where we export our competence, above all. Fortum has much to offer to the Russian energy industry: we are a reliable partner and offer advanced technology as well as skills in commissioning and maintenance. This enables us to improve efficiency and thus reduce environmental impacts.

Fortum wants to truly and seriously participate in building a better and cleaner future. Fortum's expansion continues also in the east, where we export competence that benefits both Russia and Finland, as well as other countries and regions.

We are proud of our achievements. They convince us, who work at Fortum – and I believe you, our shareholders, as well – that we have chosen the right path towards sustainable development. We care about the environment and carry our responsibility for it. We want to take part in building a better future – we do not want to be part of the problem, but rather a part of the solution