

The speech given by President and CEO Mikael Lilius at the General Meeting of 25 March 2004

Mr. Secretary, Mr. Chairman, honourable shareholders, ladies and gentlemen.

The year 2003 was a great year for Fortum, and a successful ending for the first stage of the company's development. We achieved many of the goals that were set three years ago.

Our strategy has been based on our view of the development of the Nordic power market. This view has been validated and reinforced over the years, and it is now evident that we are in transition to first a regional and then a pan-European power market. The aim of this development decided upon by the EU is to promote the efficiency of the industry, for the benefit of both the consumers and society at large.

The Nordic countries have for a long time been at the forefront of this development; our power markets were already beginning to open at the beginning of the 90s. Today we have a well-functioning, common, and liberalised power market within which the spot price of electricity is determined daily in the Nord Pool power exchange. The price is determined on the basis of supply and demand by hundreds of buyers and sellers. The spot price also serves as a reference for all bilateral power trade conducted in the Nordic countries. I believe that the Nord Pool is the best functioning power exchange in the world.

The common market also means that national production markets have disappeared. Electricity today flows freely from one country to another. In the Nordic countries, separate production plants are part of a vast common system. This means that the production capacity of the entire area is put to efficient use and that we are highly dependent on one another. The picture shows an example, a real-life situation where large quantities of electricity flow between countries. This is everyday reality now, and a positive thing. Competition functions well when use of the electricity stretches beyond national boundaries, too.

The opening of the market led to the desired goal: prices fell significantly. The Nordic countries have for a long time had the lowest electricity prices in Europe. Under normal circumstances, this is true today as well. A year ago, we had an exceptional situation: due to drought, the supply of hydroelectric power was scarce, and cold weather at the same time increased the demand for electricity. Consequently, prices started to rise. The market, however, proved its functionality even under these special conditions: a total of approximately 2,700 MW of unused capacity was brought into use, and nobody had to suffer due to lack of electricity.

Many believe that the ordinary consumer suffers on account of the sudden peaks of electricity market prices. This is not true, all the more so in Finland. Between the power exchange and the consumer, there is a sales company that bears the risks of price fluctuations and dampens the effects for the customers. The service offered to customers by the electricity sales company is therefore similar to that a bank offers with mortgage

agreements: the customer can choose a slightly higher fixed rate or take a risk and choose flexible pricing.

A Finnish electricity consumer does not want to take big risks; he wants to be able to predict the amount on the dotted line at the bottom of his electricity bill. Therefore, he usually opts for a long-term contract with slower-reacting pricing. This was a good choice last winter. In January 2003 the price of market electricity grew to several times its earlier level, but the price paid by the private consumer did not change.

If we look at the development of the price of electricity in relation to the consumer price index, it is evident that the real price of electricity last year was lower than the 1997 level. The exceptional situation of a year ago did increase the price of electricity significantly. However, we are still almost at the level we were at seven years ago.

One should also remember that in addition to the actual price of electricity, there are two other parts to a consumer's electricity bill: distribution fees and taxes. In Finland, the percentage of tax on electricity bills has been more or less the same for the last eight years. I'm sure I speak for all Finns when I ask the tax authorities to keep the taxation of electricity moderate.

The network companies have every so often been criticised for overpricing. However, the fact of the matter is that distribution fees have decreased ever since 1997, when viewed in comparison to overall price development. Our society is growing increasingly dependent on electricity. Therefore, we must adjust the distribution fees to such a level that the companies can operate profitably in the future, too. Only in this way can we ensure the investments necessary to guarantee the delivery reliability that is so important for all of us.

As I already said, the Nordic countries are trailblazers in the opening of power markets. The benefits of this openness can be seen clearly when we compare our consumer price level to that of Central Europe, where they are just starting to open the markets. The Nordic countries continue to have the lowest prices in Europe.

Clearly, therefore, the opening of the Nordic power markets has been highly successful and the development continuous. We now look to the authorities to make sure that the benefits of the free market reach the consumers.

The bottlenecks of the transmission network should be removed so that the production capacity of the entire region can be used as efficiently as possible. I believe that the best way to do this is through a Nordic main grid. We should also standardise the rules so that all players start from the same line.

Regulations concerning the ownership of power plants should be similar in all of the Nordic countries. This way, all companies could function under the same rules. There are also other regulations, such as those concerning metering of the consumption of electricity and billing, that should be harmonised in order to promote free competition. Furthermore, the process of changing one's energy supplier should be made easier and as standard as

possible, without depending on the country where the customer lives. These actions would further promote free competition.

We are, naturally, very happy with the development so far. The Nordic power market shows the way for the rest of Europe, and this is all for the good of the consumers. At the same time, the development boosts our own strategy and supports our chosen Nordic way of doing business.

Our strategy has three main elements:

In 2003, Fortum made several important steps as a shaper of the Nordic power market. We established a firm position in Norway by acquiring a share of Hafslund and other Norwegian companies. We also significantly increased our holdings in the St.-Petersburg-based Lenenergo. This gave us a vantage point overlooking the opening Russian power market.

The opening of the Russian power market is a remarkable and significant process. The current power monopoly RAO UES covers an area from Vladivostok to St. Petersburg, and the company produces 70% of Russia's electricity. This gigantic-scale production is to be divided among ten national and some 15 regional generation companies, one of which will be situated in the St. Petersburg region. And Lenenergo, approximately half the size of Fortum, is a major player in this region. We now own approximately one fifth of this company. Our position is unique, for Fortum is the only foreign operator in the Russian power market.

Though there are uncertainties concerning both Russia as a country and the opening of the power market there, we are confident of the future. The development of the power market looks inevitable, even though it is difficult to estimate its speed. In any case, this development will open up many great opportunities, and we are in a position to take advantage of these if we choose to do so. Also, it is good to remember that our current risk is very restricted: our investment in Lenenergo totals less than 100 million euros.

For the last few years, we have developed the structure of our generation portfolio to minimise emissions.

Our decision to be involved with Finland's fifth nuclear reactor is a significant milestone in this respect. The project in question is the biggest industrial investment in the Nordic countries, worth over 3 billion euros in total. Another significant aspect of the project is that it involves companies only. The state is not participating in the project economically; that is, it offers no financial support or guarantees whatsoever. The participating companies bear all of the risks involved in the project, and thus only strong companies can participate. Fortum's decision to join the project was made purely on commercial grounds.

The company's operations in the oil business have also developed strongly over the past few years – so strongly, in fact, that they will soon be ready to become independent.

Perhaps the most significant decision made last year was the decision to move the oil business operations to a separate company meant to be listed on the Helsinki Exchanges. This project is progressing well, and it should be concluded by the end of the year. The exact time of the listing will depend on the market situation.

In practise, the solution means that the parent company Fortum will sell shares in its subsidiary, using the profit to further develop its own activities.

When the oil company is listed, a new, separate company will be born on the stock exchange. Fortum will carry on as a listed company just like before.

This arrangement allows Fortum to better concentrate on its electricity strategy, and the oil business side, once released, can pursue its own independent strategy in order to take fullest advantage of developments in the market.

The solution also makes it possible to invest 500 million euros in the Porvoo refinery in order to further improve its competitiveness. This project enables the use of competitive Russian crude oil for the manufacturing of quality products. For once, we can benefit from our geographical location! The background of the project is the increase of Russian crude oil exports to western markets via the Gulf of Finland. The capacity of Primorsk new harbour has already been increased, and estimates indicate that there will soon be over a hundred million tons of crude oil passing via the gulf every year. Our location by this route gives us logistical benefits.

Our ships can carry the crude oil to Porvoo, where, instead of the heavy fuel manufactured now, we are going to manufacture sulphur-free diesel fuel, which is in increasing demand in Europe. Also, production levels will be a million tons greater annually than those for the current heavy fuel. We have the know-how, and the timing and location are perfect.

The Porvoo investment project is one of the biggest industrial investments in Finland, and it should be completed by the end of 2006. The construction time alone will require approximately 3,000 man-years, and once the project is ready, there will be about a hundred new permanent jobs.

Last year, we continued to renew our ships in order to ensure that our tankers serve our needs in the Baltic Sea as well as possible. At the same time, we are improving our ability to take advantage of the increase I mentioned in Russian oil exports via the Gulf of Finland.

The primary consideration for our sea transport operations is still a high safety level. We now have at our disposal two new crude oil ships of super ice class, and they have contributed to the good results of our Shipping operations significantly.

In north-western Russia, Fortum has a joint undertaking with the Russian Lukoil. Production at the South-Shapkino oil field began in the summer, and Fortum's share of its maximum production corresponds to approximately 10% of our own needs.

In the highly competitive field of electricity sales, our greatest ambition is to triumph over our competitors in the battle for customers. The power industry has been criticised a lot due to increases in prices, storms causing blackouts, and poor customer service. We take the criticism seriously and with humility. Last year, we conducted energy surveys and further developed our efforts to give our customers advice on how to save electricity. We also offered more flexible commercial rate schedules, simplified our billing in order to make it more comprehensible, established a new customer service unit, and rationalised our processes.

We also continued to sell assets outside our core business area. The year 2003 saw the completion of reorganisation worth 9 billion euros in total over recent years. We have withdrawn from sectors that do not fall under our key areas of business or are outside our geographic area of focus. Therefore, our corporate structure is now well-defined and our balance sheet healthy.

Though many key market factors were favourable for us last year, the remarkable result we achieved was, above all, based on hard work.

The Group's business profit grew 10% from the previous year, even though the 2002 figures included over 300 million euros worth of non-recurring items. If we compare the results without non-recurring items, the operational result improved 67%, coming to almost 550 million euros more than that of 2002. One major factor contributing to this is our versatile and flexible power generation structure. This proved very useful last year, as we were able to deal with the lack of hydroelectric power by using condensing power. Another significant factor was the combining of Nordic business operations, which brought synergy benefits beyond our hopes. Last year alone, we achieved synergy benefits worth 130 million euros.

The good result from Oil Refining and improved result from Fortum Markets also contributed significantly to the growth of business profits.

Earnings per share continued to rise, and they were 15% better in 2003 than the year before. If we compare the operational result without non-recurring items, earnings per share grew over 50%.

A strong cash flow is important to a capital-intensive company like Fortum. Therefore, we pay special attention to it, and this can be seen in the results as well. The cash flow for business operations continued to grow, last year reaching 1,577 million euros. Therefore, it is not an overstatement to say that our good profitability and strong cash flow together made the two major investments in hand – the Porvoo investment and our participation in the fifth nuclear reactor – possible.

Because of the good result and strong cash flow, the Board of Directors recommend a dividend of 42 eurocents, which is 36% more than that of the year before.

In the last few years, we have worked resolutely in order to reach our financial goals. I'm very pleased with last year's results, as we did achieve all but one of our goals. We can also note that by following our strategy resolutely, we have strengthened our position in the Nordic countries.

This has been noticed and rewarded in the stock market as well. Our share price continued to rise last year and was approximately 30% higher at the end of 2003 than a year earlier. For the last few days, the price has for the most part stayed above 8.5 euros.

When we look at the future, we should bear in mind that we have a well-functioning corporate structure and good earning power. We are ready to start the next phase of our journey.

This year's focus will be on the following matters in particular:

The oil company to be formed must have a good premise. The large investment project at Porvoo will be carried out with determination in order to ensure even greater competitiveness. The legal separation of the company is almost completed, and a leader has been named for it. Naturally, the new Group needs a well-functioning corporate structure and group administration with all relevant support functions. This work has begun. All the preparations are aimed at having the company ready for listing as we approach the end of the year. The timing will be decided by the market situation.

I started my review with an overview of the Nordic power market. It is clear that a capital-intensive industry such as ours will not remain as fragmented as it is now. After all, the economic regularities of other industries apply to our industry, too. Therefore, we will see more mergers in areas such as power generation, electricity distribution, and sales operations.

Fortum is now in a good position to participate actively in this development.

The entire energy industry has to a large extent been a production-focused one, due to the hundred or so years of monopoly. We are now operating in a competitive market, and the customers are expecting to get their money's worth. This is a big challenge for the industry. We at Fortum are ready to accept the challenge, and we do realise that we have to make many changes and improvements.

One of the strengths of Fortum is our broad customer base. We want to take care of this customer base and see it grow. That is why we have started to change our methods of operation in various ways: we are improving and diversifying our customer service operations and offering new kinds of contracts tailored for the needs of different customer groups, we will continue to simplify our billing and other customer-related operations, and we will design new ways to improve customer satisfaction and quality of service.

In short, we aim to be the most desirable energy supplier there is, and we know that this requires a lot of hard work. The foundation necessary to reach this goal was laid last year, and now the work continues to achieve better customer satisfaction levels.

Honourable shareholders:

The past year has been good to Fortum, and especially so to its owners. These great results did not come by themselves but were earned through hard and determined work. Therefore, I would like to take this opportunity to thank the Fortum personnel for a job well done. I would also like to thank the chairman of the Board of Directors for many years, Matti Vuoria, for his unyielding support and forward-thinking approach over the years.

And you, honourable shareholders, I would like to thank for trusting us. We will keep on working to remain worthy of that trust in the future, too.

Next year too will be a busy year. We have a clear direction, and we will continue working determinedly. Though last year went well, we can still improve our operations. This will be our goal in all major sectors for the coming year.

Current market prospects, the hedging of prices we have done, and the continuing rationalisation of activities give us good prospects for the year 2004.

Thank you for your attention.
