

Speech by the President and CEO at the Annual General Meeting on 28 March 2007

- Translation of Finnish original -

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

Figure 1.

The 2006 fiscal year was another excellent year for Fortum. Our profit potential continued to grow, and we made new advances in the implementation of our growth strategy.

We completed the E.ON Finland acquisition and thereby achieved significant growth in our business activities and customer base here in Finland. The Fortum Espoo functions have now been integrated into Fortum, and the planned Suomenoja investment project has been launched.

The conditions set by the Finnish Competition Authority for the realisation of the acquisition were met in the course of the 2006 financial year. In our opinion, the conditions were based on an incorrect view concerning the relevant market area; the electricity market is Nordic, not national, and we have complained to the Market Court about the decision.

We continued to grow in the Nordic countries and the Baltic Rim area: We acquired a district heating company in Poland and holdings in a district heating company in Lithuania, as well as power and heat businesses in both Estonia and Latvia.

We continued to strengthen our foothold in Russia by increasing our ownership in Territorial Generating Company No. 1 (TGC-1) in north-west Russia to more than 25%. We are now the second largest owner of the company. With a production capacity equal to about half of Fortum's, TGC-1 is a significant generation company. The company aims to increase its capacity by 50% before 2015. Another important foothold is represented by our holding of 33% in Lenenergo, a district heating and electricity distribution company in St Petersburg.

To date, we have invested a total of approximately EUR 300 million in Russia. The investments have been good, because their market value has almost quadrupled in a very short time.

Figure 2

The price of electricity was among last year's main subjects of public discussion.

Electricity retailers – including Fortum – base their pricing on quoted exchange prices for the near future, which change daily. The figure shows the development of these through mid-October. The 2006 financial year was characterised by strong fluctuations in the wholesale price of electricity in the Nordic electricity exchange. As a consequence of the extremely dry spring and the hot summer, the availability of hydropower decreased. Prices of emissions allowances also fluctuated heavily, and several Swedish nuclear power plants experienced unplanned outages. All of these factors contributed to the increase in electricity exchange prices, which in August reached a record level. The price increase continued all year and created pressure to increase prices for electricity retailers. Indeed, by October dozens of Finnish companies had announced increases in the consumer price of electricity.

From October on, the weather usually gets colder, normally leading to increases in the quoted electricity prices for the near future. The figure shows the quoted price at the time of Fortum's decision to increase prices. We assumed that the weather of the coming winter would be normal and

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that prices would increase. This was not, however, the case. All over the Nordic region, rains were abundant and temperatures unusually high.

By the time our announcement about the price increase had become public, the exchange prices for the near future already had decreased somewhat. A week later, they had decreased substantially, by up to 10% in one day, and Fortum's price increase was cancelled. Thus, our estimate of upcoming prices was inaccurate, and the mistake was rectified. It goes without saying that the stir caused by our announcement about the price increase influenced the speed of our reaction.

That reversing our decision was the right thing to do is shown by the daily exchange prices since then. The Nordic water reservoirs were filled to almost the normal level, and emissions allowances' prices have collapsed. In February, we announced price decreases from the beginning of April.

Figure 3.

At this point, I would like to dispel a myth that has been very tenacious in the media. According to this myth, Fortum keeps increasing its prices and is expensive.

In the last three years, Fortum has changed the price of its main product Kesto four times: three times it was decreased, and once it was increased. Absolutely, our prices today are at the same level as three years ago. From 1 April they will be lower than in 2004. When adjusted according to the consumer price index, our prices in April will be 10% lower than in 2004.

Figure 4.

In comparison with those of other national electricity retailers in Finland, our prices are very competitive. Last autumn, our main product was still above average in terms of price, but from the beginning of April its price will be clearly below the average for its class. It should also be kept in mind that Fortum offers this price to the whole country and not just a limited area. Moreover, the product is of top quality: It is 100% eco-labelled electricity.

Figure 5.

A special cause for joy is the comparable net growth of the number of customers in 2006, which is despite the rather colourful public discussions surrounding Fortum. Customers really do vote with their feet, and in all of our market areas they headed for Fortum, including in Finland. Customers are aware and vigilant – Fortum's competitiveness in the areas of price, service, and climate-friendliness has been noticed.

Figure 6.

Thus, we can be very satisfied with the 2006 fiscal year.

Our profits increased clearly. Thanks to this, as well as our strong cash flow and the positive outlook, the Board suggests a dividend of 126 eurocents, which signifies a dividend yield of almost six per cent. Of such a high dividend, 53 eurocents is based on the optimisation of our capital structure. We will discuss this later in the meeting.

There are also other reasons for being satisfied: Our production plants are efficient, and their availability continued to be high.

We made significant progress in the implementation of our growth strategy. The Group's cost structure is competitive, and once again Fortum received international recognition and awards for its various functions, from research and development activities to customer service, reflecting the high quality of our activities.

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I would like to mention our positive customer flow once more, because it is a special cause for joy and pride for us.

Figure 7.

Ladies and gentlemen, I would, however, like to broaden the view and discuss subjects that affect all of us, and therefore also Fortum, to a very great extent. As many of you will have guessed, I am referring to climate change, which has become the focus of energy policy both in the EU and for the whole world. Another important issue is the future availability of energy.

The figure shows a satellite picture of our planet Earth at night. The bright areas are lit by electricity. The figure shows our dependence on energy, which in the very short period of about 100 years has experienced exponential growth. Energy is the motor of contemporary society. There is no going back to a time without electricity or motor traffic. The map also shows a lot of almost black areas. This tells us about large areas of our planet where electrification and the energy-intensiveness of society are still in their early days. This leads to combined concern about the availability of energy and issues of climate change.

Figure 8.

According to a recent report by the International Energy Agency, the IEA, the energy demand of the planet will increase by about half again by the year 2030. And what is most significant: The IEA estimates that the addition will be derived mainly from the same forms of energy that we are already using. Today, 80% of the total global energy demand is met by energy from fossil fuels. There is no immediate shortage of these energy sources, and the existing infrastructure also supports their continued use. Therefore, the use of gas, oil and particularly coal is projected to grow significantly.

It is expected that the use of electricity will double in the same period. It must be kept in mind that today a quarter of the Earth's population has to manage without electricity. They are also entitled to an easier life.

Figure 9.

Such increases in energy demands entail enormous investments. It is estimated that, in order to meet the increasing demand, investments of more than USD 20 trillion or 20,000 billion will be needed globally. In Europe alone, the investment need is estimated at almost USD 2,500 billion. We need new oil and gas production, mines, oil and gas pipelines, main grids for electricity transmission, and other infrastructure, not to mention new electricity production plants.

Figure 10.

It goes without saying that this development will lead to a strong increase in carbon dioxide emissions. On a global scale, carbon dioxide emissions are responsible for up to 80% of all greenhouse gas emissions. It is projected that by 2030 carbon dioxide emissions from energy production will increase by half.

We are dealing with a lot of ratios here, but the most important point is that such a development is not sustainable.

Figure 11.

With growing emissions, the carbon dioxide concentration of the atmosphere rises. This leads to the climate becoming warmer. The Intergovernmental Panel on Climate Change, or IPCC, estimates that the average temperature of the Earth will rise by 2–4 degrees this century.

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We already know that small changes in the average temperature can have dramatic consequences for agriculture and the availability of food, the sea level and the availability of fresh water, the occurrence of extreme weather phenomena, biodiversity, and the balance of the entire atmosphere and ecosystem.

Figure 12.

There are still those who doubt climate change as a phenomenon and the role that human beings play in it. However, over the last decade their number has decreased substantially. The panel on climate change consists of the foremost climate researchers in the world, who every few years draw up a report about the state of the climate and the outlook. The latest report, dated at the beginning of this year, is clearly more serious and more definite in its tone than earlier ones.

According to researchers, it is very likely that the greenhouse gas emissions caused by humans have led to the warming phenomenon, which as such already is considered undeniable. Indeed, the atmosphere's CO₂ concentration is now higher than ever in the last 650,000 years.

The report's forecast for the end of this century is anything but light reading: As a consequence of the rise in temperature, glaciers will melt and the sea level will rise, weather conditions will change, and the number of hurricanes will increase. We are talking about changes that are going to occur within our grandchildren's lifetime.

Figure 13.

Published last October, a report by the renowned economist Nicholas Stern examines the economic consequences of climate change for the Earth and its societies. The report was groundbreaking because for the first time the financial consequences of the threatening prospects associated with climate change were examined. The report woke up even the last doubters to the gravity of the situation.

One of Stern's most central conclusions is the fact that, whether we like it or not, climate change has its price. The consequences for society will entail enormous costs. He also considered how much it would cost to halt climate change as compared to doing nothing. The conclusion is unambiguous: Action should be taken as soon as possible. It would be more expensive to postpone taking action, and doing nothing would be the most expensive.

Stern also notes that, in order to change the trend, emissions must have a price.

Even if these forecasts are not entirely exact, we should believe the foremost experts on the planet and take this threat seriously. The reports of both the IPCC and Stern show that we must take immediate action in order to halt the destructive development.

What provisions do we need for this?

Figure 14.

Energy policy is facing an enormous challenge: How do we find a balance between demands for sustainable development, security of supply, and competitiveness? As we have noted in previous years, the EU has invested extensively in addressing the issue. For a long time now, the EU's climate policy has been among the most progressive in the world. The common aims for reduced emissions, increased use of renewable sources of energy, and improved energy-efficiency are the most recent example of this. These aims also reflect the EU's waning self-sufficiency in terms of energy, and the need to secure the future supply of energy. The Lisbon agenda put improvement of the EU's competitiveness at the top of its list of priorities.

What is being done in the EU in order to achieve these goals? In fact, one measure supports all of them – a common European energy market.

Figure 15.

The available energy reserves have always been at the centre of political power play. In recent years, the developments in Belarus and the Ukraine, among other factors, have highlighted the importance of achieving a common energy policy for the EU. Today, energy policy is on the agenda of practically all EU summits. This has increased the focus on the need for a common, functional energy market.

Figure 16.

The EU has drawn up a strategy and directives in order to merge the national electricity markets, first regionally and later throughout Europe. It is important to keep in mind that efficiency and price considerations were the original motivations for this development, since a larger market area brings clear advantages to individual customers as well as societies. Later, considerations concerning the security of supply and the climate came to guide the development along with competitiveness.

Figure 17.

The first regional electricity market in the EU is the Nordic one. The Nordic electricity market often is used as a model by the EU, because it clearly shows that what you set out to achieve can be realised.

Whether we compare the electricity prices paid by private households or the industry, it can be noted that in the Nordic countries they are very competitive indeed. The figure shows the pre-tax and taxed electricity prices implemented. The sector cannot affect the taxed prices, but it can affect the tax-free ones. In Finland, private household customers living in blocks of flats pay the second lowest tax-free prices in the entire EU. Only in Greece are the prices lower. Industrial customers in Finland pay the third lowest price, with only Norway and France having lower prices. These facts are constantly forgotten when the electricity price and the functioning of the electricity market are the subject of public discussion in Finland.

Despite the fact that many of the basic prerequisites for a functional market are met here, a lot remains to be developed. At Fortum, we strongly support the completion of agreed development measures.

Figure 18.

A while ago, I spoke about the need for investments in the world and in Europe by the year 2030. If we consider this in relation to the near future, just over 10 years from now, we will see that the need is acute. It must be kept in mind that each power plant project takes years, including the planning, licence proceedings, and building. From the investor's decision, 5–10 years and sometimes even more easily can go by before the plant is ready.

In Europe, an additional 900 TWh of power generation is required by the year 2020. This amount is enormous, equivalent to the output of almost 70 nuclear power plants of the largest type in the world, now to be built in Olkiluoto. For the Nordic region on its own, the corresponding need is 80 TWh, which is equal to six nuclear power plants. Commitments for about half of this amount have been made, but the other half are required as well. Thus, we are talking about very extensive investments.

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Figure 19.

Through competition, the market price of electricity is determined by demand and supply. As we move toward shortness of supply, the price of new capacity will have a significant impact on the market price of electricity.

The figure shows the current costs of different forms of production. Since both fixed and fluctuating costs over the whole life of the plant must be taken into consideration, a profitable investment necessitates a market price of electricity that is above EUR 40. It may be noted that the costs are the same, regardless of whether the builder is a private company, municipality, or state.

Price signals guide investments, and in the long term the price of electricity must cover the total cost of production.

Figure 20.

Thus, the price of electricity must be at the right level if investments are to be attracted. However, that alone is not sufficient. There are also other challenges to the realisation of investments: Licences.

Last year, I showed you this same figure, but I think it may be worth showing again. Environmental permits and other licence-related proceedings constitute an integral part of industrial activity and investment projects. However, if we keep in mind the lack of capacity predicted for the near future, it goes without saying that processing of licences must be smoother than now is the case. If we actually get to the stage of licence applications at all ... We are looking at forms of production whose political acceptability is so uncertain that long and expensive licence proceedings are not actually worthwhile. In order to resolve this issue, a new and more courageous approach is required of political decision-makers in all of the Nordic countries.

Figure 21.

Another myth that surfaces in the media from time to time is that the energy business does not invest. The facts prove otherwise. For several years now, the energy business has been the biggest industrial investor in both Finland and Sweden. Only last year, our sector invested over EUR 3 billion in both of these countries, employing thousands of people.

Figure 22.

As I noted earlier, the European Commission strongly promotes the achievement of a common energy policy. In January of this year, the commission published what it called an Energy Package, aimed at strengthening this development. With the goals of securing competitiveness, security of supply, and sustainable development, the package includes aims and measures extending far into the future. This constitutes a significant political initiative, the goals of which are easy to agree with. It is important that we participate actively in the planning of the implementation of this package and the required measures. As a bystander, we would not be able to affect the developments.

It is clear that the EU will continue on its chosen path in the future. Therefore we would be wise to be active and direct our activities such that our business may be successful also in this fundamentally changing environment.

Figure 23.

It is quite obvious that a global problem requires global solutions. It must, however, be kept in mind that no single organ or person can decide upon the development on behalf of the rest of us. Therefore, countries must be able to agree on common action and the distribution of work. The

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challenge of sharing the burden equally is great, also because developing countries must be given the opportunity to develop their economies. They also must have the right to increase their consumption of energy, as industrialised countries have for more than a century. Therefore, those of us who are well off cannot stand by and wait for what others might possibly do. It is the obligation of the rich countries to set the pace and show the way.

The term of the Kyoto agreement, which supports the EU's climate goals, ends in 2012. Then a new, more comprehensive agreement will be needed. I strongly believe in Stern's conclusion that, if we wish to change the trend, emissions must have a price. Therefore, we should aim for a global carbon dioxide market after 2012. I believe that emissions can be controlled by concentrating on four issues: Developing global emissions trading, improving energy-efficiency, ensuring technological development, and saving energy.

Figure 24.

Currently, emissions trading in accordance with the Kyoto agreement is carried out in the EU only, and the transport sector is not included in the system.

Thus, the involvement of more countries and actors is required.

There are already clear indications for this: In the US, more than 10 states already are involved in carbon dioxide emissions trading among themselves. It is important that emissions have a price, and therefore emissions rights should be distributed not for free but on market terms via auctioning. Other control mechanisms offered by the Kyoto agreement should be exploited more extensively than they are now, and each member country should remove overlaps in the control. Taxation and various subsidies should promote and not distort competition while reducing emissions. For the same reason, all control mechanisms should be on the terms of the market, and emissions should have a genuine price. This is common voluntary work, for which all of us together will pay.

Figure 25.

Electricity is a necessary commodity, but it could be used much more efficiently than it is today. Much already has been done in industrial processes and the insulation of buildings, but the work is not completed. The traffic sector is another area with a great deal of potential for increased efficiency. Due to the climatic conditions in the Nordic countries, we already have a long tradition of investing in energy-efficiency. In Finland, the significant combined power and heat production is a great example of our investment in efficient energy economics.

Cutting the use of energy is also an important way to control climate change. It is possible for everyone without people having to 'rough it'. As consumers, all of us through our choices can influence the lessening of carbon dioxide emissions – for example, by switching to energy-saving light bulbs or a car with fewer emissions.

We are clearly moving into an era in which our way of consuming energy will be weighed also on the individual level. This is extremely important, because energy can be used much more sensibly than is done today, and increases in demand thereby can be controlled.

Figure 26.

A lot of development work is being done all over the world, aiming for renewable and emission-free power generation. There are research projects related to extensive, middle-sized, and small-scale solutions. This is important because the participation of all of us will be required. Fortum is involved in several projects, of varying size.

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According to the current understanding, the price of new technology is far higher than that of current methods. The difference is clear but not an insurmountable obstacle. It would seem that the time and force with which such technologies will break through constitute a more significant challenge. Even if new technologies were promoted much more forcefully than now, the IEA estimates that by the year 2050 they would only reduce CO₂ emissions by just over half of the required amount.

Thus, according to technology experts, we cannot in the foreseeable future expect the breakthrough of any technology that would solve the carbon dioxide question to a large enough extent by 2050. Nevertheless, an enormous amount of new energy production is required by then – globally, in Europe, and also here in the Nordic countries. After 2025–2030, the need will be even more acute here, as several older Nordic nuclear power plants will be withdrawn from use. Also, in view of the fact that the completion of power plant projects takes years, as many as 15, it is clear that the time for decisions has come. These decisions are big and challenging, because they are made decades in advance.

Ladies and gentlemen, this is how the world and its future looks. What will Fortum do?

Figure 27.

At the moment, Fortum is among the companies that invest the most in the Nordic countries. Last year, we both extended and accelerated our investment programme. It is aimed at additional production of about 10 TWh in the next five years or more, 90% of which is carbon-dioxide-free. This is a very significant investment, the costs of which amount to EUR 2.8 billion.

We are systematically increasing the proportion of renewable energy sources, such as wood-based biomass and municipal waste, in our power generation. The use of both biofuels and waste increased significantly last year. We invested in a new biofuelled combined power and heat production plant in Stockholm. Its capacity will cover a quarter of the heating requirement of Stockholm. In Finland, we will replace fossil fuels with biomass in district heating networks, where that is possible. In Suomenoja in Espoo, we will invest in a new combined power and heat production plant fuelled by natural gas, which will contribute to a significant decrease in the use of coal and oil.

In addition, we will invest almost EUR 1 billion in improving the reliability of electricity networks and remotely read electricity meters. The significance of these meters will be great in the future because they will allow customers to react to fluctuations in the market price of electricity in real time, and to use electricity in a more sensible way. Thereby, peaks in demand may be controlled and consumers can decrease their own electricity bill.

Figure 28

At Fortum, we came to conclusions regarding the trend in our sector a long time ago. For many years now, we have focused on working to make our production capacity more emission-free. This naturally has had its price. In the 2000s alone, we have already invested EUR 7 billion in carbon-dioxide-free energy production.

Even last year, which was unusually dry and warm and had lower than normal availability of hydropower, 84% of our power generation was carbon-dioxide-free.

When the current investment programme has been completed, the proportion of emission-free production will increase further.

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Fortum also is prepared to continue its investment programme beyond the current one. We take an interest in all climate-friendly production methods, and we are prepared to participate in new investment projects whenever the opportunity arises. Today we announced the launch of preparations to facilitate the filing of a licence application for a sixth nuclear reactor with the Parliament during the new legislative period. It goes without saying that Fortum wants to participate in such a project if and when it happens.

Figure 29.

Today, Fortum's energy production portfolio is among the cleanest in Europe. The only company with lower specific emissions than Fortum is completely hydropower-fuelled. It is our challenging aim to remain among the forerunners in Europe in this respect. Our current investment programme will take us in the right direction, which in the long term entails the implementation of both new technologies and new forms of production. In fact, this target is so challenging even in the medium term that we are not yet quite sure how we will be able to achieve it, with all of our competitors doing everything they can to reduce carbon dioxide emissions. It is a moving target.

We believe that our increased investments in research and development, which are aimed in particular at emission-free or low-emission power generation, will provide us with the necessary answers. We have taken on the challenge.

Figure 30.

In addition to the development of production methods, Fortum employs a number of other means to reduce carbon dioxide emissions.

The aim of emissions trading is to reduce emissions, and Fortum is among its pioneers. We completed our first international deal in 2000, years before the EU's emissions trading even had begun. We believe that emissions trading is a cost-effective way to reduce emissions, and we are fully prepared for the launch of global trading.

We also are prepared to increase the use of other Kyoto mechanisms. Last year, we were the first company in Russia to prepare a memorandum of understanding with one of the biggest energy companies in the world, RAO UES, in order to exploit common projects. It is our aim to identify and implement projects associated with the reduction of greenhouse gas emissions in Russia.

On its Web pages, Fortum offers versatile tips for saving energy.

We also have launched a Web shop in which customers can find the most energy-efficient version of the electrical appliance they are looking for. In addition, the site features a calculator that allows customers to model their own home and appliances and thereby identify the most sensible ways of saving energy.

In Sweden, we have guides in energy savings, who travel around the country and offer advice to customers.

In addition, we have launched energy-saving measures for Fortum's staff.

We will continue to increase energy-efficiency at our production plants.

We have set an emissions limit for company cars and implemented tools for remote meetings, thereby reducing the need for business travel between countries. One of our aims is to reduce the carbon dioxide emissions caused by air travel by 10%. Moreover, we will compensate for the

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carbon dioxide emissions caused by each flight by supporting projects for the reduction of emissions around the world. This should make our air travel climate-neutral.

These means are in place already, and others will follow.

Fortum's responsible business activities and its work for the reduction of environmental effects are internationally recognised. Once again, Fortum took its place in the international Dow Jones Sustainability Index, which includes only two other Finnish companies. The Norwegian finance corporation Storebrand also selected Fortum as a company that meets the criteria for its funds. Only investment outlets that take appropriate environmental and social responsibility are selected. In its global report, Storebrand found Fortum the most responsible electricity company.

Figure 31.

Climate change constitutes our common challenge. As I have described, at Fortum we take it seriously. We have not waited around for others to take the initiative; instead, we have taken action independently. This has turned out to be the correct decision. Our choice has helped the environment and at the same time improved Fortum's competitiveness. We will continue on the same path.

Nevertheless, we are very humble in facing this enormous challenge. We are aware that the current methods will not be sufficient in the future. A lot depends on attitudes, both those of the company and of individuals. Each of us leaves a footprint on the climate. I believe that Fortum's footprint will continue to develop favourably, as this constitutes a clear competitive advantage for us.

Fortum wants to be a part of the solution and not just a part of the problem.

This is our focus, and we firmly believe that everybody in our society will benefit from it. This is also true for you shareholders, because a climate-friendly energy company has better provisions for success and will increasingly be the choice of investors.

Ladies and gentlemen,

The energy sector is at the centre of attention, today and far into the future. This is a sector in constant development, and it constitutes a major focus of interest in all of society. It is clear that, from now on, climate issues will constitute the greatest challenge of our sector.

We have built an ever stronger Fortum, which is very well positioned to face this challenge. I believe that as Fortum's owners you can be very hopeful about the future.