

INTERIM REPORT FOR 1 JANUARY-30 SEPTEMBER 1999: FORTUM'S OPERATING PROFIT FOR JANUARY-SEPTEMBER EUR 533 MILLION OR FIM 3,169 MILLION

Operating profit for January-September rose to EUR 533 million (EUR 403 million for January-September 1998) and profit before extraordinary items to EUR 378 million (EUR 248 million). Profit per share was EUR 0.30 (EUR 0.18), return on capital employed 8.2% (7.0%), return on shareholders' equity 6.8%, (5.1%), and gearing 88% (93%).

The results benefited from a higher market price of oil, the founding of Birka Energi Group, and increased gains on the sales of fixed assets. In contrast, they were adversely affected by a lower average market price of electricity than in the comparative period, and by the lower oil refining margin. The operating profit for the review period includes inventory gains of EUR 62 million (inventory losses of EUR 28 million), a major portion of which concerned statutory crude oil stockpiling. The operating profit for July-September includes a gain, EUR 41 million, on the sale of Asko shares.

The Group's net sales totalled EUR 5,888 million (FIM 35 billion).

During July-September, the Group's operating profit was EUR 181 million and profit before extraordinary items EUR 126 million.

Profit for January-September totalled EUR 554 million (EUR 138 million). Net profit for the period was improved by gains on the sale of shares in Gasum and Enermet, totalling EUR 393 million, entered under extraordinary items.

Prospects for the remainder of the year

Since the end of the review period, the price of oil has continued to be markedly higher than in 1998, although oil refining margins have continued to be very low. The market price of electricity has also strengthened. On the basis of the current market outlook, Fortum's management believes that the Group's 1999 profit, before extraordinary items, will be significantly better than in 1998.

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Appendix

Interim Report 1 January-30 September 1999

Nine months in brief

- Fortum's January-September operating profit totalled EUR 533 million (EUR 403 million in January-September 1998)
- The market prices of both crude oil and electricity rose during the third quarter of the year. Oil refining margins continued to be low, despite a momentary pick up in August.
- Fortum agreed on the acquisition of the entire share capital of the German energy utility Wesertal.
- After the end of the review period, Fortum signed an agreement on the divestment of Neste Chemicals. Following the closure of this transaction, the restructuring operations announced in connection with our initial public offering at the end of 1998 will have been completed.

Results for January-September

The Group's net sales totalled EUR 5,888 million (EUR 6,399 million in the comparative period). The decrease was principally attributable to planned cuts in the volume of oil trading. The results were also affected by lower market prices of electricity than in the comparative period, and by lower prices of chemicals products.

Operating profit for January-September was EUR 533 million (EUR 403 million). The results benefited from a higher market price of oil, the founding of Birka Energi Group, and increased gains on the sales of fixed assets. In contrast, they were adversely affected by a lower average market price of electricity than in the comparative period, and by the lower oil refining margin. The operating profit for the review period includes inventory gains of EUR 62 million (inventory losses of EUR 28 million), a major portion of which concerned statutory crude oil stockpiling.

At EUR 181 million, during July-September operating profit was 121% higher than in the comparative period. The results for the third quarter improved particularly as a result of the higher crude oil price. The operating profit for July-September includes a gain, EUR 41 million, on the sale of Asko shares.

Net financing expenses during the period were EUR 155 million (EUR 155 million) and profit before extraordinary items EUR 378 million (EUR 248 million). Net profit for the period amounted to EUR 554 million (EUR 138 million). It was improved by gains on the sale of shares in Gasum and Enermet, totalling EUR 393 million, entered under extraordinary items.

Profit per share was EUR 0.30 with EUR 0.18 a year earlier. Return on capital employed was 8.2% and return on shareholders' equity 6.8% (7.0% and 5.1%).

Investment and financing

The Group's investments in January-September totalled EUR 846 million (EUR 1,376 million), a major portion of which was accounted for by acquisitions made by the Power and Heat Division. Investments during July-September totalled EUR 237 million.

The acquisition of shares in Lahden Lämpövoima Oyj, Espoon Sähkö Oyj and Länsivoima Oyj were the most significant share acquisitions carried out during January-September. In addition, our share of the voting rights of Länsivoima shares increased to more than two thirds, as a result of which, on 6 September 1999, Fortum made a redemption offer for the remaining Länsivoima shares. The redemption period ends on 5 November 1999.

In May, we divested 50% of our Gasum Oy shares as required by the European Commission, as a result of which we now own 25% of Gasum. In August, we divested our wholly-owned subsidiary Enermet Oy to the private equity fund Industri Kapital. The transaction price of EUR 102 million resulted in capital gains of EUR 69 million. As part of the transaction, Fortum acquired a 30% holding in the newly established Enermet Group Oy.

Interest-bearing net debt at the end of the review period totalled EUR 4,102 million (EUR 3,898 million at the end of 1998). Gearing was 88% (93%).

Activities after the review period

In October, Fortum agreed to divest Neste Chemicals to the private equity fund Industri Kapital for EUR 505 million. As a result, we recorded EUR 90 million in capital gains. The transaction is subject to approval by the competition authorities, but is expected to be completed during the year.

In October, we sold four of our tankers and agreed to charter the vessels back to our shipping unit. The total sale price of EUR 41 million resulted in approximately EUR 27 million in capital gains.

In September, we signed an agreement on the acquisition of the entire share capital of the German utility company Elektrizitätswerk Wesertal GmbH at a purchase price of EUR 390 million. The transaction is subject to approval by the competition authorities, but is expected to be completed at the turn of the year.

Year 2000 programme

We have checked, remediated and tested our essential systems. During the remainder of the year, we will finalise contingency plans and practise for potential exceptional events.

To ensure fluency of operations at the turn of the year, we have increased cooperation with our customers, subcontractors and partners. We also participate in several international Year 2000 working groups.

The estimated total cost of Fortum's Year 2000 programme continues to be less than EUR 25 million.

Prospects for the remainder of the year

Since the end of the review period, the price of oil has continued to be markedly higher than in 1998, although oil refining margins have continued to be very low. The market price of electricity has also strengthened. On the basis of the current market outlook, Fortum's management believes that the Group's 1999 profit, before extraordinary items, will be significantly better than in 1998.

Business review

Markets

During the year, the price of crude oil in the international markets has been considerably higher than in 1998. In January-September, North Sea Brent traded at an average price of USD 15.8 a barrel, 20% higher than a year earlier. In July-September, Brent traded at an average price of USD 20.6 a barrel, or 65% higher than in the comparative period.

The price of petroleum products in the international markets kept pace with that of crude oil. Product prices increased more slowly, however, as a result of which refining margins were exceptionally meagre. The margins improved somewhat in August in the wake of the rapid strengthening of the gasoline markets, but have since deteriorated.

In Finland, sales of motor gasoline during January-September were at the same level as in 1998. Consumption of diesel fuel rose by 4% as a result of an overall increase in industrial

activity, whereas consumption of light fuel oil and heavy fuel oil decreased by 1% and 4%, respectively, due to warmer weather in the summer and early autumn than in the previous year.

After a dry summer, water resources in the Nordic countries were close to the average. The short-term market price of electricity, which showed a downward trend at the beginning of the year, took an upward turn at the end of the period and was significantly higher than in the previous year. Although prices in the derivatives market increased from the record low in the spring, they were still below those of last year.

In the Nordic countries, consumption of electricity grew by slightly more than 1% in January-September compared with the comparative period. In the review period, Finland's electricity consumption was 56.7 TWh, somewhat more than 1% up on the comparative period. Most of the growth came from small customers and services.

Oil and Gas

Fortum's petroleum product sales to the Finnish market during January-September 1999 totalled 5.6 million tonnes, around 4% less than a year earlier.

Fortum's retail market shares in Finland during January-September were: gasoline 32%, diesel fuel 44%, light fuel oil 40%, and heavy fuel oil 48%. Market shares were virtually unchanged from the comparative period.

Petroleum product sales outside Finland totalled 3.6 million tonnes, up slightly more than 10% on the comparative period. Sales to western markets grew by more than a quarter. Sales to Russia and the Baltic states decreased by 50% as a result of poorer market conditions. Motor gasoline exports amounted to nearly 2 million tonnes or 55% of total exports. Of this, nearly half was sold to the United States and Canada. Exports of low-emission diesel fuel totalled nearly 0.7 million tonnes, up 60% on 1998. Exports of aviation fuel and kerosene were slightly more than 0.4 million tonnes, two-and-a-half times more than in 1998.

Our oil and gas production during January-September averaged 31,700 oil-equivalent barrels a day, down approximately 4% on the comparative period, but in September it rose to approximately 37,000 oil-equivalent barrels a day. At the end of the year, oil and gas production is expected to rise to 40,000 oil-equivalent barrels a day, equal to approximately 2 million oil-equivalent tonnes a year. The growth is attributed to the Åsgard field in the Norwegian Sea, where production began in May. Our share of the field's output is 7%.

Åsgard's oil, condensate and natural gas reserves account for approximately 60% of our commercial reserves. Of the planned total investment of EUR 550 million in the Åsgard field, slightly less than EUR 80 million is yet to be invested. A major portion of this will be invested in gas production, which is scheduled to begin at the end of 2000.

The project to double the production of low-sulphur City Diesel at the Porvoo refinery continued. This additional capacity, of more than 1 million tonnes, is principally targeted at the European market and is scheduled to be available in December 1999.

In the United States, an expert panel appointed by the Environmental Protection Authority recommended that the minimum oxygen content of gasoline be abolished and the use of oxygen-rich MTBE gasoline component be reduced considerably. If these recommendations come into force, consumption of MTBE will fall in the United States. To prepare for the potentially restricted use of MTBE, Fortum's 50%-owned MTBE facility at Edmonton, Canada, has begun to make plans to convert to the production of alternative gasoline components if necessary.

In June, Fortum signed a memorandum of understanding with Norway's Statoil on the setting

up of a joint venture, which would encompass both companies' unmanned fuel outlets, service stations, direct sales, and oil terminal operations in Estonia, Latvia, Lithuania, Poland, and Russia. It is planned for the new company to begin operations early in 2000.

During January-September, 14 new unmanned A24 fuel outlets were opened in the Baltic states and two in Poland. Three service stations were opened in St Petersburg.

The project to restructure our vessel fleet is continuing as planned. In October, we received the first new time-chartered product tanker. Since the end of the review period, we have also sold and chartered back four of our tankers.

Power and Heat

In January-September, Fortum sold a total of 30.4 TWh of electricity (32.3 TWh in the corresponding period) in the Nordic market: sales in Finland totalled 21.4 TWh and in Sweden 9.0 TWh (including half of Birka Energi AB's sales). In Finland, electricity sales increased by 0.6 TWh (3%); in Sweden, they decreased by 2.5 TWh (22%). The decrease was a result of Birka Energi's electricity sales, of which Fortum accounted for considerably less than of Gullspång Kraft's sales a year earlier. 64% of total sales were to large customers, 24% to small customers, and 12% to the electricity exchange and temporary sales. We generated 27.0 TWh (25.1 TWh) of electricity in our wholly- or partly-owned power plants.

Of the 1.5 TWh of electricity we sold outside the Nordic countries, a major part was generated by our Brigg power plant in the UK. All the electricity sold in Germany, and a major part of that sold in Estonia, was procured from other power generators.

A total of 10.8 TWh of heat was sold, 17% up on the comparative period: 69% of the sales was district heat, 31% steam. In Finland, a total of 8.3 TWh of heat was sold, 7% down on the comparative period. In Sweden, heat sales increased from 0.3 TWh to 2.5 TWh. The growth came from Birka Energi's sales, of which Fortum accounted for considerably more than of Gullspång Kraft's sales a year earlier.

Fortum's subsidiaries distributed 2.8 TWh of electricity (2.3 TWh in the corresponding period) in their networks to Finnish customers. In Sweden, the corresponding electricity distribution was 5.6 TWh (4.7 TWh), half of Birka Energi's distribution.

In September, the Tuusula municipal council approved the share acquisition of Tuusulanjärvi Energy Ltd, and the share acquisition made in 1998 was finalised. Tuusulanjärvi Energy is now a wholly-owned subsidiary of Fortum.

Kymppivoima has taken Fortum to arbitration in an attempt to modify the long-term contracts which it had signed on electricity sales. Fortum will respond at the beginning of November.

In September, we agreed to acquire energy utility Elektrizitätswerk Wesertal GmbH in Germany. Wesertal provides electricity, gas and heat. Through joint ventures, Wesertal has a power capacity of about 550 MW at its disposal. Fortum also began to sell electricity to German energy companies and households. As a result of this deal, we now have 163,000 direct and, in addition to that, 349,000 indirect customers in Germany.

We are building a power plant in Edenderry, Ireland, and another in Grangemouth, Scotland. In Burghausen, Germany, we initiated an investment in a 100-MW combined heat and power (CHP) plant, and in Thailand the building of a gas-fired 100-MW Laem Chabang CHP plant was begun. Fortum and the Estonian-based Eesti Ühispank purchased the share capital of AS Viru Energia with the result that Fortum now owns 70% of the company. Fortum's Hungarian associated company, Budapesti Erömü Rt., began to build the Újpest 110-MW gas fired power plant in Budapest.

Other business operations

The changed market situation has complicated the Operation and Maintenance business. The market for the Engineering business is gradually improving and that for Neste Chemicals has changed for the better.

Corporate structure and business development

The structural arrangements announced in connection with Fortum's listing will be concluded after the Neste Chemicals deal is finalised: operations and significant shareholdings outside our core energy business have been divested and the reorganisation of Gasum Oy's ownership, required by the EU, has been completed.

We continue restructuring to achieve cost savings and to improve operational efficiency. Negotiations on combining the staff and services of the divisions are in progress. Group management will be centralised and will move to Keilaniemi, in Espoo, at the turn of the year. A leaner and more efficient organisation and corporate governance model will come into effect at the beginning of 2000, and will provide the Group with good opportunities to increase further the efficiency of our operations.

The Group aims to expand in its core areas and to improve the profitability of its existing business. Our growth strategy continues to benefit from the potential created by the deregulation of the energy markets.

The investments to support this growth will be focused on the Nordic countries, Germany, the UK and Ireland. Our investments will be focused on speciality and environmentally-preferred products in oil refining, and on electricity distribution, district heat, combined heat and power generation, and hydropower.

Following changes in the market, the focus of business development is on energy end users. Joint sales of heating oil and electricity have begun in Finland, and we have also begun trading these products on the Internet.

We have initiated measures to improve the Engineering business's profitability. We are also continuing to shift the focus of oil and gas exploration and production (E&P) to gas. This operation concerns our projects relating to the gas and electricity businesses in the central European market.

At the end of August, we submitted the environmental impact assessment report on the Loviisa nuclear power plant project to the Ministry of Trade and Industry. The development plans for the plant, which may be built in Finland during the next decade, are being made together with industry. Plans for the longer-term, which include an oil pipeline to Porvoo in Finland, transmission of natural gas to the Stockholm area in Sweden, and the gas pipeline project between Russia and the EU, are progressing.

Personnel

In January-September, Fortum Group employed an average of 18,302 people, against an average of 18,981 in the comparative period. A major part of the decrease is a result of the divestment of certain business operations.

Helsinki, 4 November 1999
Fortum Corporation
Board of Directors