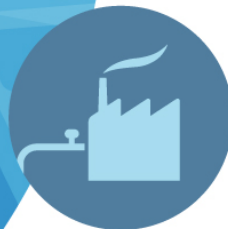
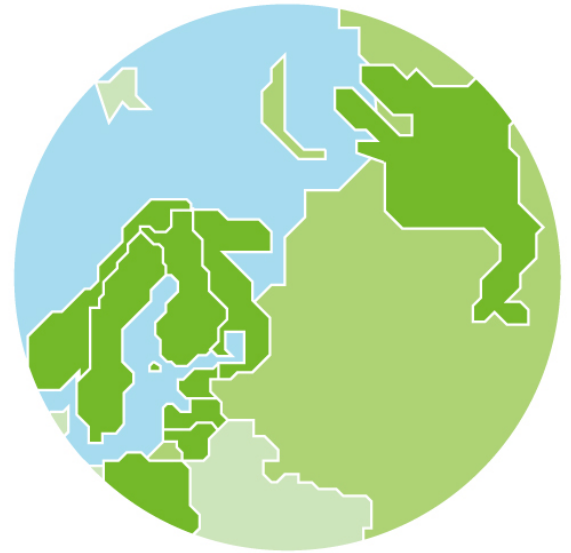


2012

Financials



Next generation
energy company



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Financials 2012

Group Business Structure

Divisions	Power	Heat	Russia	Electricity Solutions and Distribution (ESD)	
Business	Division consists of Fortum's power generation, power trading and power capacity development as well as expert services for power producers.	Division consists of combined heat and power (CHP) generation, district heating activities and business-to-business heating solutions in the Nordic countries and other parts of the Baltic Rim.	Division consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's over 25% holding in TGC-1.	Division is responsible for Fortum's electricity distribution and sales activities. The division consists of two business areas: Distribution and Electricity Sales.	
Reporting segment	Power	Heat	Russia	Distribution	Electricity Sales
Geographic presence, production assets and/or customer base	Production in Finland, Sweden and Great Britain. Expert services worldwide. In Finland and Sweden full or co-ownership in 191 hydropower plants, two condensing power plants and some tens of wind power plants. Two own nuclear reactors and eight co-owned nuclear power plant units. One CHP plant in Great Britain.	Finland, Sweden, Norway, Poland, Lithuania, Latvia, Estonia 18 CHP plants and several hundred heat boilers - Heat supply to one million homes in the Nordic countries, Poland and the Baltics.	Russia - Eight CHP plants, two heat boilers and ~500 km trunk networks as well as heat supply to 172,000 customers - Incl. <25% share (giving blocking minority) in TGC-1 in the north-western Russia.	Finland, Sweden and Norway - 156,500 km distribution lines, 53,000 sub/switch stations, three operation centres and 1.6 million meters as well as customers in the Nordic countries.	Finland, Sweden and Norway -1.2 million customers in the Nordic countries.
Market position	Third largest power producer in the Nordic countries, among the 15 largest in Europe and Russia.	Leading heat supplier in the Nordic countries and Baltics, growth in Poland and the Baltics.	Sizable power and heat utility in Western Siberia and the Urals in Russia.	Largest electricity distribution operator in the Nordic countries.	Second largest electricity sales operator and leading seller of eco-labelled and CO ₂ -free electricity in the Nordic countries.
Production capacity	Power 9,702 MW Heat 250 MW	Power 1,569 MW Heat 8,785 MW	Power 3,404 MW Heat 13,396 MW	-	-
Volumes	Total power generation 50.3 TWh/a Nordic power generation 49.2 TWh/a	Power sales 4.2 TWh/a Heat sales 19.7 TWh/a	Power sales 23.3 TWh/a Heat sales 26.4 TWh/a	Distr. net. 26.6 TWh/a Reg.net. 17.3 TWh/a	Electricity sales 13.0 TWh/a
Sales	EUR 2,415 million	EUR 1,628 million	EUR 1,030 million	EUR 1,070 million	EUR 722 million
Share of Fortum's sales	35%	23%	15%	15%	10%
Comparable operating profit	EUR 1,144 million	EUR 266 million	EUR 68 million	EUR 317 million	EUR 38 million
Comparable EBITDA	EUR 1,258 million	EUR 476 million	EUR 189 million	EUR 526 million	EUR 39 million
Net assets	EUR 6,454 million	EUR 4,335 million	EUR 3,846 million	EUR 3,911 million	EUR 59 million
Comparable return on net assets	18.2%	6.8%	2.7%	8.7%	148.4%
Capital expenditures	EUR 190 million	EUR 464 million	EUR 568 million	EUR 324 million	EUR 1 million
Employees	1,846	2,212	4,253	870	509

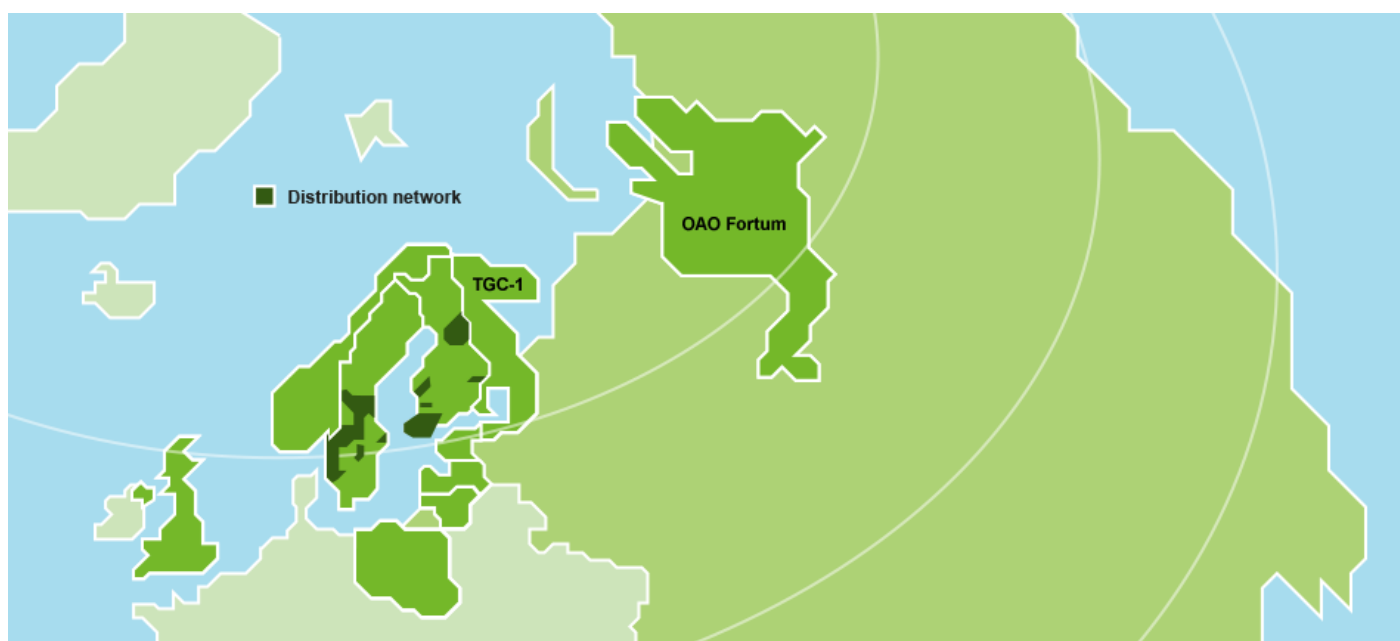
Divisions	Power	Heat	Russia	Electricity Solutions and Distribution (ESD)	
Business and result drivers	<ul style="list-style-type: none"> - Nordic power supply/demand balance, volatility and price; stability through hedging - About 90% of production is hydro and nuclear power: hydrological situation, nuclear power availability, and prices of fuels and emissions allowances important - Maintenance and assets lifetime management practices and costs - Investments into new generation 	<ul style="list-style-type: none"> - Steady growth through investments; newly commissioned CHP-plants bring earnings - Fuel and CO₂ prices, fuel availability, flexibility and efficiency play a key role - Production primarily in CHP plants with power as an important earnings source: power supply/demand balance, volatility and price affect profitability; stability through hedging. - Heat and auxiliary product prices. - Heat demand: weather conditions as well as macro and local economy have an impact - Maintenance and asset lifetime management practices and costs 	<ul style="list-style-type: none"> - Investment programme: earnings growth through new capacity and new volume - Power generation capacity prices, power supply-demand balance, price and volatility - Production mainly CHP with power as the primary earnings source: Power supply-demand balance as well as price level and volatility in the Urals/Western Siberia - Plant availability, production optimisation and efficiency upgrades - Fuel prices and availability as well as gas and electricity price ratio - Development of heat market in the long term and heat demand and tariffs in the short term - Maintenance and asset lifetime management practices and costs 	<ul style="list-style-type: none"> - Growth through investments - Long-term optimised levels of investment and maintenance - Distribution volumes: weather conditions as well as macro and local economy have an impact - Stable earnings with regulated tariffs - Cost-efficiency and quality of service - Grid availability and service level; liability to compensate distribution interruptions - Maintenance and asset lifetime management practices and costs 	<ul style="list-style-type: none"> - Growth in customer base through new offerings and innovative solutions - Margin between Nord Pool wholesale purchase and retail sales price levels; stability through efficient hedging
Strategy drivers	<ul style="list-style-type: none"> - Existing CO₂-free, flexible and market-driven production portfolio - Solid position and competence in hydro and nuclear production in the Nordic power market - Liberalisation and integration of European power market 	<ul style="list-style-type: none"> - Need for increased resource-efficiency will increase CHP's competitiveness - Potential for increased usage of local biofuels and waste - Solid position and competence in sophisticated multi-fuel CHP production 	<ul style="list-style-type: none"> - Liberalised and privatised power market - Economic and power demand growth - Boosting efficiency of existing operations and bringing the ongoing investment programme to completion - Development of heat market - Potential for improved operations on the basis of current assets modernisation 	<ul style="list-style-type: none"> - Cost efficiency by economies of scale and lean processes - Technical development utilised for a more efficient, reliable and smarter network enabling sustainable and energy-efficient solutions for customers - Unbundling and harmonisation of Nordic/European electricity distribution sector 	<ul style="list-style-type: none"> - Cost efficiency by economies of scale and lean processes - Potential for new businesses related to smart grid/system development - Solid position and competence in the downstream part of the Nordic power value chain - Liberalisation, integration and harmonisation of Nordic/European retail electricity markets

Divisions	Power	Heat	Russia	Electricity Solutions and Distribution (ESD)	
Risks¹⁾	<ul style="list-style-type: none"> - Wholesale price of electricity in the Nordic region the key factor influencing business performance: drivers behind price development are the supply-demand balance, fuel and CO₂ emissions allowance prices as well as the hydrological situation. - Business model based on integrated and freely-competed Nordic market: Changes in power market design as well as in national political/regulatory interventions, subsidy schemes, taxes or other levies are risks. -Delays in capacity upgrade and new build projects may cause production losses - Fuel prices and power plant availability impact profitability - Operation terms and licences may impact production and lifetime of assets 	<ul style="list-style-type: none"> - Wholesale price of electricity a key factor influencing business performance: drivers behind price development are the supply-demand balance, fuel and CO₂ emissions allowance prices well as the hydrological situation - Power sold primarily on liberalised markets to which changes in market design could have a negative impact. - Political/regulatory interventions, subsidy schemes, taxes or other levies are risks to both the business' power and heat components. - Development of heat demand and price on national markets - District heating market design and price competitiveness - Energy efficiency in buildings and alternative heating solutions - Fuel prices and power plant availability impact profitability - Operation terms and licences may impact production and lifetime of assets 	<ul style="list-style-type: none"> - Delays in completion of ongoing investment programme - Wholesale price of electricity, influenced by supply-demand balance and fuel prices, a key factor influencing business performance - Business model based on liberalised power and capacity market. Changes in market design and/or market rules could have a negative impact. - Political/regulatory interventions, taxes or other levies are risks to both the business' power and heat components. - District heating regulation, heat demand and tariffs affect the business' heat component that carries a smaller financial impact than the power component. - Operation terms and licences may impact production and lifetime of assets 	<ul style="list-style-type: none"> - Business model regulated: Changes in regulation of reasonable return, investment obligations and other operation terms key factors influencing business performance - Weather and especially storms may damage assets and cause liabilities to customers. 	<ul style="list-style-type: none"> - Business characterised by economies of scale and small margins: Successful hedging of margin between Nord Pool wholesale purchase and retail sales price a key factor influencing business performance. - Business model based on freely-competed retail market: Changes in market design as well as national political/regulatory interventions could impact profitability - Customer churn impacted by customer satisfaction and service as well as perceived price/quality ratio and company image

¹⁾ Not a comprehensive list, not in order of importance

Fortum in Brief

Fortum's operations focus on the Nordic countries, Russia, Poland and Baltic Rim area. In the future, the integrating European and fast-growing Asian energy markets provide additional growth opportunities.



Estonia

Heat production, capacity	495 MW
Employees 31.12.2012	204

Finland

Power generation, capacity	5,040 MW
Heat production, capacity	2,804 MW
Distribution, customers (thousands)	633
Share of electricity customers	16%
Employees 31.12.2012	2,647

Great Britain

Power generation, capacity	140 MW
Heat production, capacity	250 MW
Employees 31.12.2012	55

Latvia

Heat production, capacity	191 MW
Employees 31.12.2012	103

Lithuania

Heat production, capacity	36 MW
Employees 31.12.2012	103

Norway

Heat production, capacity	209 MW
Distribution, customers (thousands)	102
Share of electricity customers	3%
Employees 31.12.2012	145

Poland

Heat production, capacity	1,278 MW
Employees 31.12.2012	687

Russia

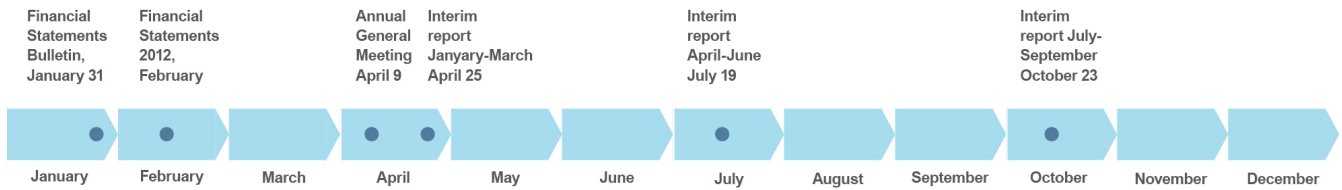
Power generation, capacity	3,404 MW
Heat production, capacity	13,396 MW
Employees 31.12.2012	4,252

Sweden

Power generation, capacity	5,822 MW
Heat production, capacity	3,772 MW
Distribution, customers (thousands)	898
Share of electricity customers	12%
Employees 31.12.2012	2,050

Financial information in 2013

Fortum publishes three interim reports in 2013: Q1 on 25 April, Q2 on 19 July, and Q3 on 23 October



Operating and financial review

Financial performance and position

A very demanding market environment in 2012 – efficiency programme proceeding as planned.

Key financial figures

EUR million	2012	2011	2010	Change 12/11
Sales	6,159	6,161	6,296	-0%
Operating profit	1,861	2,402	1,708	-23%
Operating profit, % of sales	30.2	39.0	27.1	-23%
Comparable operating profit	1,739	1,802	1,833	-3%
Profit before taxes	1,575	2,228	1,615	-29%
Profit for the period attributable to owners of the parent	1,409	1,769	1,300	-20%
Earnings per share, EUR	1.59	1.99	1.46	-20%
Net cash from operating activities	1,382	1,613	1,437	-14%
Shareholders' equity per share, EUR	11.49	10.84	9.24	6%
Capital employed	19,598	17,931	16,124	9%
Interest-bearing net debt	7,814	7,023	6,826	11%
Equity to assets ratio, %	44	44	40	0%
Average number of shares, 1,000s	888,367	888,367	888,367	0%

Group financial targets

	Target	2012	2011	2010	Change 12/11
ROCE, %	12	10.0	14.8	11.6	-32%
ROE, %	14	14.3	19.7	15.7	-27%
Capital structure:					
Comparable net debt / EBITDA	Around 3	3.3	3.0	2.8	10%
Net debt / EBITDA		3.1	2.3	3.0	35%

Fortum's year in 2012 was good, considering the very demanding business environment. Group comparable operating profit totalled EUR 1,739 million in 2012 and net cash flow from operating activities EUR 1,382 million. The economic situation in Europe and globally and the uncertainty regarding its duration burdened Fortum. In addition, the hydrological situation – with historically high water reservoir levels – put additional pressure on Nordic prices, which were clearly lower in 2012 than in 2011.

In order to ensure the company's strategic flexibility and competitiveness and to enable the company to continue to reach its financial targets in the future, Fortum launched an efficiency programme in the autumn of 2012. The aim is to increase the company's cash flow by more than EUR 1 billion during 2013-2014 by reducing capital expenditures, divesting non-core assets, reducing fixed costs and by focusing on working capital efficiency. These targeted actions will increase the efficiency of our core processes and lead to cost reductions.

During 2012, Fortum continued to develop its operations to enable future growth in a continuously difficult market situation. While the company continued with investments to support its long-term goals, there was also an emphasis on driving efficiency into existing operations. Some of the year's key topics in the divisions are highlighted below:

In the Power Division, outages causing production losses and somewhat higher costs in Oskarshamn, Sweden, burdened the result significantly. Meanwhile water reservoirs were at high levels throughout the year resulting in an all-time high in Fortum's hydro production that compensated for the lower nuclear volumes and lower price levels compared to 2011.

The highlight of the Heat Division was the investment decision of approximately EUR 500 million into a new bio-fuel-fired combined heat and power plant (CHP) in Stockholm, Sweden. The new plant will replace some of the existing heat production with a less expensive biofuel alternative as well as increase Fortum Värme's total electricity production by approximately one third.

In 2012, the Russia Division faced delays in its greenfield project in Nyagan. However, in mid-January 2013 the testing of the gas turbine at Nyagan unit 1 was successfully on-going. Development in the heat business was also positive as a commission to address issues such as heat regulation was set up by the Russian Government.

In Distribution, the focus was on accelerated improvement of network reliability in Finland spurred by the year-end 2011 storms - most severe in 30 years - that caused considerable damage to the electricity distribution network as well as unfortunate outages for Fortum's customers.

In the Electricity Sales businesses area, the business attention is now on retail sales of electricity to a total of 1.2 million private customers. An emphasis is on eco-labelled and CO₂-free electricity as well as on smart electricity solutions and services, which were successfully launched in 2012.

In January 2013, Fortum decided that the company will access the strategic position of its electricity distribution business in accordance with Fortum's strategy. This decision does not change the basics of the efficiency programme, which will continue as originally planned.

Fortum's purpose is to create energy that improves life for present and future generations, the aim is to build on our strong Nordic core business, create solid earnings growth in Russia and build a platform for future growth.

Efficiency programme 2013-2014

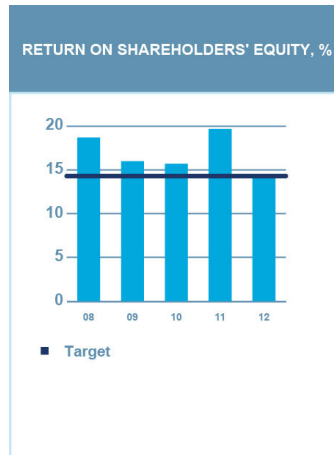
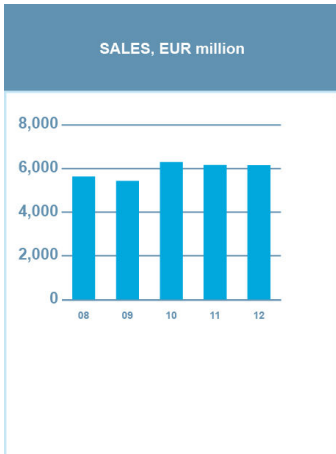
In the fourth quarter, due to the increasingly demanding business environment, Fortum started an efficiency programme in order to maintain and strengthen strategic flexibility and competitiveness, and to enable the company to reach its financial targets in the future.

The aim is to improve the company's cash flow by more than approximately EUR 1 billion during 2013-2014 by reducing capital expenditures (capex) by EUR 250-350 million, divesting approximately EUR 500 million of non-core assets, reducing fixed costs and focusing on working capital efficiency.

Capex in 2013 will be EUR 1.1-1.4 billion and in 2014 EUR 0.9-1.1 billion. At the end of 2014, the cost run rate will be approximately EUR 150 million lower compared to 2012, including growth projects.

If headcount reductions are needed, Fortum seeks to limit redundancies, by using natural rotation and retirement whenever possible. The assessments will therefore be done at a unit level.

The programme has proceeded according to plan and is integrated into division plans for 2013-2014. Already in 2012, minor cost reductions were achieved. In addition, the divestment of the Naantali power plant resulted in a net cash flow effect of approximately EUR 50 million.



Market conditions

Nordic countries and Russia

Nordic countries

The year 2012 started with the Nordic water reservoir levels clearly above the long-term average - exceptional rainfalls in 2011 contributed to the extreme levels. The reservoir levels remained historically high until late November 2012, but then started to normalise. During 2012, Nordic electricity prices were below Continental prices, resulting in a nearly constant export of electricity from the Nordic area to the Continent.

In 2012, according to preliminary statistics, electricity consumption in the Nordic countries was 391 TWh (2011: 384), i.e. some 2% higher than the year before.

At the beginning of the year, the Nordic water reservoirs were at 95 TWh, i.e. 12 TWh above the long-term average. By the end of the year, the reservoirs had declined to 85 TWh, which is 2 TWh more than the long-term average, but 10 TWh less than in the year before.

In 2012, the average system spot price was EUR 31.2 (2011: 47.1) per MWh, the area price in Finland EUR 36.6 (2011: 49.3) per MWh and in Sweden (SE3) EUR 32.3 (2011: 47.9) per MWh.

The annual system price remained below the 2011 level due to the clearly stronger hydro situation, which depressed prices in the hydropower intensive price areas, particularly during the third quarter. However, long outages in the transmission capacity limited imports from Sweden to Finland, and the difference between the Finnish area price and the system price was higher than in the year before. In the spring, there was a two-month outage in the Fenno-Skan 2 connection; Fenno-Skan 1 has been out of operation since August. Additionally, during 2012, the Finnish area price was impacted by lower imports from Russia compared to the year before.

In Germany, the average spot price during the year was EUR 42.6 (2011: 51.1) per MWh.

At the beginning of 2012, the market price for CO₂ emission allowances (EUA) was approximately EUR 6.6 per tonne. During the year, EUA traded between approximately EUR 5.7 and EUR 9.5 per tonne and closed at around EUR 6.7 per tonne.

Russia

OA Fortum operates in Tyumen, where industrial production is dominated by the oil and gas industries, and Chelyabinsk, which is dominated by the metals industry.

According to preliminary statistics, in 2012, Russia consumed 1,037 TWh (2011: 1,020) of electricity. The corresponding figure in Fortum's operating area in the First price zone (European and Urals part of Russia) was 769 TWh (2011: 760).

In 2012, the average electricity spot price, excluding capacity price, increased by 1% to RUB 1,001 (2011: 990) per MWh in the First price zone.

Power consumption

TWh	2012	2011	2010
Nordic countries	391	384	403
Russia	1,037	1,020	1,006
Tyumen	83	83	82
Chelyabinsk	36	36	35
Russia Urals area	252	250	245

Average prices

	2012	2011	2010
Spot price for power in Nord Pool power exchange, EUR/MWh	31.2	47.1	53.1
Spot price for power in Finland, EUR/MWh	36.6	49.3	56.6
Spot price for power in Sweden, SE3, Stockholm, EUR/MWh ¹⁾	32.3	47.9	56.8
Spot price for power in Sweden, SE2, Sundsvall, EUR/MWh ¹⁾	31.8	N/A	N/A
Spot price for power in European and Urals part of Russia, RUB/MWh ²⁾	1,001	990	881
Average capacity price, tRUB/MW/month	227	209	191
Spot price for power in Germany, EUR/MWh	42.6	51.1	44.5
Average regulated gas price in Urals region, RUB/1,000 m ³	2,736	2,548	2,221
Average capacity price for old capacity, tRUB/MW/month ³⁾	152	160	191
Average capacity price for new capacity, tRUB/MW/month ³⁾	539	560	N/A
Spot price for power (market price), Urals hub, RUB/MWh ²⁾	956	925	835
CO ₂ , (ETS EUA), EUR/tonne CO ₂	7	13	14
Coal (ICE Rotterdam), USD/tonne	93	122	92
Oil (Brent Crude), USD/bbl	112	111	80

¹⁾ Until 1st November 2011 there was only one price area in Sweden.

²⁾ Excluding capacity tariff.

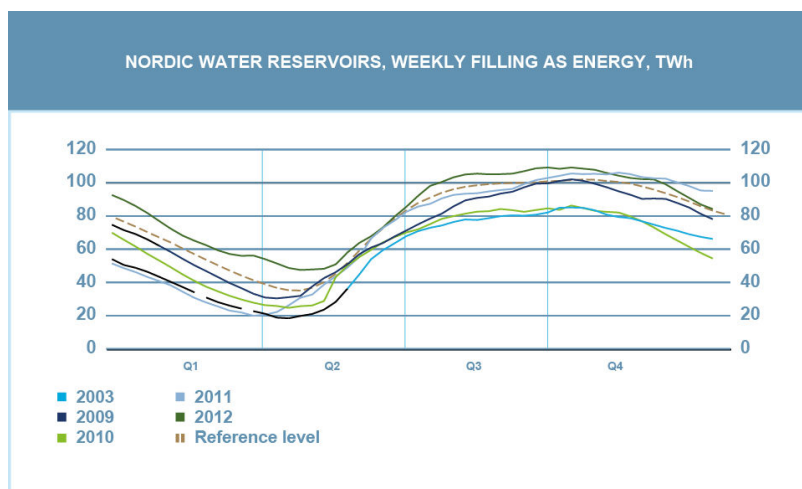
³⁾ Capacity prices paid only for the capacity available at the time.

Water reservoirs

TWh	31 Dec 2012	31 Dec 2011	31 Dec 2010
Nordic water reservoirs level	85	95	54
Nordic water reservoirs level, long-term average	83	83	83

Export/import between Nordic Area and Continental Europe+Baltics

TWh (+ = import to, - = export from Nordic area)	2012	2011	2010
Export / import between Nordic area and Continental Europe+Baltics	-19	-6	7
Export / import between Nordic area and Russia	5	11	12
Export / import Nordic area, Total	-14	5	19



Financial results

Sales by division

EUR million	2012	2011	2010	Change 12/11
Power	2,415	2,481	2,702	-3%
Heat	1,628	1,737	1,770	-6%
Russia	1,030	920	804	12%
Distribution ¹⁾	1,070	973	963	10%
Electricity sales ¹⁾	722	900	1,798	-20%
Other	137	108	51	27%
Netting of Nord Pool Spot transactions ²⁾	-503	-749	-1,736	33%
Eliminations	-340	-209	-56	-63%
Total	6,159	6,161	6,296	0%

Comparable operating profit by division

EUR million	2012	2011	2010	Change 12/11
Power	1,144	1,201	1,298	-5%
Heat	266	278	275	-4%
Russia	68	74	8	-8%
Distribution ¹⁾	317	295	307	7%
Electricity sales ¹⁾	38	27	11	41%
Other	-94	-73	-66	-29%
Total	1,739	1,802	1,833	-3%

Operating profit by division

EUR million	2012	2011	2010	Change 12/11
Power	1,173	1,476	1,132	-21%
Heat	339	380	303	-11%
Russia	79	74	53	7%
Distribution ¹⁾	328	478	321	-31%
Electricity sales ¹⁾	38	3	46	1,167%
Other	-96	-9	-147	-967%
Total	1,861	2,402	1,708	-23%

¹⁾ Part of the Electricity Solutions and Distribution division.

²⁾ Sales and purchases with Nord Pool Spot are netted on Group level on an hourly basis and posted either as revenue or cost depending on if Fortum is a net seller or net buyer during any particular hour.

For further information see Note 5 Segment reporting.

In 2012, Group sales were EUR 6,159 million (2011: 6,161). The comparable operating profit totalled EUR 1,739 million (2011: 1,802) and reported operating profit totalled EUR 1,861 million (2011: 2,402). Fortum's operating profit for the period was affected by non-recurring items, an IFRS accounting treatment (IAS 39) of derivatives mainly used for hedging Fortum's power production, and nuclear fund adjustments amounting to EUR 122 million (2011: 600).

Non-recurring items, mark-to-market effects and nuclear fund adjustments in 2012 amounted to EUR 122 million (2011: 600). Changes in fair values of derivatives hedging future cash flow accounted for EUR -2 million (2011: 344). Non-recurring items totalled EUR 155 million (2011: 284) and were mainly related to the divestments of shares in power and heat operations.

The share of profits of associates and joint ventures was EUR 21 million (2011: 91). The decrease from last year was mainly due to the lower share of profits from Hafslund ASA and TGC-1 as well as the share of profits from Fingrid Oyj, which was divested during the second quarter in 2011.

Hafslund, an associated company of which Fortum owns 34.1%, announced in October that their third quarter 2012 profit after tax was negatively affected by NOK 551 million due to extraordinary write-downs and provisions. The company stated that this was a result of challenging market conditions and negative profit development within BioWood Norway AS and Bio-EI Fredrikstad, and a tax provision following the development of an on-going tax dispute. Fortum booked its share of the impact, approximately EUR -25 million, in its fourth quarter result.

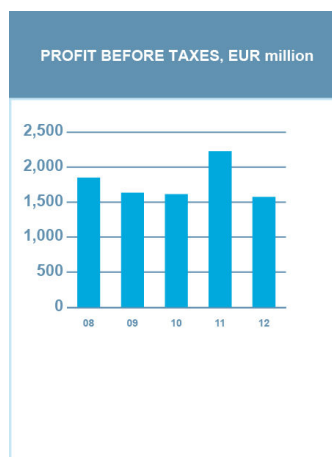
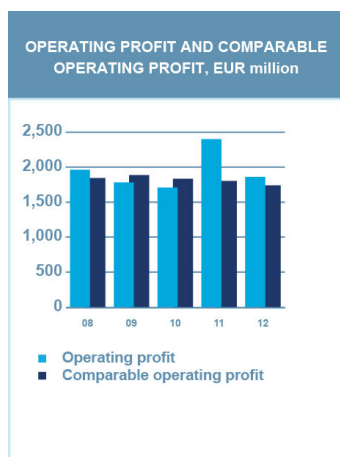
The Group's net financial expenses increased to EUR 307 million (2011: 265). The increase is attributable to higher interest expenses, mainly due to higher SEK interest rates, and to higher average net debt in 2012 than in 2011. Net financial expenses were also negatively affected by changes in the fair value of financial instruments of EUR -23 million (2011: 5).

Profit before taxes was EUR 1,575 million (2011: 2,228).

Taxes for the year totalled EUR 72 million (2011: 366). The tax rate according to the income statement was 4.6% (2011: 16.4%), largely due to the Swedish corporate tax rate that was lowered from 26.3% to 22% starting 1 January 2013. The decrease caused a one-time positive effect in 2012 of approximately EUR 0.22 per share. The tax rate, excluding change in tax rate in Sweden, the impact of the share of profits of associated companies and joint ventures as well as non-taxable capital gains, was 21.2% (2011: 21.4%).

The profit for the year was EUR 1,503 million (2011: 1,862). Fortum's earnings per share were EUR 1.59 (2011: 1.99), of which EUR 0.14 (2011: 0.55) per share relates to items affecting comparability; in 2011, the impact of the sale of the Fingrid shares was EUR 192 million, or EUR 0.22 per share.

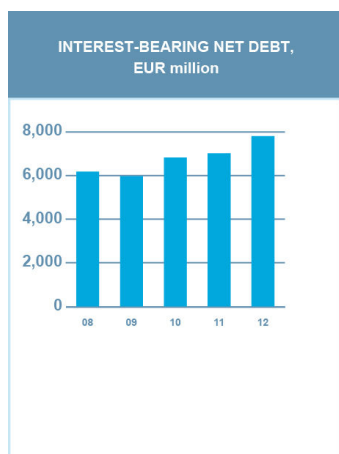
Non-controlling (minority) interests amounted to EUR 94 million (2011: 93). These are mainly attributable to Fortum Värme Holding AB, in which the city of Stockholm has a 50% economic interest.



Financial position and cash flow

EUR million	2012	2011	2010	Change 12/11
Interest expense	-300	-284	-197	6%
Interest income	54	56	72	-4%
Fair value gains and losses	-23	5	12	-560%
Other financial expenses	-38	-42	-42	-10%
Finance costs - net	-307	-265	-155	16%
Interest-bearing liabilities	8,777	7,770	7,382	13%
Less: Cash and cash equivalents ¹⁾	963	747	556	29%
Interest-bearing net debt	7,814	7,023	6,826	11%

¹⁾ 2011 includes EUR 16 million presented as asset held for sale.



Cash flow

In 2012, total net cash from operating activities decreased by EUR 231 million to EUR 1,382 million (2011: 1,613). Capital expenditures in cash flow increased by EUR 137 million to EUR 1,422 million (2011: 1,285). Proceeds from divestments totalled EUR 433 million (2011: 596) in cash flow. Cash flow before financing activities, i.e. dividend distributions and financing, decreased by EUR 534 million to EUR 254 million (2011: 788). The strong SEK had a negative impact on the cash flow, especially during the second and third quarters, through realised net foreign exchange losses amounting to EUR -268 million (2011: -239) related to the rollover of foreign exchange contract hedging loans to Fortum Swedish subsidiaries.

During the reporting period, dividends totalling EUR 888 million were paid on 23 April 2012 using cash and cash equivalents.

Assets and capital employed

Total assets increased by EUR 1,630 million to EUR 24,628 million (22,998 at year-end 2011). Non-current assets increased by EUR 1,534 million from EUR 20,210 million to EUR 21,744 million. The majority, EUR 1,263 million, came from the increased value of property, plants and equipment due to the investments, and the stronger Swedish krona and other currencies. The increase in current assets was EUR 96 million, totalling EUR 2,884 million. The increase relates to the higher trade and other receivables of EUR 250 million and the EUR 232 million increase in liquid funds. The increase in current assets was partly offset by a EUR 183 million decrease in assets held for sale relating to divestments closed during 2012, a EUR 100 million decrease in inventories and a EUR 103 million decrease in derivative financial instruments.

Capital employed was EUR 19,598 million (2011: 17,931), an increase of EUR 1,667 million. The increase was mainly due to the higher amount of total assets, totalling EUR 24,628 million.

Equity

Total equity was EUR 10,821 million (10,161 at year-end 2011), of which equity attributable to owners of the parent company totalled EUR 10,205 million (9,632 at year-end 2011) and non-controlling interests EUR 616 million (529 at year-end 2011).

Financing

In 2012, net debt increased by EUR 791 million to EUR 7,814 million (7,023 at year-end 2011).

In March 2012, Fortum issued two 5 year bonds under its existing EMTN (Euro Medium Term Note) programme. The amount of SEK 2,750 million consisting of SEK 1,000 million floating rate and SEK 1,750 million at 3.25% fixed rate.

During the second quarter Fortum increased the amount of re-borrowing from the Finnish nuclear waste fund by EUR 53 million to EUR 940 million. During the same quarter Fortum repaid a maturing SEK 3,500 million bond and maturing debt SEK 1,000 million to Svensk Exportkredit.

In August 2012, Fortum issued a EUR 1,000 million ten-year bond under its existing EMTN programme. The bond carries a fixed rate coupon of 2.25%.

During the last quarter OAO Fortum repaid a bilateral loan of RUB 4,000 million.

Short term financing on 31 December 2012 was EUR 432 million (2011: 254).

At the end of 2012, the Group's cash and cash equivalents totalled EUR 963 million (2011: 747). Cash and cash equivalents include cash and bank deposits held by OAO Fortum amounting to EUR 128 million (2011: 211). In addition to cash and cash equivalents, Fortum had access to approximately EUR 2.7 billion of undrawn committed credit facilities.

The Group's net financial expenses during the year 2012 were EUR 307 million (2011: 265). The increase in financial expenses is mainly attributable to higher average net debt in 2012 compared to 2011. Net financial expenses were also negatively affected by changes in the fair value of financial instruments of EUR -23 million (2011: 5).

During the fourth quarter, Fortum Corporation's long-term credit rating with S&P was downgraded from A to A- (negative), while Moody's affirmed the A2 rating. Both rating agencies have a negative outlook on the current rating.

Key figures

Net debt to EBITDA for 2012 was 3.1 (2.3 at year-end 2011) and comparable net debt to EBITDA 3.3 (2011: 3.0), impacted by EUR 888 million in dividend payments. Gearing was 72% (2011: 69%) and the equity-to-assets ratio 44% (2011: 44%). Equity per share was EUR 11.49 (2011: 10.84). In 2012, return on capital employed was 10.0% (2011: 14.8%) and return on equity 14.3% (2011: 19.7%).

Division reviews

Power

The Power Division consists of Fortum's power generation, power trading and power capacity development as well as expert services for power producers.

EUR million	2012	2011	2010	Change 12/11
Sales	2,415	2,481	2,702	-3%
- power sales	2,282	2,353	2,580	-3%
- other sales	133	128	122	4%
Operating profit	1,173	1,476	1,132	-21%
Comparable operating profit	1,144	1,201	1,298	-5%
Comparable EBITDA	1,258	1,310	1,398	-4%
Net assets (at period-end)	6,454	6,247	5,806	3%
Return on net assets, %	18.4	24.6	19.5	-25%
Comparable return on net assets, %	18.2	19.9	22.3	-9%
Capital expenditure and gross investments in shares	190	148	122	28%
Number of employees	1,846	1,847	1,819	0%

In 2012, the Power Division's comparable operating profit was EUR 1,144 million (2011: 1,201), i.e. EUR 57 million lower than in 2011. The achieved power price was EUR 1.5 per MWh lower than in 2011, as the system price and all area prices were clearly lower in 2012 than during 2011. The average system spot price was EUR 31.2 (2011: 47.1) per MWh and the average area price in Helsinki, Finland, EUR 36.6 (2011: 49.3) per MWh, and in Stockholm, Sweden, (SE3) EUR 32.3 (2011: 47.9) per MWh. High water reservoir levels as well as high inflow increased hydro generation significantly. Nuclear availability was at a high level in all reactors except Oskarshamn 1 and 3 in Sweden; Oskarshamn 1 was shut down for the whole year 2012. The total nuclear volume was thus lower than during 2011. Thermal production was also clearly lower than a year before, due to low power prices; hence CO₂-free production amounted to 97% (2011: 93%).

Power Division's operating profit for 2012 was EUR 1,173 million (2011: 1,476). A gain of EUR 47 million related to the divestments of small hydro plants in Finland was booked in the first quarter of 2012. The divestment of small hydro plants in Sweden in the fourth quarter had only a minor impact on the result. Operating profit was also affected by a EUR 3 million (2011: 301) IFRS accounting treatment (IAS 39) of derivatives used mainly for hedging Fortum's power production, and somewhat affected by nuclear fund adjustments.

Power generation by source

TWh	2012	2011	2010	Change 12/11
Hydropower	25.2	21.0	22.0	20%
Nuclear power	23.4	24.9	22.0	-6%
Thermal power	0.6	2.2	2.3	-73%
Total in the Nordic countries	49.2	48.1	46.3	2%
Thermal in other countries	1.1	1.2	1.1	-8%
Total	50.3	49.3	47.4	2%

Nordic sales volume

TWh	2012	2011	2010	Change 12/11
Total	50.7	50.0	51.5	1%
of which Nordic Power sales volume ¹⁾	46.8	44.3	42.5	6%

¹⁾ The Nordic power sales income and volume thermal generation, market price-related purchases or minorities (i.e. Meri-Pori, Inkoo and imports from Russia).

Sales price

EUR/TWh	2012	2011	2010	Change 12/11
Power's Nordic power price ²⁾	44.6	46.1	49.7	-3%

²⁾ Power's Nordic power price does not include sales income from thermal generation, market price-related purchases or minorities (i.e. Meri-Pori, Inkoo and imports from Russia).

The combined effect of increased hydro generation, lower nuclear and thermal volumes as well as a lower achieved power price had a positive impact of approximately EUR 15 million in 2012 compared to 2011. Fortum has delivered ion exchange materials since July 2012 for the purification process of the Fukushima nuclear power plant's contaminated water. Operating costs including profits from Power Solutions increased by approximately EUR 70 million, mainly due to a stronger SEK (EUR 20 million), higher nuclear fuel prices (EUR 15 million), higher nuclear waste fees in Sweden (EUR 15 million), costs from longer outages, as well as higher co-owned nuclear procurement costs mainly caused by longer outages, operation and maintenance costs, increased depreciation and interest costs.

In 2012, the prolonged shutdown of Oskarshamn 1 in Sweden had an approximately EUR 50 million negative impact, mainly due to lost production, but also due to somewhat higher costs.

In 2012, the division's total power generation in the Nordic countries was 49.2 TWh (2011: 48.1), approximately 2% higher than in 2011. Power's achieved Nordic power price amounted to EUR 44.6 per MWh, which was EUR 1.5 per MWh lower than in 2011. The system price and both Finnish and Swedish area prices were clearly lower during 2012 compared to 2011.

Fortum has two fully-owned reactors in Loviisa and the company is also a co-owner in eight reactors at the Olkiluoto, Oskarshamn and Forsmark nuclear power plants. Nuclear availability was at a high level in all of the reactors, except in the Oskarshamn units. Initially, Oskarshamn 1 was shut down at the end of October 2011 for an extensive turbine overhaul, but problems with emergency power supplies further extended the downtime. Oskarshamn 2 was shut down in December 2012 for maintenance and inspection of emergency power supplies in order to fully secure reliable operation in case of an emergency; the plant was back in operation in January 2013. Oskarshamn 3 successfully completed its commissioning tests in December 2012.

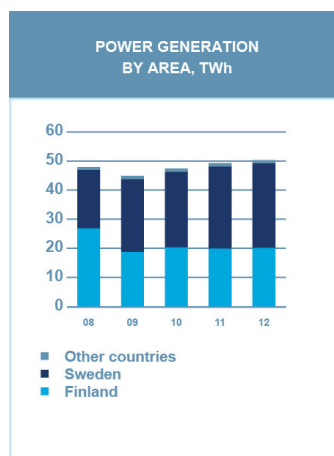
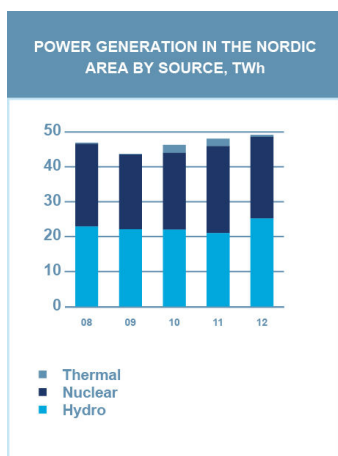
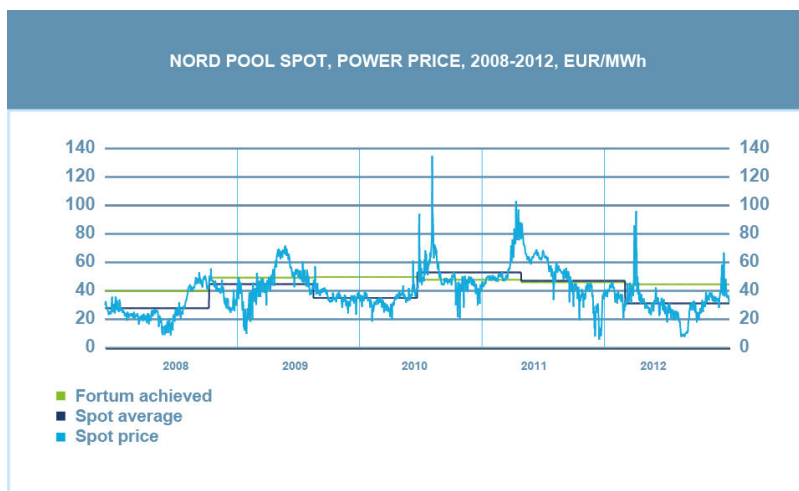
In December 2012, the Swedish Radiation Safety Authority decided to strengthen the control of the Oskarshamn nuclear plant by conducting a special supervision. Oskarshamn has since started a specific programme to improve the performance in order to avoid

further extraordinary authority supervision. At the end of October, a third-party inspection authority declared the need for more time in order to study further the power upgrade at Forsmark 2; the attempt to reach the new capacity is now scheduled for March 2013.

European-wide safety evaluations, carried out after the Fukushima incident in 2011, were finalised in 2012. As part of the evaluations, so-called peer reviews were carried out in several European nuclear power plants, including the Loviisa nuclear power plant. The results from the evaluations were announced during the summer, and the final report on the nuclear stress tests by the European Commission was published in October. The design basis for the Loviisa nuclear power plant was found sufficient in terms of external events. The implementation of required actions at the Loviisa nuclear plant has been started and can be done within the framework of the annual investment programmes. The implementation will not affect the power plant's availability.

Fortum has improved the safety of the Loviisa nuclear plant with comprehensive measures for several decades; the company sees the harmonisation of safety requirements for nuclear power plants as necessary and considers it essential that national authorities have supervisory responsibility. Nuclear liability should be implemented in the frame of the Paris Convention and harmonised at the European level.

At year-end, the Power Division's total power generating capacity was 9,702 megawatts (MW) (2011: 9,752), of which 9,562 MW (2011: 9,612) was in the Nordic countries. Hydro power capacity in the Nordic countries totalled 4,627 MW (2011: 4,693), nuclear power capacity 3,247 MW (2011: 3,231) and condensing capacity 1,688 MW (2011: 1,688).



Heat

The Heat Division consists of combined heat and power (CHP) generation, district heating activities and business-to-business heating solutions in the Nordic countries and other parts of the Baltic Rim.

EUR million	2012	2011	2010	Change 12/11
Sales	1,628	1,737	1,770	-6%
- heat sales	1,158	1,238	1,269	-6%
- power sales	232	342	368	-32%
- other sales	238	157	133	52%
Operating profit	339	380	303	-11%
Comparable operating profit	266	278	275	-4%
Comparable EBITDA	476	471	462	1%
Net assets (at period-end)	4,335	4,191	4,182	3%
Return on net assets, %	8.5	9.9	8.4	-14%
Comparable return on net assets, %	6.8	7.4	7.7	-8%
Capital expenditure and gross investments in shares	474	329	305	44%
Number of employees	2,212	2,504	2,394	-12%

Heat sales volumes in 2012 amounted to 19.7 TWh (2011: 22.6). During the same period, power sales volumes totalled 4.2 TWh (2011: 6.2). The divestment in Sweden in March 2011 and the divestments in Finland and Estonia in January 2012 reduced volumes. In addition, the restructuring of the Turku region energy production in Finland decreased volumes. The power production in Finland was lower also due to the low power market price. In addition, problems after revisions impacted production volumes especially during the last quarter of 2012.

The Heat Division's comparable operating profit in 2012 was EUR 266 million (2011: 278), i.e. EUR 12 million lower than in 2011. The decrease in the result was mainly due to lower volumes attributable to divestments and restructuring, and a lower power price. Higher sales of CO₂ emission allowances contributed positively to the result and offset some of the lost volume.

Operating profit in 2012 totalled EUR 339 million (2011: 380) and includes a gain of EUR 80 million (2011: 86) related to divestments.

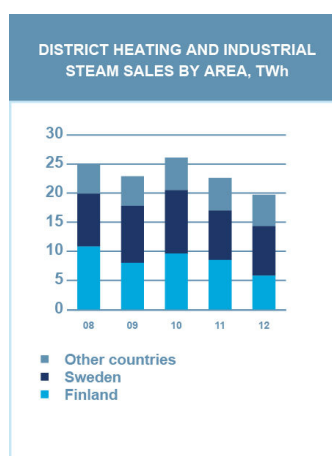
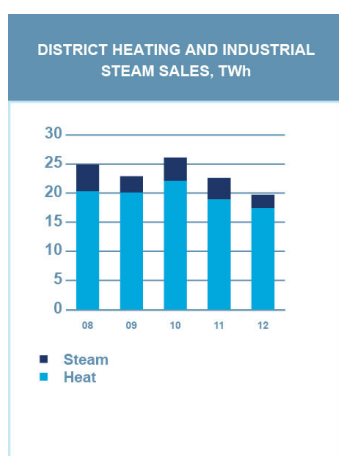
At year-end, the Heat Division's power generating capacity totalled 1,569 MW (2011: 1,670), of which 1,315 MW (2011: 1,420) was in the Nordic countries. The Heat Division's total heat production capacity was 8,785 MW (2011: 10,375), of which 6,785 MW (2011: 7,944) was in the Nordic countries.

Heat sales by area

TWh	2012	2011	2010	Change 12/11
Finland	5.8	8.5	9.6	-32%
Sweden	8.5	8.5	10.9	0%
Poland	4.3	4.3	4.0	0%
Other countries	1.1	1.3	1.6	-15%
Total	19.7	22.6	26.1	-13%

Power sales

TWh	2012	2011	2010	Change 12/11
Total	4.2	6.2	6.5	-32%



Russia

The Russia Division consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's over 25% holding in TGC-1, which is an associated company and is accounted for using the equity method.

EUR million	2012	2011	2010	Change 12/11
Sales	1,030	920	804	12%
- heat sales	713	590	505	21%
- power sales	300	324	287	-7%
- other sales	17	6	12	183%
EBITDA	200	182	139	10%
Operating profit	79	74	53	7%
Comparable operating profit	68	74	8	-8%
Comparable EBITDA	189	148	94	28%
Net assets (at period-end)	3,846	3,273	2,817	18%
Return on net assets, %	3.0	3.5	2.4	-14%
Comparable return on net assets, %	2.7	3.5	0.7	-23%
Capital expenditure and gross investments in shares	568	694	599	-18%
Number of employees	4,253	4,379	4,294	-3%

OAO Fortum operates in the well-developed industrial regions of the Urals and in oil-producing western Siberia.

The liberalisation of the Russian wholesale power market has been completed since the beginning of 2011. However, all generating companies continue to sell a part of their electricity and capacity – an amount equalling the consumption of households and a few special groups of consumers – under regulated prices. During the fourth quarter of 2012, OAO Fortum sold approximately 82% of its power production at a liberalised electricity price.

In 2012, the heat market progressed as new pricing rules and heat system development rules were adopted.

The Russian Government increased gas prices as of 1 July 2012; the increase was approximately 15%. The spot price development, however, was under pressure in the beginning of the year due to restrictions in the pre-election period. In addition, very extensive nuclear and hydro production combined with somewhat lower demand pressed prices in the fourth quarter.

The capacity selection for generation built prior to 2008 (CCS – “old capacity”) for the year 2012 was held in September 2011. The majority of Fortum's power plants were selected in the auction, with a price level close to the level received in 2011. Approximately 4% (120 MW) of Fortum's old capacity was not allowed to participate in the selection, due to tightened minimum technical requirements. The capacity, however, received capacity payments at the average capacity market price in 2012 and will do so again in 2013. The capacity selection for 2013 was held at the end of 2012. Also in the selection auction for 2013, the majority of Fortum's power plants were selected, with a price level close to the level received in 2012. Approximately 10% (265 MW) of the old capacity was not allowed to participate in the selection for 2013, due to tightened minimum technical requirements. It will, however, receive capacity payments at the capacity market price for 2013.

The generation capacity built after 2007 under the government capacity supply agreements (CSA – “new capacity”) receives guaranteed payments for a period of 10 years. Prices for capacity under CSA are defined to ensure a sufficient return on investments. At the time of the acquisition in 2008, Fortum made a provision, as penalty clauses are included in the CSA agreement in case of possible delays. Possible penalties can be claimed if the new capacity is delayed or if the agreed major terms of the capacity supply agreement are not otherwise fulfilled. The effect of changes in the timing of commissioning of new units is assessed at each balance sheet date and the provision is changed accordingly.

OAO Fortum's new capacity will be a key driver for earnings growth in Russia, as it will bring income from new volumes sold and also receive considerably higher capacity payments than the old capacity. However, received capacity payments will differ depending on the age, location, type and size of the plant as well as seasonality and availability. The regulator will review the guaranteed CSA payments by re-examining earnings from the electricity-only market after three years and six years and revising the CSA payments accordingly. In addition, CSA payments can somewhat vary annually because they are linked to Russian Government long-term bonds with 8 to 10 years maturity.

After completing the ongoing investment programme, Fortum's goal is to achieve an annual operating profit level of about EUR 500 million in its Russia Division and to create positive economic value added in Russia.

In December 2012, Fortum's subsidiary in Russia, OAO Fortum, delisted its shares on the Moscow Stock Exchange. Stocks of OAO “TGK-10” (OAO Fortum) were excluded from the Moscow Stock Exchange List B already in October 2008 and had since been included in the unlisted securities section. More than 90% of OAO Fortum has been owned by Fortum Corporation since 2008.

Key electricity, capacity and gas prices for OAO Fortum

	2012	2011	2010	Change 12/11
Electricity spot price (market price), Urals hub, RUB/MWh	956	925	835	3%
Average regulated gas price, Urals region, RUB/1,000 m ³	2,736	2,548	2,221	7%
Average capacity price for CCS “old capacity”, tRUB/MW/month ¹⁾	152	160	191	-5%
Average capacity price for CSA “new capacity”, tRUB/MW/month ¹⁾	539	560	N/A	-4%
Average capacity price, tRUB/MW/month	227	209	191	9%
Achieved power price for OAO Fortum, EUR/MWh	30.6	29.2	27.0	5%

¹⁾ Capacity prices paid for the capacity volumes excluding unplanned outages, repairs and own consumption.

The Russia Division's power sales volumes amounted to 23.3 TWh (2011: 20.2) in 2012. Heat sales totalled 26.4 TWh (2011: 26.7) in 2012.

The Russia Division's comparable operating profit was EUR 68 million (2011: 74) in 2012. The positive effect from the commissioning of the new units amounted to approximately EUR 87 million (2011: 51). The 2011 comparable operating profit included a reversal of the CSA provision totalling EUR 34 million. Decreased capacity payments for the old capacity and an increase in gas prices, that exceeded the development in power and heat prices, had a negative impact.

Operating profit was EUR 79 million (2011: 74) in 2012 and includes a gain of EUR 11 million relating to a divestment of heating network assets.

Fortum is committed to its EUR 2.5 billion investment programme in Russia, and the schedule of the programme is to commission the last new units in 2014. The value of the remaining part of the investment programme, calculated at the exchange rates prevailing at the end of December 2012, is estimated to be approximately EUR 540 million as of January 2013. Altogether, the investment programme consists of eight new power plant units, of which the first three units were commissioned in 2011.

The commissioning of Fortum's largest new investment greenfield projects in Nyagan was somewhat further postponed during the second quarter of 2012. Fortum has worked hard to resolve the delay and estimates the commissioning of Nyagan 1 to take place during the first quarter of 2013 and Nyagan 2 during the first half of 2013 as a result of the construction delays. This does not change the overall schedule or financial targets of the investment programme. In 2008, Fortum made a provision for penalties caused by possible commissioning delays. According to the agreement with the contractor, Fortum is entitled to adequate remedies in case of damages caused by contractor delays.

During the second quarter of 2012, Fortum announced that it will build the last two units of its Russian investment programme in Chelyabinsk instead of in Tyumen. The units are to be constructed at Chelyabinsk GRES power plant. The last new units of the CSA agreement are planned to be commissioned by the end of 2014. In addition, Fortum plans to modernise and upgrade the existing equipment of the power plant.

At year-end, the Russia Division's total power generating capacity was 3,404 MW (2011: 3,404) and the division's total heat production capacity was 13,396 MW (2011: 14,107).

Electricity Solutions and Distribution

The division is responsible for Fortum's electricity sales and distribution activities and consists of two business areas: Distribution and Electricity Sales.

Distribution

Fortum owns and operates distribution and regional networks and distributes electricity to a total of 1.6 million customers in Sweden, Finland and Norway.

EUR million	2012	2011	2010	Change 12/11
Sales	1,070	973	963	10%
- distribution network transmission	877	809	820	8%
- regional network transmission	125	96	92	30%
- other sales	68	68	51	0%
Operating profit	328	478	321	-31%
Comparable operating profit	317	295	307	7%
Comparable EBITDA	526	482	485	9%
Net assets (at period-end)	3,911	3,589	3,683	9%
Return on net assets, %	9.0	13.7	9.7	-34%
Comparable return on net assets, %	8.7	8.6	9.3	1%
Capital expenditure and gross investments in shares	324	289	213	12%
Number of employees	870	898	962	-3%

In 2012, the volume of distribution and regional network transmissions totalled 26.6 TWh (2011: 26.1) and 17.3 TWh (2011: 16.7), respectively.

The Distribution business area's comparable operating profit was EUR 317 million (2011: 295). Taking into account the EUR 57 million provision for storm, included in the 2011 figure, the comparable result decreased year on year. The main reasons for the decrease were the warm weather during the early part of 2012, the timing of the relocation of cables and parts of the network, the higher than previously accounted for fault repair costs, the customer compensations related to the 2011 year-end storm in Finland and costs relating to the improvement of network reliability.

Operating profit in 2012 totalled EUR 328 million (2011: 478). The 2011 figure includes a gain of EUR 192 million relating to the divestment of Fingrid Oyj shares.

The rollout of smart metering with hourly measurement capabilities to network customers in Finland continued throughout 2012. By the end of 2012, approximately 434,000 customers had received new meters (160,000 at the end of 2011). Before the end of 2013, a total of approximately 620,000 network customers will have smart metering. At year-end 2012, 365,000 customers had hourly meter reading. Benefits of the new system include invoicing based on actual electricity consumption and better control of the use of electricity. The new Finnish legislation on hourly meter reading will become effective as of 1 January 2014.

In Sweden, the Government's bill on the hourly measurement of electricity consumption for household customers was passed in the Parliament in mid-June 2012. The legislation stipulates that network companies should be able to offer hourly measurement to customers who have signed an electricity sales agreement that requires hourly measurement. It came into force on 1 October 2012. The aim is to have all household customers within the hourly system by the end of 2015.

A new network income regulation came into effect both in Finland and Sweden on 1 January 2012. In Finland, the Energy Market Authority (EMV) introduced some changes to the regulation model going in to the third regulatory period, 2012–2015. The industry found some of the changes unreasonable and appealed against the new model to the Market Court. The Market Court ruling came in December 2012 and requires that sanctions, due to outages caused by big storms, have to have an annual maximum limit in the regulation model.

In Sweden, the Energy Market Inspectorate (EI) introduced a new network income regulation model with a first regulatory period 2012–2015. With the new model, Sweden moved to a pre-regulation model where the income for a four-year period is decided by EI in advance. Among other things, the new model introduced a transition rule that Fortum and approximately half of the Swedish network companies believe lacks legal ground. The network companies therefore appealed the new network regulation. During the fall, EI agreed to some adjustments to the model. The court appeal continues.

Volume of distributed electricity in distribution network

TWh	2012	2011	2010	Change 12/11
Sweden	14.4	14.2	15.2	1%
Finland	9.8	9.5	10.0	3%
Norway	2.4	2.3	2.5	4%
Estonia	0.0	0.1	0.2	-100%
Total	26.6	26.1	27.9	2%

Number of electricity distribution customers by area

Thousands	2012	2011	2010	Change 12/11
Sweden	898	893	893	1%
Finland	633	627	620	1%
Norway	102	101	100	1%
Estonia	-	24	24	-100%
Total	1,633	1,645	1,637	-1%

Electricity Sales

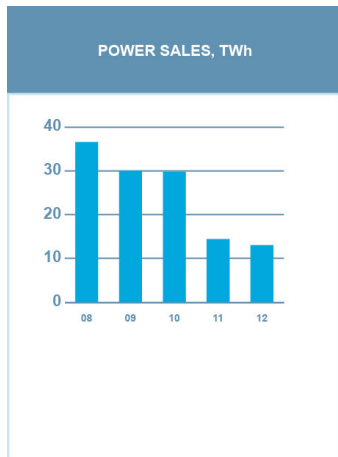
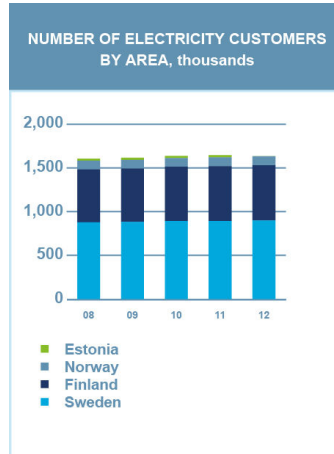
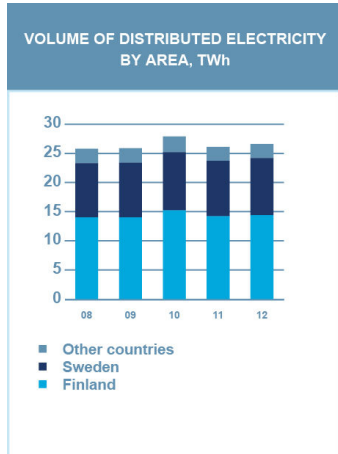
The Electricity Sales business area is responsible for retail sales of electricity to a total of 1.2 million private customers. It is the leading seller of eco-labelled and CO₂-free electricity in the Nordic countries. Electricity Sales buys its electricity from the Nordic power exchange.

EUR million	2012	2011	2010	Change 12/11
Sales	722	900	1,798	-20%
- power sales	697	879	1,778	-21%
- other sales	25	21	20	19%
Operating profit	38	3	46	1,167%
Comparable operating profit	38	27	11	1,167%
Comparable EBITDA	39	29	13	44%
Net assets (at period-end)	59	11	210	103%
Return on net assets, %	118.0	4.2	38.4	973%
Comparable return on net assets, %	148.4	33.5	9.3	343%
Capital expenditure and gross investments in shares	1	5	0	-80%
Number of employees	509	519	525	-2%

In 2012, the business area's electricity sales volume totalled 13.0 TWh (2011: 14.4). The lower volume was due to the Business Market restructuring that is now completed, but which was still on-going until the end of the third quarter in 2011. In addition, smart electricity solutions and services were successfully launched in 2012.

Electricity Sales' comparable operating profit in 2012 totalled EUR 38 million (2011: 27).

Operating profit totalled EUR 38 million (2011: 3) and was affected by non-recurring items and the IFRS accounting treatment (IAS 39) of derivatives.



Capital expenditure, investments & divestments of shares

EUR million	2012	2011	2010
Capital expenditure			
Intangible assets	35	27	19
Property, plant and equipment	1,523	1,381	1,203
Total	1,558	1,408	1,222
Gross investments in shares			
Subsidiaries	5	47	0
Associated companies	10	25	26
Available for sale financial assets	1	2	1
Total	16	74	27

In 2012, capital expenditures and investments in shares totalled EUR 1,574 million (2011: 1,482). Investments, excluding acquisitions, were EUR 1,558 million (2011: 1,408).

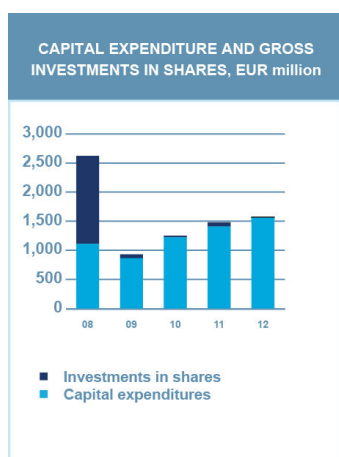
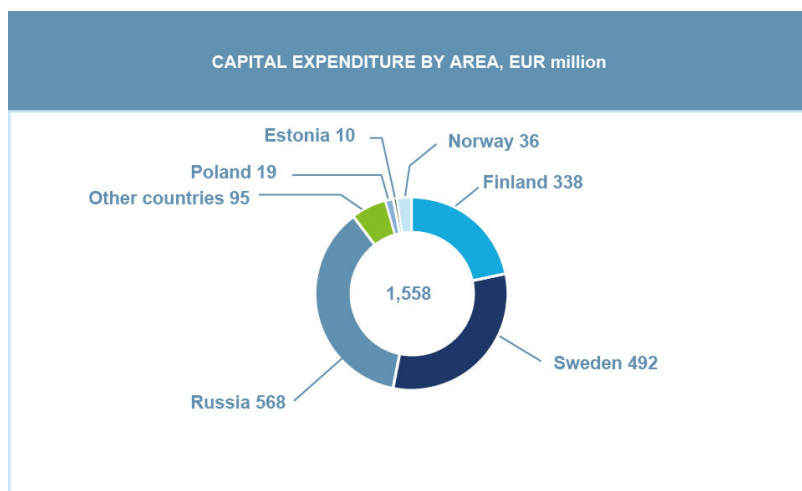
See also Note 23.2 Capital expenditure.

Fortum expects to start the supply of power and heat from new power plants and to upgrade existing plants as follows:

	Type	Electricity capacity MW	Heat capacity MW	Supply starts ¹⁾
Power				
Hydro refurbishment	Hydropower	10		2013
Blaiken, Sweden	Wind power	30		2013
Heat				
Klaipeda, Lithuania	Waste (CHP)	20	60	Q1 2013
Järvenpää, Finland	Biofuel (CHP)	23	63	Q2 2013
Jelgava, Latvia	Biofuel (CHP)	23	45	Q3 2013
Brista, Sweden	Waste (CHP)	20	57	Q4 2013
Russia ²⁾				
Nyagan 1	Gas (CCGT)	418		Q1 2013
Nyagan 2	Gas (CCGT)	418		1H 2013
Nyagan 3	Gas (CCGT)	418		2H 2013
Chelyabinsk	Gas (CCGT)	248		2H 2014
Chelyabinsk	Gas (CCGT)	248		2H 2014

¹⁾ Start of commercial operation, preceded by test runs, licensing, etc.

²⁾ Start of capacity sales, preceded by test runs, licensing, etc.



Power

Fortum completed the divestment of small hydropower plants in Finland during the first quarter of 2012. The capital gains from these transactions were EUR 47 million, which were booked in the Power Division's first-quarter results. In the fourth quarter, small hydro divestments were to a large extent completed in Sweden. The effect on the result was minor.

Through its interest in Teollisuuden Voima Oyj (TVO), Fortum is participating in the building of Olkiluoto 3, a 1,600-MW nuclear power plant unit in Finland. Based on the information submitted by AREVA-Siemens Consortium, TVO estimates that the Olkiluoto 3 nuclear power plant unit will not be ready for regular electricity production in 2014. During the second quarter of 2012, TVO received an International Chamber of Commerce (ICC) arbitration tribunal decision according to which a few partial payments previously made to a blocked account, are to be released to the Olkiluoto 3 plant supplier. The decision takes no position on the delay of the plant unit and the cost resulting from the delay.

In September, TVO submitted a claim and defence in the ICC arbitration proceedings concerning the delay and the ensuing costs incurred at the Olkiluoto 3 nuclear power plant project. The quantification estimate of TVO's costs and losses is approximately EUR 1.8 billion.

TVO completed plant upgrades and further improved the safety of the Olkiluoto nuclear power plant during 2010-2012. As a result, the power output of both Olkiluoto 1 and Olkiluoto 2 increased by approximately 20 MW each.

In addition, TVO has started the bidding and engineering phase of the company's fourth nuclear unit at Olkiluoto. Fortum's share of the commitment for this phase is approximately EUR 77 million. By the end of December, TVO raised EUR 50 million in shareholder loans; Fortum's share of this is approximately EUR 13 million.

Heat

In January, Fortum concluded its divestment of Fortum Energiaratkaisut Oy and Fortum Termost AS to EQT Infrastructure Fund. The total sales price, including net debt, was approximately EUR 200 million. Fortum's sales gain was EUR 58 million. The divestment is in line with the strategy to focus on large-scale CHP production.

The energy production of the co-owned Turun Seudun Maakaasu ja Energiatuotanto Oy (TSME) started on 1 January 2012, as agreed by the different partners in late 2011. TSME is a co-owned company that consolidates the energy production in the Turku region in Finland.

In February, Fortum opened up the possibility for customers in Stockholm, Sweden, to sell their own surplus heat to Fortum's grid at market price. The first agreement was signed in June and is part of a pilot project. The first customers will be able to sell surplus heat in 2013; the aim is for all customers to be able to sell their surplus heat starting in 2014.

In March, Fortum decided to invest about EUR 20 million in the commercialisation of new technology by building a pyrolysis bio-oil plant connected to the Joensuu power plant in Finland. The total value of the investment is about EUR 30 million, of which the Ministry of Employment and the Economy has granted EUR 8.1 million as a new technology investment.

In April, Fortum started the construction of a bio-fuel-fired CHP plant, the first of this size in Jelgava, Latvia. The construction of the Klaipeda waste-to-energy CHP plant, the first of its kind in the Baltics, has progressed as planned.

The modernisation of the district heating networks continued in Poland during 2012 and the production plants were upgraded at the same time. The aim is to increase efficiency and the usage of biomass. During 2012, the use of biomass has increased at the Czestochowa CHP plant in Poland; the long-term target is to increase the amount of biomass from 25% to 35%.

In Finland, new district heating offerings are under development and two new customer offerings were started as a pilot in the market during the third quarter.

Construction of four CHP plants in Sweden, Finland, Latvia and Lithuania is advancing according to plan. In Stockholm, Sweden, the construction of a new silo for biofuel and a new transporting system has been started. The project is scheduled for completion at the end of 2013 and operational testing will start at the beginning of 2014. The investment will increase the amount of biofuel in the heating system and reduce CO₂ emissions by 50,000 tons on a yearly basis.

In December 2012, Fortum agreed to sell its shares in Fortum Heat Naantali Oy (owning Naantali power plant) to co-owned Turun Seudun Maakaasu ja Energiatuotanto Oy (TSME), a regional energy producer in Turku, Finland. A letter of intent on restructuring the Naantali power plant's ownership was signed in December 2010. The transaction took effect on 31 December 2012. A sales gain of approximately EUR 21 million from the transaction was booked in Fortum Heat Division's 2012 fourth quarter operating profit. The net cash flow impact was approximately EUR 50 million. Fortum's shareholding in TSME is 49.5%.

In Sweden, in December, Fortum Värme, Fortum's subsidiary (co-owned with the City of Stockholm) decided to invest in a new bio-fuel-fired CHP plant in Värtan, Stockholm. The value of the investment is approximately EUR 500 million. The construction of the plant started immediately and it is planned to be commissioned in 2016.

Russia

In June, Fortum sold its heating network assets in Surgut, Russia, to Surgut City Grid LLC. Fortum does not have its own CHP production in Surgut. In addition, Surgut is distant from the other operations of Fortum's Russian subsidiary OAO Fortum. The divestment was finalised on 30 June 2012, and resulted in a EUR 11 million gain.

In addition, Fortum announced its decision to build the last two 250-megawatt units of its Russian investment programme in Chelyabinsk, in the Urals. Initially, the units were planned for construction in the Tyumen region in Western Siberia. The units are included in the Capacity Supply Agreement, originally agreed upon in 2008. Fortum has received final approval for this relocation from the Russian Government. The new units are to be constructed at Chelyabinsk GRES power plant. Fortum also plans to completely modernise and upgrade the existing equipment of the power plant.

Distribution and Electricity Sales

Distribution

According to a deal signed with Imatran Seudun Sähkö on 20 December 2011, Imatran Seudun Sähkö acquired Distribution's Estonian subsidiary Fortum Elekter. In connection with the agreement, Distribution also sold its ownership in Imatran Seudun Sähkö Oy. The deal was finalised at the beginning of January 2012.

Electricity Sales

Fortum agreed to sell its 18.7% ownership in the Swedish electricity supplier Dala Kraft AB to the energy company Jämtkraft AB. The transaction was made on 21 September 2012. The effect of the divestment on Fortum's financial result is very minor. The sales gain from the transaction was booked in the third-quarter financial result.

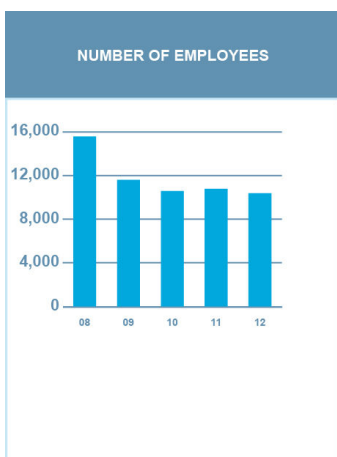
Employees

	2012	2011	2010
Number of employees, 31 Dec	10,371	10,780	10,585
Average number of employees	10,600	11,010	11,156
Employee benefits, EUR million	556	529	507

Fortum's operations are mainly based in the Nordic countries, Russia and the Baltic Rim area. The total number of employees at the end of the period was 10,371 (10,780).

At the end of 2012, the Power Division had 1,846 employees (2011: 1,847), the Heat Division 2,212 (2011: 2,504), the Russia Division 4,253 (2011: 4,379), the Distribution business area 870 (2011: 898), the Electricity Sales business area 509 (2011: 519) and Other 681 (2011: 633).

For further details of group personnel see [Note 14 Employee benefits of the Consolidated financial statements](#).



Events after the balance sheet date

Fortum announced 31 January 2013 that the company has decided to assess the strategic position of its electricity distribution business. In accordance with its strategy, Fortum seeks growth in low-carbon power generation, energy-efficient combined heat and power (CHP) production and customer offerings. The assessment has no impact on Fortum's electricity distribution customers and excludes the company's electricity retail business. Fortum expects to conclude the assessment during 2013.

Outlook

Key drivers and risks

Fortum's financial results are exposed to a number of strategic, political, financial and operational risks. The key factor influencing Fortum's business performance is the wholesale price of electricity in the Nordic region. The key drivers behind the wholesale price

development in the Nordic region are the supply-demand balance, fuel and CO₂ emissions allowance prices as well as the hydrological situation. The completion of Fortum's investment programme in Russia is also one key driver to the company's result growth, due to the increase in production volumes.

The continued global economic uncertainty and Europe's sovereign-debt crisis has kept the outlook for economic growth unpredictable. The overall economic uncertainty impacts the commodity and CO₂ emission allowance prices, and this, in combination with the stronger hydrological situation in the Nordic region, could maintain downward pressure on the Nordic wholesale price for electricity in the short-term. In the Russian business, the key factors are the regulation around the heat business and further development of electricity and capacity markets. Operational risks related to the investment projects in the current investment programme are still valid. In all regions, fuel prices and power plant availability also impact the profitability. In addition, increased volatility in exchange rates due to financial turbulence could have both translation and transaction effects on Fortum's financials especially through the SEK and RUB. In the Nordic countries, also the regulatory and fiscal environment for the energy sector has added risks for utility companies.

For further details on Fortum's risks and risk management, see [Risk management section of the Operating and financial review](#) and [Note 3 Financial risk management](#) in the Consolidated financial statements.

Nordic market

Despite macroeconomic uncertainty, electricity will continue to gain a higher share of the total energy consumption. Fortum currently expects the average annual growth rate in electricity consumption to be 0.5%, while the growth rate for the nearest years will largely be determined by macroeconomic development in Europe and especially in the Nordic countries.

During the fourth quarter of 2012, the overall price of crude oil and coal was quite steady, whereas the CO₂ emissions allowance (EUA) price weakened clearly. The forward price of electricity for the next twelve months improved somewhat in the Nordic area, but declined in Germany.

In late January 2013, the future quotations for coal (ICE Rotterdam) for the rest of 2013 were around USD 92 per tonne and the market price for CO₂ emission allowances (EUA) for 2013 was about EUR 4 per tonne.

In late January 2013, the electricity forward price in Nord Pool for the rest of 2013 was around EUR 37 per MWh. For 2014, the electricity forward price was around EUR 36 per MWh and for 2015 around EUR 35 per MWh. In Germany, the electricity forward price for the rest of 2013 was around EUR 41 per MWh and for 2014 EUR 41 per MWh.

In late January 2013, Nordic water reservoirs were approximately at the same level as the long-term average and 12 TWh above the corresponding level of 2012.

Power

The Power Division's Nordic power price typically depends on such factors as the hedge ratios, hedge prices, spot prices, availability and utilisation of Fortum's flexible production portfolio, and currency fluctuations. Excluding the potential effects from the changes in the power generation mix, a 1 EUR/MWh change in the Power Division's Nordic power sales price will result in an approximately EUR 45 million change in Fortum's annual comparable operating profit. In addition, the comparable operating profit of the Power Division will be affected by the possible thermal power generation amount and its profit.

The several years of ongoing Swedish nuclear investment programmes will enhance safety, improve availability and increase the capacity of the current nuclear fleet. The implementation of the investment programmes could, however, affect availability. Fortum's power procurement costs from co-owned nuclear companies are affected by these investment programmes through increased depreciation and finance costs.

European-wide safety evaluations have been carried out post-Fukushima. As part of the evaluations, so-called peer reviews were carried out in March 2012 in several European nuclear power plants, including the Loviisa nuclear power plant. The European Commission submitted a consolidated report of the national reports to the European Council in October 2012. Some additional safety criteria were already introduced after the spring evaluations for nuclear power plants. The required improvements will be done within the framework of the annual investment programmes and planned maintenance.

Russia

The Russian wholesale power market is liberalised. However, all generating companies continue to sell a part of their electricity and capacity equalling the consumption of households and a special group of consumers (Northern Caucasus Republic, Tyva Republic, Buryat Republic) under regulated prices.

Capacity not under CSA competes in competitive capacity selection (CCS- "old capacity"). The capacity selection for 2013 was held at the end of 2012. The majority of Fortum's power plants were selected in the auction, with a price level close to the level received in 2012. Approximately 10% (265 MW) of the old capacity was not allowed to participate in the selection for 2013, due to tightened minimal technical requirements. It will, however, receive capacity payments at the capacity market price for 2013.

The generation capacity built after 2007 under government Capacity Supply Agreements (CSA- "new capacity") receives guaranteed payments for a period of 10 years. Prices for capacity under CSA are defined in order to ensure a sufficient return on investments.

OAo Fortum's new capacity will be a key driver for earnings growth in Russia as it will bring income from new volumes sold and also receive considerably higher capacity payments than the old capacity. However, the received capacity payment will differ depending on the age, location, size and type of the plants as well as seasonality and availability. The return on the new capacity is guaranteed as regulated in the Capacity Supply Agreement. The regulator will review the earnings from the electricity-only market after three years and six years and could revise the CSA payments accordingly. CSA payments can somewhat vary annually because they are linked to Russian Government long-term bonds with 8 to 10 years maturity.

The commissioning of Fortum's largest new investment greenfield projects in Nyagan was somewhat further postponed during the second quarter of 2012. Fortum has worked hard to resolve the delay and estimates the commissioning of Nyagan 1 to take place during the first quarter 2013 and Nyagan 2 during the first half of 2013 as a result of construction delays. This does not change the overall schedule or financial targets of the investment programme. In 2008, Fortum made a provision for penalties caused by possible commissioning delays. According to the agreement with the contractor, Fortum is entitled to adequate remedies in case of damages caused by contractor delays.

In June 2012, Fortum announced its decision to build the last two units of its Russian investment programme at Chelyabinsk in the Urals. Initially, the units were planned for construction in the Tyumen region in Western Siberia. The units are included within the sphere of the Capacity Supply Agreement originally agreed in 2008. The new units are to be constructed at Chelyabinsk GRES power plant. Fortum also plans to modernise and upgrade the existing power plant equipment. Fortum is planning to commission the last new units of its EUR 2.5 billion investment programme in Russia by the end of 2014. The value of the remaining part of the investment programme, calculated at the exchange rates prevailing at the end of December 2012, is estimated to be approximately EUR 540 million as of January 2013.

After completing the ongoing investment programme, Fortum's goal is to achieve an operating profit level of about EUR 500 million in its Russia Division and to create positive economic added value in Russia.

A commission for heat business development has been set up by the Russian Government. Top priorities will be issues regarding heat regulation, centralised district heating and co-generation efficiency.

The Russian Government is likely to increase gas prices beginning 1 July 2013; the increase is expected to be 15%.

Efficiency programme 2013-2014

Due to the increasingly demanding business environment, Fortum started an efficiency programme in order to maintain and strengthen strategic flexibility and competitiveness and to enable the company to reach its financial targets in the future.

The aim is to improve the company's cash flow by more than approximately EUR 1 billion during 2013-2014 by reducing capital expenditures (capex) by EUR 250-350 million, divesting approximately EUR 500 million of non-core assets, reducing fixed costs and focusing on working capital efficiency. At the end of 2014, the cost run rate will be approximately EUR 150 million lower compared to 2012, including growth projects.

The Board's decision to review the strategic position of the electricity distribution business does not change the basics of the efficiency programme, which will continue as originally planned.

Capital expenditure and divestments

Fortum currently expects its capital expenditure in 2013 to be EUR 1.1-1.4 billion and in 2014 EUR 0.9-1.1 billion, excluding potential acquisitions. The annual maintenance capital expenditure is estimated to be about EUR 500 - 550 million in 2013, somewhat below the level of depreciation.

Taxation

The effective corporate tax rate for Fortum in 2013 is estimated to be 19-21%, excluding the impact of the share of profits of associated companies and joint ventures, non-taxable capital gains and non-recurring items. In Finland, the corporate tax rate was decreased from 26% to 24.5% starting 1 January 2012. In Sweden, the corporate tax rate was decreased from 26.3% to 22% starting 1 January 2013.

The process to update the real-estate taxation values for the year 2013 is ongoing in Sweden and is expected to be finalised by mid-2013. The update is done in a cycle of six years.

In 2012, the Finnish Government announced that a so-called windfall tax will be introduced in 2014.

Hedging

At the end of December 2012, approximately 70% of the Power Division's estimated Nordic power sales volume was hedged at approximately EUR 45 per MWh for the calendar year 2013. The corresponding figures for the calendar year 2014 were about 35% at approximately EUR 43 per MWh.

The hedge price for the Power Division's Nordic generation excludes hedging of the condensing power margin. In addition, the hedge ratio excludes the financial hedges and physical volume of Fortum's coal-condensing generation as well as the division's imports from Russia.

The reported hedge ratios may vary significantly, depending on Fortum's actions on the electricity derivatives markets. Hedges are mainly financial contracts, most of them Nord Pool forwards.

Research and development

Sustainability is at the core of Fortum's strategy, and Fortum's research and development activities promote environmentally-benign energy solutions. Investments in developing renewable energy production, like wave and solar power, are an important part of Fortum's strategy implementation.

In 2012, Fortum decided to invest in the commercialisation of new technology by building a bio-oil plant connected to the Joensuu power plant in Finland. The CHP-integrated bio-oil plant, based on fast pyrolysis technology, is the first of its kind in the world on an industrial scale. The new technology has been developed in co-operation between Metso, UPM, VTT (as part of the TEKES Biorefine research programme) and Fortum. The bio-oil plant, which will be integrated with the CHP plant in Joensuu, will produce electricity and district heat, and, in the future, 50,000 tonnes of bio-oil per year. The bio-oil raw materials will include forest residues and other wood-based biomass.

In addition, Fortum decided to support Lappeenranta University of Technology (LUT) in the establishment of a solar economy professorship, which is the first in its research field in Finland. The professorship will strengthen LUT's curriculum in electricity, energy and environmental technology.

The Group reports its R&D expenditure on a yearly basis. In 2012, Fortum's R&D expenditure was EUR 41 million (2011: 38) or 0.7% of sales (2011: 0.6%).

	2012	2011	2010
R&D expenditure, EUR million	41	38	30
R&D expenditure, % of sales	0.7	0.6	0.5

Sustainability

Fortum strives for balanced management of economic, social and environmental responsibility in the company's operations. The company's sustainability approach defines Group-level targets guiding operations and the key indicators to monitor them. Based on these, the divisions set their division-level targets and indicators and outline the measures needed to achieve the targets.

The company is listed on the Dow Jones Sustainability Index World (the only Nordic utility in the index), and the Global Carbon Disclosure Leadership Index, and Fortum is also included in the STOXX Global ESG Leaders indices and in the NASDAQ OMX and GES Investment Service's new OMX GES Sustainability Finland index.

Sustainability group level indicators

	Target	2012	2011	2010
Specific CO ₂ emission from power generation in the EU (g/kWh), 5 year average	80	60	67	69
Specific CO ₂ emission from total energy production (g/kWh), 5 year average	200	179	169	157
Total efficiency of combustion (%), 5 year average	70	67	68	69
ISO 14001 certification (%)				
Total Fortum		95	95	86
Europe	100	99	99	98
Lost workday injury frequency (LWIF) for own personnel	1.0	1.5	1.6	2.4
Fortum included in the Dow Jones Sustainability Indexes World and Europe		1/2	1/2	1/2

Fortum's Group-level targets were revised in 2012 and new targets are effective as of 1 January 2013.

Economic responsibility

In the area of economic responsibility, the focus is on competitiveness, performance excellence and market-driven production. The aim is to create long-term economic value and enable profitable growth and added value for shareholders, customers, employees, goods suppliers, and other key stakeholders in the company's operating areas.

Our operations have both direct and indirect economic impacts. Fortum's capital expenditure excluding acquisitions in 2012 was EUR 1,558 million, of which 482 million was for CO₂ free production. The biggest investments were made in Russia, EUR 568 million and in Sweden, EUR 492 million.

Fortum's goal is to achieve excellent financial performance in strategically selected core areas through strong competence and responsible ways of operating. The key figures by which Fortum measures its financial success include return on capital employed (target: 12%), return on shareholders' equity (target: 14%) and capital structure (target: comparable net debt/EBITDA around 3). In addition, Fortum also uses the applicable Global Reporting Initiative (GRI) G3.1 indicators for reporting economic responsibility.

Environmental responsibility

Fortum's environmental responsibility emphasises mitigation of climate change, efficient use of resources, and management of the impacts of our energy production, distribution and supply chain. Our know-how in CO₂-free hydro and nuclear power production and in energy-efficient CHP production is highlighted in environmental responsibility. Fortum's Group-level environmental targets are related to carbon-dioxide emissions, energy efficiency and environmental management system certifications. In addition, the divisions have defined their own environmental goals related to their respective business. The achievements of the environmental targets are monitored through monthly, quarterly and annual reporting.

Fortum's climate targets over the next five years comprise specific CO₂ emissions from power generation in the EU of below 80 grams per kilowatt-hour (g/kWh) and specific CO₂ emissions from the total energy production (electricity and heat) of below 200 g/kWh, covering all operating countries. Both targets are calculated as a five-year average.

At the end of 2012, the five-year average for specific CO₂ emissions from power generation in the EU was at 60 g/kWh and the specific CO₂ emissions from the total energy production was at 179 g/kWh, both better than the target level. Fortum's total CO₂ emissions in 2012 amounted to 20.7 million tonnes (Mt) (2011: 23.5), of which 4.8 Mt (2011: 8.0) were within the EU's emissions trading scheme (ETS).

In 2012, approximately 68% (2011: 65%) of the power generated by Fortum was CO₂-free. The corresponding figure for Fortum's generation within the EU was 93% (2011: 85%). The main reason behind the high share of CO₂-free power is that very little condensing power was produced at the Inkoo and Meri-Pori coal-fired power plants.

Overall efficiency of fuel use was 67% as a five-year average; the target is >70%. At the end of the fourth quarter of 2012, 95% of Fortum's operations globally had ISO 14001 environmental certification.

Fortum's total CO₂ emissions (million tonnes, Mt)	2012	2011	2010	Change 12/11
Total emissions	20.7	23.5	25.3	-12%
Emissions subject to ETS	4.8	8.0	9.7	-40%
Free emission allocation	5.4	6.8	5.6	-21%
Emissions in Russia	15.6	14.7	14.6	6%

Fortum's specific CO₂ emissions from power generation (g/kWh)	2012	2011	2010	Change 12/11
Total emissions	171	192	189	-11%
Emissions in the EU	42	88	84	-52%
Emissions in Russia	516	483	532	7%

Social responsibility

In the area of social responsibility, Fortum's innovations and the secure supply of low-carbon power and heat support the development of society and increase well-being. Good corporate citizenship and ensuring a safe working environment for all employees and contractors at Fortum sites are emphasised. A Group-level target has been defined for occupational safety. In addition to ISO 14001, the goal is to have OHSAS 18001 certification for all operational management systems. In 2012, the Group-level lost workday injury frequency (LWIF) continued at a good level at 1.5 (2011: 1.6). An unfortunate fatal accident occurred to a Fortum contractor in Russia in April. Fortum's safety target is to reach a LWIF level that is less than one per million working hours for its own personnel. This reflects the Group's zero tolerance for accidents.

Fortum wants to conduct business with viable companies that act responsibly and comply with the Fortum Code of Conduct and Fortum Supplier Code of Conduct. In 2012, altogether 10 supplier audits were conducted. In the beginning of 2012, Fortum joined the Bettercoal Initiative, aiming for continuous improvement of corporate responsibility in the supply chain of coal.

Risk management

Risk management is an integrated part of business planning and performance management. The objective of risk management within Fortum is to support the creation of the corporate strategy and to enable the strategy execution, to support the achievement of agreed financial targets and to avoid unwanted operational events.

Risk management framework and objectives

Involvement in the power and heat business exposes Fortum to several types of risks. Electricity prices and volumes, which in turn are affected by the weather in the Nordic region, the development of the global commodity markets and availability of power production, are the main sources of risk in the Nordic business. The Russian business is exposed to risks related to fuel, electricity and capacity prices and volumes which, although the market is developing, are to a large extent subject to regulation.

Fortum is continuously developing its risk management capabilities to cope with prevailing market conditions, developing operations and an ever changing business environment. In the operational risk management area, the focus has been on further enhancing the framework for internal controls, compliance risk management and business continuity management. At the same time, market and credit risk modelling has been developed in order to cope with an increasingly global and volatile market.

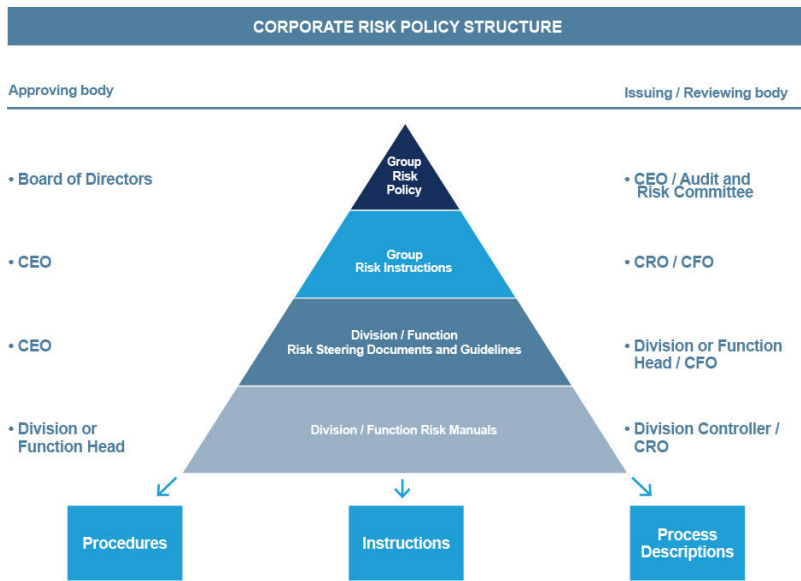
Risk management objective

The objective of risk management within Fortum is to enable the execution of the corporate strategy, to support the achievement of agreed financial targets and to avoid unwanted operational events.

Group risk policy

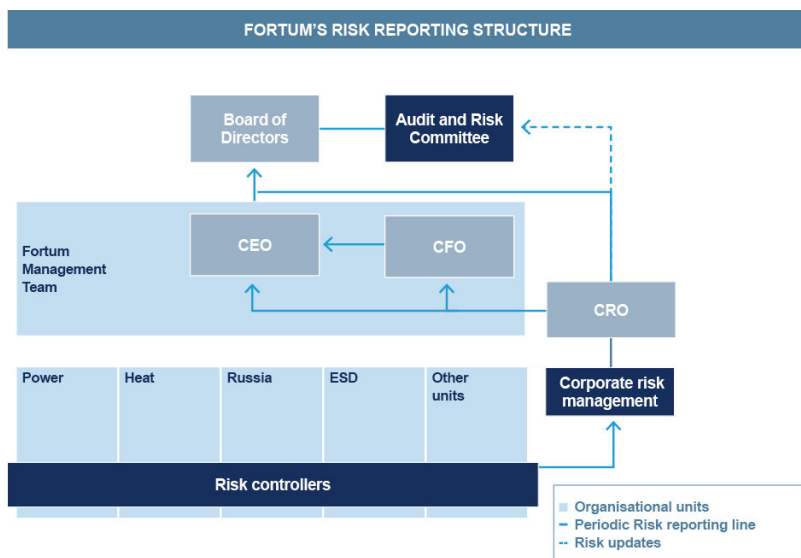
Fortum's Board of Directors approves the Group Risk Policy which sets the objective, principles and division of responsibilities for risk management activities within the Group as well as defines the overall risk management process.

The CEO approves appendices to the Group Risk Policy which include instructions for managing commodity market risks, counterparty risks, operational risks, financial risks and insurances. Corporate Treasury is responsible for managing the Group's currency, interest rate and liquidity and refinancing risks as well as for insurance management. Corporate Credit Control is responsible for assessing and consolidating the Group's exposure to counterparty risk, monitoring the creditworthiness of counterparties and for approving counterparty credit limits. Corporate IT is responsible for managing IT information and security risks. There are also Corporate Units dealing with risks related to human resources, laws and regulation, and sustainability.



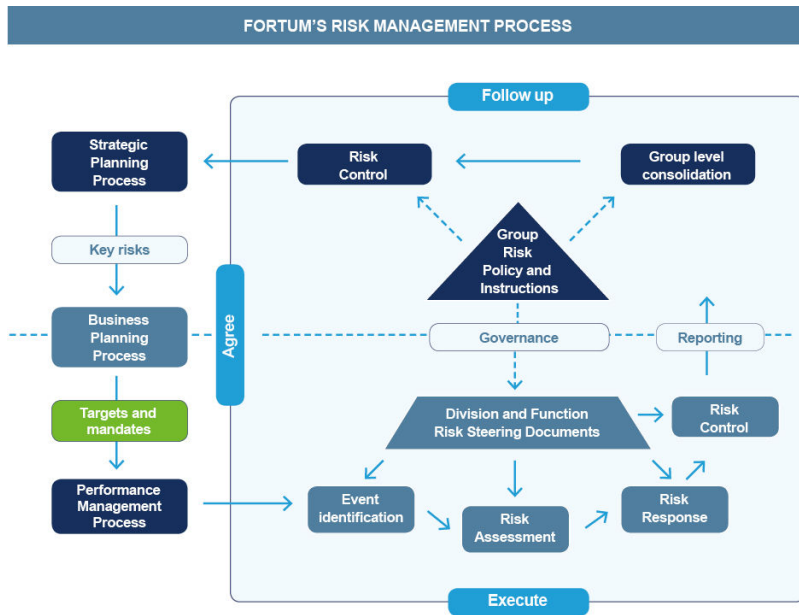
Risk management organisation

The Audit and Risk Committee is responsible for risk oversight within the Group. Corporate Risk Management is an independent function headed by the Chief Risk Officer (CRO), who reports to the CFO, and is responsible for assessing and reporting the Group's consolidated risk exposure to the Board of Directors and Group Management. Corporate Risk Management also monitors and reports risk in relation to mandates approved by the CEO. The main principle is that risks are managed at source if not otherwise agreed. In order to maintain a strict segregation of duties, risk control functions in divisions and Corporate Units like Treasury are responsible for reporting risks to Corporate Risk Management.



Risk management process

The risk management process consists of identification, risk assessment, risk response and risk control. Risks are primarily identified and assessed by divisions and Corporate Units in accordance with Group instructions and models that are approved by Corporate Risk Management. Every function is also responsible for responding to risks by taking appropriate actions. Risk responses can be one of, or a combination of, mitigating, transferring or absorbing the risk.



Risk factors

Risk control, monitoring and reporting is carried out by the divisional risk control functions. The frequency of reporting is dependent upon the scope of the business. For example, trading activities and limit breaches are reported daily whereas strategic and operational risks are reported as part of the annual business planning process and followed up at least quarterly in management reviews. Corporate Risk Management assesses and reports the Group's consolidated exposure to financial risks to Group Management and the Board of Directors on a monthly basis.

FORTUM RISK MAP



Strategic risks

Fortum's strategy is based on three areas of focus:

- Leverage the strong Nordic core;
- Create solid earnings growth in Russia and
- Build platform for future growth.

Investment, integration and project risks

Fortum's growth strategy includes expanding operations, particularly in Russia. As a result of ongoing integrations or any potential future acquisition, there is a risk to existing operations, including:

- additional demands placed on senior management, who are also responsible for managing existing operations;
- increased overall operating complexity, requiring greater personnel and other resources;
- additional cash expenditures and
- the need to attract and retain sufficient numbers of qualified management and other personnel.

Within the projects that are part of the Russian investment programme, as with all large projects, there is a risk of delays, for example in establishing new capacity and grid connections. The project risks are closely monitored by a dedicated team and risks are followed up in monthly management reporting.

Political and regulatory risks

The ongoing business and growth possibilities in existing and potential market areas are subject to regulatory supervision and political decisions. Development of the political and regulatory environment has a major impact on the energy industry and on the conditions of its business operations. Fortum is thus exposed to regulatory risks in various countries.

Nordic / EU

Nordic/EU Policy harmonisation, infrastructure development and integration of the Nordic electricity market towards continental Europe depend to large extent on the actions of authorities. Changes in the market environment and regulation could endanger the implementation of the market-driven development of the electricity market. Fortum promotes market-driven development by maintaining an active dialogue with all stakeholders. This means more competition and interconnections in addition to policy harmonisation.

Regulatory bodies and competition authorities regularly perform analysis, investigations and inquiries which might lead to changes in business conditions. Examples of on-going discussions which may affect Fortum's operations are windfall taxation, taxation on uranium in Finland, new legislation regarding nuclear safety requirements, changes to electricity distribution regulation and legislation in Finland and Sweden, changes to regulated heat tariffs and expansion of banking regulation to include commodity trading. Additionally changes in Corporate taxation and power market model meaning discussion on potential capacity market in the EU are topical issues.

To manage these risks and proactively participate in the development of the political and regulatory framework, including energy taxation, Fortum maintains an active and on-going dialogue with the bodies involved in the development of laws and regulations including national and EU-level industry organisations.

Russia

Emerging markets countries, such as Russia, are subject to political, economic and social uncertainties and the risk of loss resulting from changes in law, economic and social upheaval and other factors may be substantial even though the economic recession has increased these risks also developed countries.

Fortum owns and operates heat and power generation assets in Russia under operations of OAO Fortum. The Power market deregulation has proceeded well and, as a result, the prices for electricity in Russia are expected to increase strongly. The main fuel source for heat and power generation in Russia is gas. Gas prices are partially regulated, and there is a dependency on a limited number of suppliers. Changes in the regulation regarding gas prices and suppliers can affect the supply and price of gas. Furthermore, if the further deregulation of the gas and electricity markets is not aligned, the impact to profitability can be significant. Also Heat market development and how different markets work together are relevant concerns.

Legal and compliance risks

Fortum's operations are subject to rules and regulations set forth by the relevant authorities, exchanges, and other regulatory bodies in all markets which it operates.

Inadequacies in the legal systems and law enforcement mechanisms in Russia and certain other of the emerging markets expose Fortum to risk of loss as a result of criminal or abusive practices by competitors, suppliers, or contracting parties. Fortum's ability to operate in Russia may also be adversely affected by difficulties in protecting and enforcing its rights in disputes with its contractual partners or other parties, for example concerning regulatory influence on business and unfair market conditions, and also by future changes to local laws and regulations.

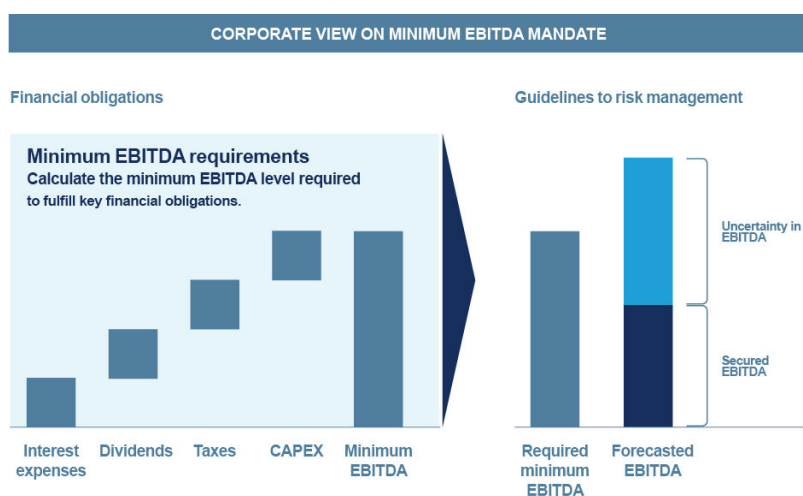
Fortum maintains strict internal market conduct rules and has procedures in place to prevent, for example, the use of proprietary information before it is published. Segregation of duties and internal controls are enforced to minimise the possibilities of unauthorised activities.

Compliance with the competition legislation is an important area for Fortum. Fortum has also enhanced Compliance risk management by establishing a process to systematically and separately identify and mitigate compliance risks linked to the operational risk framework. This process aims to capture also potential bribery risks. Fortum has also rolled-out the renewed Code of Conduct including the bribery risk assessment process to enhance the compliance to Business ethics.

Commodity market risks

Commodity market risk refers to the potential negative effects of market price movements or volume changes in electricity, fuels and environmental values. A number of different methods, such as Profit-at-Risk and Value at Risk are used throughout the Group to quantify these risks taking into account their interdependencies. Stress-testing is carried out in order to assess the effects of extreme price movements on Fortum's earnings.

Fortum hedges its exposure to commodity market risks in accordance with the Hedging Guidelines. Risk taking is limited by risk mandates including volumetric limits, Profit-at-Risk limits and stop-loss limits. Risk mandates include a minimum EBITDA for the Group, set by the CEO, which aims to ensure that Fortum can deliver on its financial commitments without worsening its financial position.



Fortum engages in a certain level of proprietary trading which is limited to standardised products on liquid markets. Risks associated with these activities are limited through strict mandate controls which include Value-at-Risk limits and stop-loss limits. All trading risks are monitored and reported on a daily basis.

All products and marketplaces used for hedging and trading are approved by the CRO.

For further information on hedge ratios, exposures, sensitivities and outstanding derivatives contracts, see Note 3 Financial risk management.

Electricity price and volume risks

Fortum is exposed to electricity market price movements and volume changes mainly through its power generation and customer sales businesses. In competitive markets, such as in the Nordic region, the price is determined as the balance between supply and demand. The short-term factors affecting electricity prices on the Nordic market include hydrological conditions, temperature, CO₂ allowance prices, fuel prices, and the import/export situation.

In the Nordic business, power and heat generation, customer sales, and electricity distribution volumes are subject to changes in, for example, hydrological conditions and temperature. Uncertainty in nuclear production due to prolonged maintenance or delays in upgrades, especially in co-owned plants in Sweden, has also increased in recent years.

Electricity price and volume risks are hedged by entering into electricity derivatives contracts, primarily on the Nordic power exchange, Nasdaq OMX (Nord Pool). The objective of hedging is to reduce the effect of electricity price volatility on earnings and

cash flows, and to secure a minimum level of earnings and cash flow which ensures financial commitments can be met. There are hedging strategies covering several years in the short to medium term which are executed by the trading unit within set mandates. These hedging strategies are continuously evaluated as electricity and other commodity market prices, the hydrological balance and other relevant parameters change.

In Russia, electricity prices and capacity sales are the main sources of market risk. Market deregulation has developed as planned and the electricity price is highly correlated with the gas price. Hedges are mainly done through regulated bilateral agreements, but the financial market is developing and Fortum is utilizing the possibilities in these markets to further mitigate electricity price risks.

Emission and environmental value risks

The European Union has established an emissions trading scheme to reduce the amount of CO₂ emissions. The CO₂ emission trading scheme enhances the integration of the Nordic market with the rest of Europe. In addition to the emissions trading scheme, there are other trading schemes in environmental values in place in Sweden, Norway and Poland. There is currently no trading scheme in Russia for emissions or other environmental values. The main factor influencing the prices of CO₂ allowances and other environmental values is the supply and demand balance.

Part of Fortum's power and heat generation is subject to requirements of trading schemes. Fortum manages its exposure to these prices and volumes through the use of derivatives, such as CO₂ forwards, and by ensuring that the costs of allowances are taken into account during production planning.

Fuel price and volume risks

Heat and power generation requires the use of fuels that are purchased on global or local markets. The main fuels used by Fortum are uranium, coal, natural gas, peat, oil, and various bio-fuels such as wood pellets.

For fuels that are traded on global markets such as coal and oil, the uncertainty in price is the main factor. Prices are largely affected by demand and supply imbalances which can be caused by, for example, increased demand growth in developing countries, natural disasters or supply constraints in countries experiencing political or social unrest. The increasing use of commodities as financial investments has also increased the volatility in prices during recent years. The main fuel source for heat and power generation in Russia is natural gas. Natural gas prices are partially regulated, so the exposure is limited. For fuels traded on local markets such as bio-fuels, the volume risk in terms of access to the raw material of appropriate quality is more significant as there may be a limited number of suppliers.

Exposure to fuel prices is to some extent limited because of Fortum's flexible generation possibilities which allow for switching between different fuels according to prevailing market conditions, and in some cases the fuel price risk can be transferred to the customer. The remaining exposure to fuel price risk is mitigated through fixed price purchases that cover forecasted consumption levels. Fixed price purchases can be either for physical deliveries or in the form of financial hedges.

Financial risks

Liquidity and refinancing risks

The power and heat business is capital intensive and, as a consequence, Fortum has a regular need to raise financing. During the last financial crisis, the wholesale funding markets (including the international debt capital markets) experienced significant disruptions in part due to a lack of liquidity. The financial problems in Greece and other European countries may create a financial market where it again could become difficult to raise funding and manage liquidity.

In order to manage these risks, Fortum maintains a diversified financing structure in terms of debt maturity profile, debt instruments and geographical markets. Fortum manages liquidity and refinancing risks through a combination of cash positions and committed

credit facility agreements with its core banks. Fortum shall at all times have access to cash, bank deposits and unused committed credit facilities including overdrafts, to cover all loans maturing within the next twelve-month period.

Interest rate risks

Fortum's debt portfolio consists of interest-bearing assets and liabilities on fixed and floating rate basis with differing maturity profiles. Fortum manages the duration of the debt portfolio by entering into different types of financing contracts and interest rate derivative contracts such as interest rate swaps and forward rate agreements (FRAs).

Currency risks

Fortum has cash flows, assets and liabilities in currencies other than euro. Changes in exchange rates can therefore have an effect on Fortum's earnings and balance sheet. The main currency exposures are EUR/SEK, arising from Fortum's extensive operations in Sweden and EUR/RUB from translation exposure of OAO Fortum in Russia.

Fortum's currency exposures are divided into transaction exposures (foreign exchange exposures relating to contracted cash flows and balance sheet items where changes in exchange rates will have an impact on earnings and cash flows) and translation exposure (foreign exchange exposure that arises when profits and balance sheets in foreign entities are consolidated on Group level). For transaction risk, the main principle is that all material exposures are hedged while translation exposures are not hedged or hedged selectively.

Counterparty risks

Fortum is exposed to counterparty risk whenever there is a contractual arrangement with a customer, supplier, financing partner or trading counterparty.

Credit risk exposures relating to financial derivative instruments are often volatile. Although the majority of commodity derivatives are cleared through exchanges, derivatives contracts are also entered into directly with external counterparties. Such contracts are limited to high-credit-quality counterparties active on the financial or commodity markets.

Due to the financing needs and management of liquidity, Fortum has counterparty exposure to a number of banks and financial institutions. This includes exposure to the Russian financial sector in terms of deposits with financial institutions as well as to banks that provide guarantees for suppliers and contracting parties. Limits with banks and financial institutions are followed closely so that exposures can be adjusted as ratings or the financial situation changes.

Credit risk exposures relating to customers and suppliers are spread across a wide range of industrial counterparties, small businesses and private individuals over a range of geographic regions. The majority of exposure is to the Nordic market, but there is also significant exposure in Russia and Poland as a result of increased operations. The risk of non-payment in the electricity and heat sales business in Russia is higher than in the Nordic market.

In order to minimise counterparty risk, Fortum has well established routines and processes to identify, assess and control counterparty exposure. No contractual obligations are entered into without proper, reasonable and viable credit checks, and creditworthiness is continuously monitored through the use of internal and external sources to ensure that actions can be taken immediately if changes occur.

Corporate Credit Control is responsible for assuring stringent controls for all larger individual counterparty exposures. Annual credit reviews are performed manually for all larger approved limits. Each division or Corporate Function is responsible for ensuring that exposures remain within approved limits. Mitigation of counterparty risk includes the use of collateral such as guarantees, managing payment terms and contract length, and netting agreements. Corporate Credit Control continuously monitors and reports counterparty exposures against the approved limits.

Operational risks

Operational risks are defined as the negative effects resulting from inadequate or failed internal processes, people and systems or equipment, or from external events. The main objective of operational risk management is to reduce the risk of unwanted operational events by clearly documenting and automating processes and by ensuring a strict segregation of duties between decision-making and controlling functions. Quality and environmental management systems are a tool for achieving this objective, and Fortum has several certifications including ISO 9001 and ISO 14001. Equipment and system risks are primarily managed within maintenance investment planning, and there are contingency plans in place to ensure business continuity. Operational risks in production facilities (nuclear, hydro and heat plants) are mitigated by continuous maintenance, condition monitoring, and other operational improvements.

The Corporate Insurance Steering Document defines the management of insurable operational risks. The objective of insurance management is to optimise loss prevention activities, self retentions and insurance coverage in a long-term cost-efficient manner. Fortum has established Group-wide insurance programmes for risks related to property damages, business interruption and liability exposures.

Hydro power

Operational events at hydro power generation facilities can lead to physical damages, business interruptions, and third-party liabilities. There exists a long-term programme for improving the surveillance of the condition of dams and for securing the discharge capacity in extreme flood situations.

In Sweden, third-party liabilities from dam failures are strictly the plant owner's responsibility. Together with other hydro power producers, Fortum has a shared dam liability insurance program in place that covers Swedish dam failure liabilities up to SEK 9,000 million.

Nuclear power

Fortum owns the Loviisa nuclear power plant, and has minority interests in one Finnish and two Swedish nuclear power companies. In the Loviisa power plant, assessment and improvement of nuclear safety is a continuous process which is performed under the supervision of the Radiation and Nuclear Safety Authority of Finland (STUK).

In Finland and Sweden, third-party liability relating to nuclear accidents is strictly the plant operator's responsibility and must be covered by insurance.

As the operator of the Loviisa power plant, Fortum has a statutory liability insurance policy of 600M SDR. Same type of insurance policies are in place for the operators where Fortum has a minority interest. In Sweden the limits are according to the national legislation.

Decisions have been taken in both Finland and Sweden to renew the current nuclear liability legislation towards the Paris and Brussels convention. The new legislation will not most probably come into force during 2013 in Finland and Sweden. The changes in the new national legislation consist of a liability on plant operators covering damages of up to EUR 700 million in Finland and in Sweden up to EUR 1,200 million per nuclear incident, which should be covered by insurance or other form of financial guarantee, as well as a strict and unlimited liability for the plant operators in each respective country.

Under Finnish law, Fortum bears full legal and financial responsibility for the management and disposal of nuclear waste produced by the Loviisa power plant. In both Finland and Sweden, Fortum bears partial responsibility, proportionate to the output share, for the costs of the management and disposal of nuclear waste produced by co-owned nuclear power plants.

In both Finland and Sweden, the future costs of the final disposal of spent fuel, the management of low and intermediate-level radioactive waste and nuclear power plant decommissioning are provided for by a state-established fund to which nuclear power plant operators make annual contributions.

Multi-layered containment systems and sophisticated safety protocols effectively isolate radioactive materials from the surrounding environment during the process of interim storage, packaging, transport, relocation and encasement of nuclear waste in the final storage repositories.

Distribution facilities

Operational events at distribution facilities can lead to physical damages, business interruptions, and third-party liabilities. Storms and other unexpected events can result in electricity outages that create costs in the form of repairs and customer compensations. Although outages are typically short, it is not possible to completely prevent long outages. There are extensive procedures in place to minimise the length and consequences of outages.

Sustainability risks

The assessment of sustainability risks is also included in the assessment of business risks. The Corporate Sustainability function assesses the risks related to Group operations and its own operations as part of the annual planning. The divisions assess the risks identified by the Corporate Sustainability function in their own annual planning and prepare for their control. Business divisions with ISO 14001 certification manage their environmental risks and their preparedness to operate in exceptional and emergency situations in compliance with the requirements of the standard.

Operating power and heat generation and distribution facilities involves the use, storage and transportation of fuels and materials that can have adverse effects on the environment. Operation and maintenance of the facilities expose the personnel to potential safety risks. The risks involved with these activities and their supply chain are receiving increased attention. There is also a growing public awareness of sustainable development and the expectations on companies' responsible conduct.

Environmental, health and safety (EHS) risks are regularly evaluated through internal and external audits and risk assessments, and corrective and preventive actions are launched when necessary. EHS related risks arising in investments are systematically evaluated in accordance with Fortum's Investment Evaluation and Approval Procedure. Environmental risks and liabilities in relation to past actions have been assessed and necessary provisions made for future remedial costs.

IT and information security risks

Information security risks are managed centrally by the Corporate Security and IT functions. Business-specific IT risks are managed within the divisions and Corporate Units. Group IT instructions set procedures for reducing risks and managing IT and other information security incidents. The main objective is to ensure high availability and fast recovery of IT systems. Fortum IT community identifies the operational risks related to IT operations that might threaten the business continuity and mitigating actions are planned accordingly. Fortum IT is exposed to hardware and software risks including cyber attacks as any other Corporate. The management of these risks is coordinated by Corporate IT who also manages the IT architecture and strategy.

The Fortum share and shareholders

Fortum Corporation's shares have been listed on NASDAQ OMX Helsinki since 18 December 1998. The trading code is FUM1V. Fortum Corporation's shares are in the Finnish book entry system maintained by Euroclear Finland Ltd which also maintains the official share register of Fortum Corporation.

Share key figures

EUR million	2012	2011	2010
Earnings per share	1.59	1.99	1.46
Cash flow per share	1.56	1.82	1.62
Equity per share	11.49	10.84	9.24
Dividend per share	1.00 ¹⁾	1.00	1.00
Payout ratio, %	62.9 ¹⁾	50.3	68.5
Dividend yield, %	7.1 ¹⁾	6.1	4.4

¹⁾ Board of Directors' proposal for the Annual General Meeting 9 April 2013.

For full set of share Key figures 1998-2012, see the section Key figures in the Financial Statements.

Share price performance and volumes

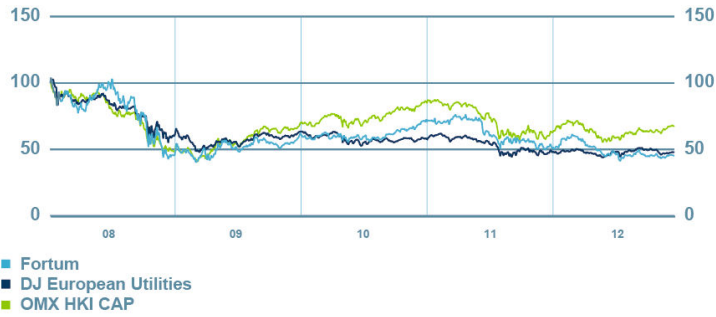
Fortum's share has depreciated approximately as much as its' European utility peers during the last five years. Fortum's share price has depreciated approximately 55% during the last five years, while Dow Jones European Utility Index has decreased 52%. During the same period NASDAQ Helsinki Cap index has decreased 33%.

During 2012 Fortum's share price depreciated approximately 14%, while Dow Jones European Utility index decreased 1% and NASDAQ Helsinki Cap index increased 10%.

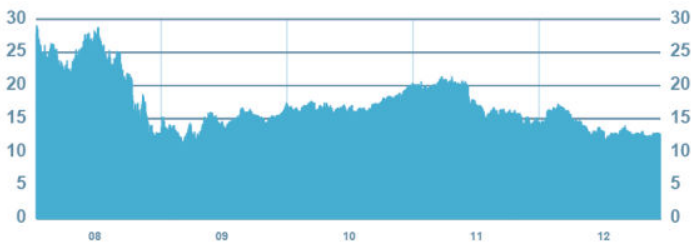
During 2012, a total of 494.8 million (2011: 524.9) Fortum Corporation shares, totalling EUR 7,749 million, were traded on the NASDAQ OMX Helsinki Ltd. The highest quotation of Fortum Corporation shares during the reporting period was EUR 19.36, the lowest EUR 12.81, and the volume-weighted average EUR 15.65. The closing quotation on the last trading day of the year 2012 was EUR 14.15 (2011: 16.49). Fortum's market capitalisation, calculated using the closing quotation of the last trading day of the year, was EUR 12,570 million (2011: 14,649).

In addition to the NASDAQ OMX Helsinki Ltd, Fortum shares were traded on several alternative market places, for example at Boat, BATS Chi-X and Turquoise, and on the OTC market as well. The total volume of these all trades, including also all other trades than the primary market place, was approximately 1,097 million shares (2011: 1,058) and the turnover was approximately EUR 17,292 million (2011: 21,093) in 2012. In 2012, approximately 55% (2011: 50%) of Fortum's traded shares were traded on other markets than NASDAQ OMX Helsinki Ltd.

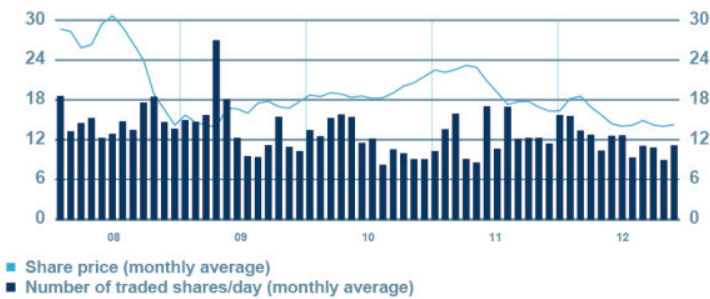
SHARE QUOTATIONS 2008–2012, INDEX 100 = QUOTE ON 2 JANUARY 2008



MARKET CAPITALISATION 2008–2012, EUR billion



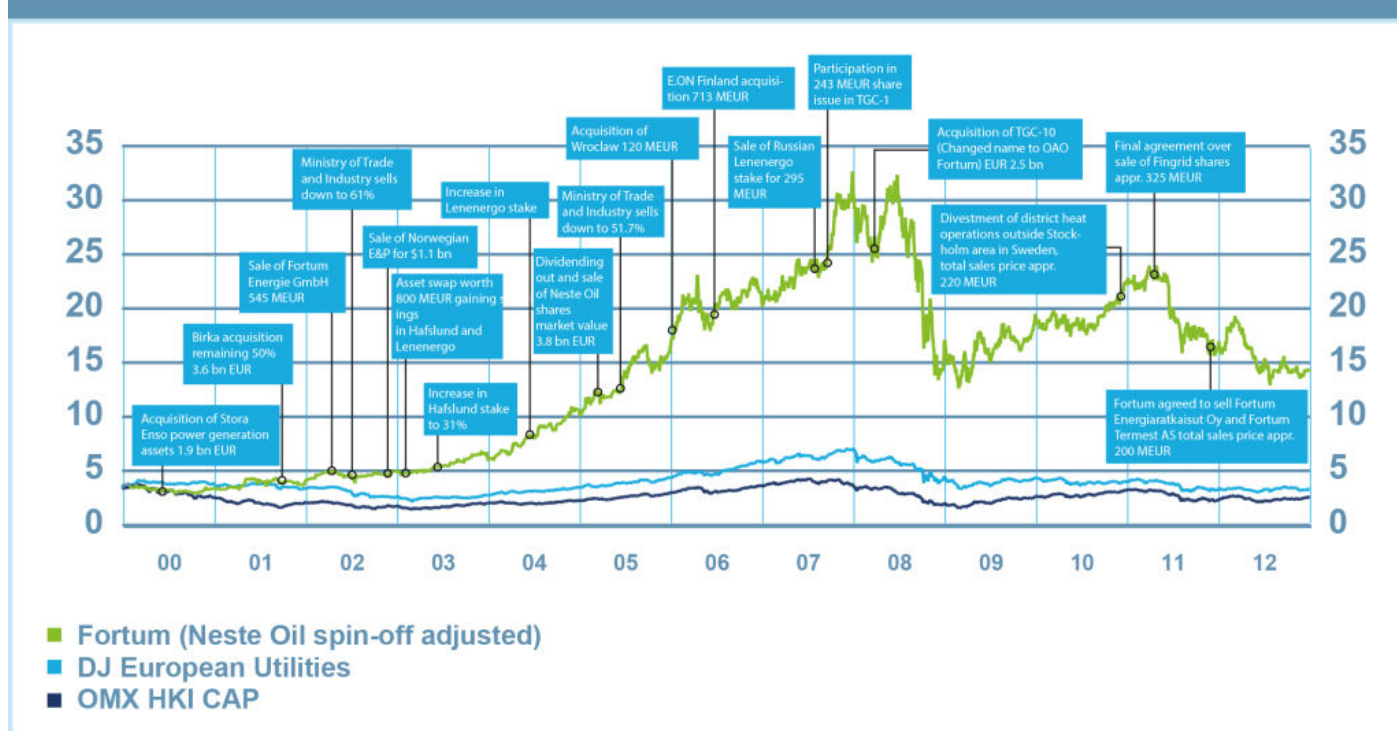
SHARE TRADING 2008–2012



Shareholder value

Fortum has continuously carried out structural and operational development according to its strategy. Since the year 2000 Fortum has made acquisitions totalling EUR 11 billion and divestments totalling EUR 8 billion. Since 2000 the share price has increased by approximately 290%.

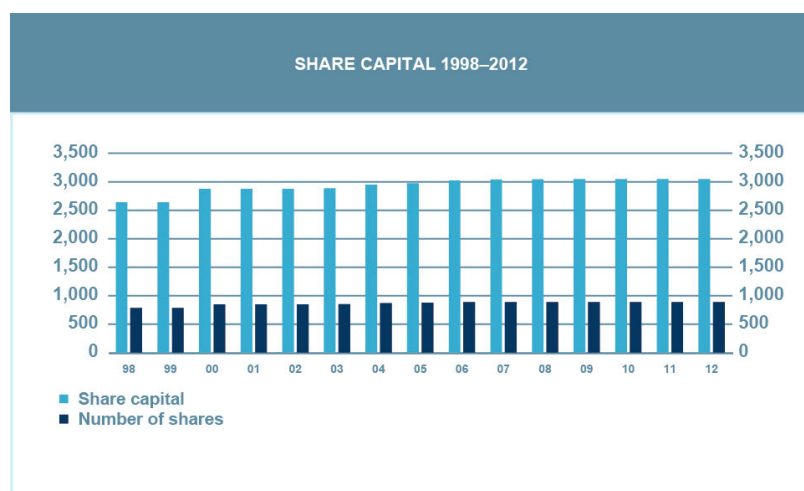
SHARE PRICE PERFORMANCE, EUR



Share capital

Fortum has one class of shares. By the end of 2012, a total of 888,367,045 shares had been issued. The nominal value of the share is EUR 3.40 and each share entitles the holder to one vote at the Annual General Meeting. All shares entitle holders to an equal dividend. At the end of 2012 Fortum Corporation's share capital, paid in its entirety and entered in the trade register, was EUR 3,046,185,953.00.

The registered share capital exceeds the aggregate nominal value of the issued shares due to the cancellations of the company's own shares in 2006 and 2007 (in total 7,570,000) without decreasing the share capital.



Share capital 1998 – 2012

	Number of shares	Share capital, EUR
Fortum established on 7 February 1998	500,000	1,681,879
Rights issue in 1998	782,282,635	2,631,409,886
Employee issue in 1998	2,000,000	6,727,516
31 December 1998	784,782,635	2,639,819,282
31 December 1999	784,782,635	2,639,819,282
Script issue in 2000	-	28,441,677
Rights issue in 2000	60,825,940	206,808,196
31 December 2000	845,608,575	2,875,069,155
31 December 2001	845,608,575	2,875,069,155
Subscriptions with options in 2002		
- 1999 bond loan with warrants	148,380	504,492
- 1999 management share option scheme	3,000	10,200
31 December 2002	845,759,955	2,875,583,847
Subscriptions with options in 2003		
- 1999 bond loan with warrants	159,520	542,368
- 1999 management share option scheme	2,913,000	9,904,200
31 December 2003	848,832,475	2,886,030,415
Subscriptions with options in 2004		
- 1999 bond loan with warrants	4,560,730	15,506,482
- 1999 management share option scheme	7,154,000	24,323,600
- 2002 A share options scheme for key employees	6,536,700	22,224,780
31 December 2004	867,083,905	2,948,085,277

Subscriptions with options in 2005		
- 1999 bond loan with warrants	1,284,370	4,366,858
- 1999 management share option scheme	1,698,000	5,773,200
- 2001 A share options scheme	1,636,350	5,563,590
- 2002 A share options scheme	3,591,400	12,210,760
31 December 2005	875,294,025	2,975,999,685

Subscriptions with options in 2006		
- 2001 A share options scheme	3,026,200	10,289,080
- 2001 B share options scheme	5,360,133	18,224,452
- 2002 A share options scheme	516,800	1,757,120
- 2002 B share options scheme	4,856,488	16,512,059
Cancellation of own shares	-1,660,000	-
31 December 2006	887,393,646	3,022,782,396

Subscriptions with options in 2007		
- 2001 A share options scheme	274,920	934,728
- 2001 B share options scheme	1,339,867	4,555,548
- 2002 A share options scheme	122,100	415,140
- 2002 B share options scheme	3,462,525	11,772,585
Cancellation of own shares	-5,910,000	-
31 December 2007	886,683,058	3,040,460,397

Subscriptions with options in 2008		
- 2002 B share options scheme	955,022	3,247,075
31 December 2008	887,638,080	3,043,707,472

Subscriptions with options in 2009		
- 2002 B share options scheme	728,965	2,478,481
31 December 2009	888,367,045	3,046,185,953

31 December 2010	888,367,045	3,046,185,953
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31 December 2011	888,367,045	3,046,185,953
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31 December 2012	888,367,045	3,046,185,953
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Shareholders

At the end of 2012, the Finnish State owned 50.8% of the company's shares. The Finnish Parliament has authorised the Government to reduce the Finnish State's holding in Fortum Corporation to no less than 50.1% of the share capital and voting rights.

The proportion of nominee registrations and direct foreign shareholders decreased to 25.4% (2011: 28.3%).

Shareholders 31 December 2012

Shareholders	No. of shares	Holding %
Finnish State	450,932,988	50.76%
Ilmarinen Mutual Pension Insurance Company	12,115,079	1.36%
Varma Mutual Pension Insurance Company	7,624,300	0.86%
The State Pension Fund Finland	7,260,000	0.82%
The Social Insurance Institution of Finland. KELA	7,195,896	0.81%
The City of Kurikka	6,203,500	0.70%
Mandatum Life Insurance Company	4,954,834	0.56%
The Local Government Pensions Institution	2,963,601	0.33%
Schweizer Nationalbank	2,602,177	0.29%
Folketrygdfondet	2,388,800	0.27%
Nordea Fennia Mutual Funds	2,280,000	0.26%
OP-Delta FUND	2,240,000	0.25%
The Society of Swedish Literature in Finland	2,195,400	0.25%
Mutual Insurance Company Pension Fennia	2,194,707	0.25%
Nominee registrations and direct foreign ownership	225,330,292	25.36%
Other shareholders in total	149,885,471	16.87%
Total number of shares	888,367,045	100.00%

By shareholder category	% of total amount of shares
Finnish shareholders	
Corporations	2.22
Financial and insurance institutions	3.61
General government	56.95
Non-profit organisations	2.02
Households	9.84
Non-Finnish shareholders	25.36
Total	100.00

Breakdown of share ownership 31 December 2012

By number of shares owned	No. of share-holders	% of share-holders	No. of shares	% of total amount of shares
1-100	31,318	25.16	1,873,571	0.21%
101-500	50,877	40.88	13,628,606	1.53%
501-1,000	21,260	17.08	15,510,601	1.75%
1,001-10,000	19,662	15.80	49,939,459	5.62%
10,001-100,000	1,195	0.96	28,831,603	3.25%
100,001-1,000,000	110	0.09	32,002,122	3.60%
1,000,001-10,000,000	27	0.02	69,805,315	7.86%
over 10,000,000	2	0.00	463,048,067	52.12%
	124,451	100.00	674,639,344	75.94%
Unregistered/uncleared transactions on 31 december			75,696	0.01%
Nominee registrations			213,652,005	24.05%
Total			888,367,045	100.00%

Management interests 31 Dec 2012

At the end of 2012, the President and CEO and other members of the Fortum Management Team owned 268,992 shares (2011: 253,276) representing approximately 0.03% of the total shares in the company.

A full description of on the President and CEO and other members of the Fortum Management Team's shareholdings and interests in long term incentive schemes is shown in Note 14 Employee benefits.

Authorisations from the Annual General Meeting 2012

Currently the Board of Directors has no unused authorisations from the Annual General Meeting of Shareholders to issue convertible loans or bonds with warrants to issue new shares or to buy Fortum Corporation's own shares.

Dividend

Dividend policy

Fortum Corporation's dividend policy states that the company aims to pay a dividend which corresponds to an average payout ratio of 50% to 60%.

Dividend distribution proposal

The parent company's distributable equity as of 31 December 2012 amounted to EUR 4,561,649,150.11. After the end of the financial period there have been no material changes in the financial position of the Company.

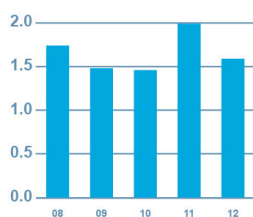
The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a cash dividend of EUR 1.00 per share for 2012, totalling approximately EUR 888 million based on the number of registered shares as of 30 January 2013. The Annual General Meeting will be held on 9 April 2013 at 14:00 EET at Finlandia Hall in Helsinki.

Fortum's activities in capital markets during 2012

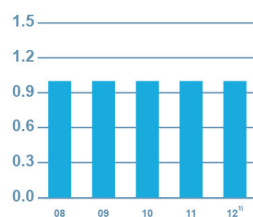
Fortum's Investor Relations (IR) activities cover equity and fixed-income markets to ensure full and fair valuation of the Company's shares, access to funding sources and stable bond pricing. Investors and analysts primarily in Europe and North America are met on a regular basis.

In 2012 Fortum met approximately 200 professional equity investors individually or in group meetings, whilst maintaining regular contact with equity research analysts at investment banks and brokerage firms. During the year, IR and senior management gave approximately 10 presentations at investor conferences in Scandinavia and the United Kingdom.

EARNINGS PER SHARE, EUR



DIVIDEND PER SHARE, EUR



¹⁾ Board of Director's proposal for the Annual General Meeting in April 2013.

Key figures

Financial key figures

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Fortum Corporation and its subsidiaries (together the Fortum Group) is a leading energy company focusing on the Nordic countries, Russia and the Baltic Rim area. Fortum's activities cover the generation, distribution and sale of electricity and heat, the operation and maintenance of power plants as well as energy-related services. Neste Oil was included in Fortum Group up until 31 March 2005, when the Annual General Meeting took the final decision to separate the oil operations by distributing approximately 85% of Neste Oil Corporation shares as dividend. The remaining approximately 15% of the shares were sold to investors in April 2005.

Oil operations have been presented as discontinued operations in years 2004 and 2005.

As from 2005, Fortum applies International Financial Reporting Standards (IFRS) for the annual and interim reports. The 2005 annual report included one comparison year 2004, which was restated to IFRS. The years 1998-2003 have not been restated to comply with IFRS. They are presented under Finnish Accounting Standards (FAS).

EUR million or as indicated	FAS	FAS	FAS	FAS	FAS	FAS											Change
	1998	1999	2000	2001	2002	2003	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	12/11
							2004	2005	2006	2007	2008	2009	2010	2011	2012		%
Sales total Fortum	8,494	8,232	10,614	10,410	11,148	11,392	11,659	5,918	4,491	4,479	5,636	5,435	6,296	6,161	6,159		-0
Sales continuing operations							3,835	3,877	4,491	4,479	5,636	5,435	6,296	6,161	6,159		-0
EBITDA total Fortum ¹⁾	1,049	1,192	1,431	1,501	1,952	1,917	2,443	2,307	1,884	2,298	2,478	2,292	2,271	3,008	2,525		-16
EBITDA continuing operations							1,583	1,754	1,884	2,298	2,478	2,292	2,271	3,008	2,525		-16
Comparable EBITDA continuing operations								1,741	1,866	2,015	2,360	2,398	2,396	2,374	2,403		1
Operating profit total Fortum	586	705	906	914	1,289	1,420	1,916	1,864	1,455	1,847	1,963	1,782	1,708	2,402	1,861		-23
- of sales %	6.9	8.6	8.5	8.8	11.6	12.5	16.4	31.5	32.4	41.2	34.8	32.8	27.1	39.0	30.2		
Operating profit continuing operations							1,195	1,347	1,455	1,847	1,963	1,782	1,708	2,402	1,861		-23
- of sales %							31.2	34.7	32.4	41.2	34.8	32.8	27.1	39.0	30.2		
Comparable operating profit continuing operations							1,148	1,334	1,437	1,564	1,845	1,888	1,833	1,802	1,739		-3

EUR million or as indicated	FAS						IFRS										Change 12/11 %
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		
Profit before income tax total Fortum	363	954	623	702	1,008	1,184	1,700	1,776	1,421	1,934	1,850	1,636	1,615	2,228	1,575	-29	
- of sales %	4.3	11.6	5.9	6.7	9.0	10.4	14.6	30.0	31.6	43.2	32.8	30.1	25.7	36.2	25.6		
Profit before income tax continuing operations							962	1,267	1,421	1,934	1,850	1,636	1,615	2,228	1,575	-29	
- of sales %							25.1	32.7	31.6	43.2	32.8	30.1	25.7	36.2	25.6		
Profit for the period continuing operations							703	936	1,120	1,608	1,596	1,351	1,354	1,862	1,503	-19	
- of which attributable to owners of the parent							670	884	1,071	1,552	1,542	1,312	1,300	1,769	1,409	-20	
Capital employed total Fortum	8,647	9,425	11,365	11,032	13,765	12,704	12,890	11,357	12,663	13,544	15,911	15,350	16,124	17,931	19,598	9	
Capital employed continuing operations							10,739	11,357	12,663	13,544	15,911	15,350	16,124	17,931	19,598	9	
Interest- bearing net debt	3,898	3,818	4,626	3,674	5,848	5,626	5,095	3,158	4,345	4,466	6,179	5,969	6,826	7,023	7,814	11	
Capital expenditure and gross investments in shares total Fortum	1,702	1,059	3,131	713	4,381	1,136	830	578	1,395	972	2,624	929	1,249	1,482	1,574	6	
- of sales %	20.0	12.9	29.5	6.8	39.3	10.0	7.1	9.8	31.1	21.7	46.6	17.1	19.8	24.1	25.6		
Capital expenditure and gross investments in shares continuing operations							514	479	1,395	972	2,624	929	1,249	1,482	1,574	6	
Capital expenditure continuing operations							335	346	485	655	1,108	862	1,222	1,408	1,558	11	

EUR million or as indicated	FAS						IFRS										Change 12/11 %
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		
Net cash from operating activities total Fortum	793	524	424	1,145	1,351	1,577	1,758	1,404	1,151	1,670	2,002	2,264	1,437	1,613	1,382	-14	
Net cash from operating activities continuing operations							1,232	1,271	1,151	1,670	2,002	2,264	1,437	1,613	1,382	-14	
Return on capital employed total Fortum, %	7.7	8.4	9.4	8.7	11.1	11.4	15.8	16.6	13.4	16.5	15.0	12.1	11.6	14.8	10.0		
Return on capital employed continuing operations, %							11.4	13.5	13.4	16.5	15.0	12.1	11.6	14.8	10.0		
Return on shareholders' equity total Fortum, %	5.7	7.7	8.6	8.3	10.5	12.3	18.2	18.7	14.4	19.1	18.7	16.0	15.7	19.7	14.3		
Return on shareholders' equity continuing operations, % 2)								13.5	14.4	19.1	18.7	16.0	15.7	19.7	14.3		
Interest coverage	2.6	3.4	3.7	4.3	4.7	5.8	8.0	11.6	11.5	12.8	9.4	12.4	13.7	10.5	7.5		
Interest coverage including capitalised borrowing costs											8.6	10.3	10.0	8.5	5.7		
Funds from operations/ interest-bearing net debt, %	17.9	14.3	19.9	28.8	21.6	26.1	36.4	43.2	30.6	36.3	34.1	37.6	20.5	21.5	19.9		
Gearing, % 3)	93	79	73	54	80	85	67	43	53	52	73	70	78	69	72		
Net debt / EBITDA	3.7	3.2	3.2	2.4	3.0	2.9	2.1	1.4	2.3	1.9	2.5	2.6	3.0	2.3	3.1		
Net debt / EBITDA continuing operations							-	1.8	2.3	1.9	2.5	2.6	3.0	2.3	3.1		
Comparable net debt / EBITDA continuing operations							-	1.8	2.3	1.9	2.5	2.6	3.0	2.3	3.3		

EUR million or as indicated	FAS						IFRS										Change 12/11 %
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		
Equity-to- assets ratio, %	36	39	43	48	41	40	44	49	48	49	41	43	40	44	44		
Dividends ⁴⁾	99	141	194	220	262	357	506	987	1,122	1,198	888	888	888	888	888 ⁵⁾	0	
Dividends continuing operations								511	650	683							
Dividends additional in 2006 and 2007/ discontinued operations in 2005								476	472	515							
Research and development expenditure	92	72	58	53	33	35	26	14	17	21	27	30	30	38	41	8	
- of sales %	1.1	0.9	0.5	0.5	0.3	0.3	0.2	0.2	0.4	0.5	0.5	0.5	0.5	0.6	0.7		
Average number of employees total Fortum	19,003	17,461	16,220	14,803	14,053	13,343	12,859	10,026	8,910	8,304	14,077	13,278	11,156	11,010	10,600		
Average number of employees continuing operations							8,592	8,939	8,910	8,304	14,077	13,278	11,156	11,010	10,600		

¹⁾ EBITDA is defined as Operating profit continuing operations + Depreciation, amortisation and impairment charges. According to Finnish Accounting Standards (FAS) share of profit of associated companies was included in operating profit. In calculating EBITDA presented under FAS share of profit of associated companies have been excluded in 1998-2003.

²⁾ Return on equity for continuing operations for 2005 is calculated based on profit for the period from continuing operations divided by total equity at the end of the period. Profit for the period from discontinued operations has been subtracted from total equity on 31 December 2005.

³⁾ Gearing is defined as interest-bearing net debt over shareholders' equity plus non-controlling interests. In 2000-2002 non-controlling interests included the preference shares amounting to EUR 1.2 billion, carrying fixed income dividend of 6.7 percent, issued by Fortum Capital Ltd.

⁴⁾ In addition to cash dividend Fortum distributed approximately 85% of Neste Oil Corporation shares as dividend in 2005.

⁵⁾ Board of Directors' proposal for the Annual General Meeting on 9 April 2013.

[See Definitions of key figures.](#)

Share key figures

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EUR or as indicated	FAS 1998	FAS 1999	FAS 2000	FAS 2001	FAS 2002	FAS 2003	IFRS 2004	IFRS 2005	IFRS 2006	IFRS 2007	IFRS 2008	IFRS 2009	IFRS 2010	IFRS 2011	IFRS 2012	Change 12/11 %
Earnings per share total Fortum	0.27	0.41	0.55	0.57	0.79	0.91	1.48	1.55	1.22	1.74	1.74	1.48	1.46	1.99	1.59	-20
Earnings per share continuing operations	-	-	-	-	-	-	0.79	1.01	1.22	1.74	1.74	1.48	1.46	1.99	1.59	-20
Earnings per share discontinued operations	-	-	-	-	-	-	0.69	0.54	-	-	-	-	-	-	-	-
Diluted earnings per share total Fortum	-	-	0.55	0.57	0.78	0.90	1.46	1.53	1.21	1.74	1.74	1.48	1.46	1.99	1.59	-20
Diluted earnings per share continuing operations	-	-	-	-	-	-	0.78	1.00	1.21	1.74	1.74	1.48	1.46	1.99	1.59	-20
Diluted earnings per share discontinued operations	-	-	-	-	-	-	0.68	0.53	-	-	-	-	-	-	-	-
Cash flow per share total Fortum	1.01	0.67	0.54	1.43	1.60	1.86	2.06	1.61	1.31	1.88	2.26	2.55	1.62	1.82	1.56	-14
Cash flow per share continuing operations	-	-	-	-	-	-	1.44	1.46	1.31	1.88	2.26	2.55	1.62	1.82	1.56	-14
Equity per share	5.06	6.00	6.32	6.49	6.97	7.55	8.65	8.17	8.91	9.43	8.96	9.04	9.24	10.84	11.49	6

EUR or as indicated	FAS						IFRS										Change 12/11 %
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		
Dividend per share total Fortum ¹⁾	0.13	0.18	0.23	0.26	0.31	0.42	0.58	1.12	1.26	1.35	1.00	1.00	1.00	1.00	1.00 ²⁾	0	
Dividend per share continuing operations	-	-	-	-	-	-	-	0.58	0.73	0.77	-	-	-	-	-	-	
Dividend per share additional in 2006 and 2007 / discontinued operations in 2005	-	-	-	-	-	-	-	0.54	0.53	0.58	-	-	-	-	-	-	
Payout ratio total Fortum, %	46.3	43.4	41.9	45.6	39.2	46.2	39.2	72.3	103.3 ⁴⁾	77.6 ⁴⁾	57.5	67.6	68.5	50.3	62.9 ²⁾	-	
Payout ratio continuing operations, %	-	-	-	-	-	-	-	57.4 ³⁾	59.8 ⁴⁾	44.3 ⁴⁾	-	-	-	-	-	-	
Payout ratio additional dividend in 2006 and 2007 / discontinued operations in 2005, %	-	-	-	-	-	-	-	100.0 ³⁾	43.4 ⁴⁾	33.3 ⁴⁾	-	-	-	-	-	-	
Dividend yield, %	2.5	4.0	5.3	5.5	5.0	5.1	4.3	7.1	5.8	4.4	6.6	5.3	4.4	6.1	7.1 ²⁾	-	
Price/earnings ratio (P/E)	18.5	10.9	7.9	8.3	7.9	9.0	9.2	10.2	17.7	17.7	8.8	12.8	15.4	8.3	8.9	-	
Share prices																	
At the end of the period	5.03	4.50	4.35	4.75	6.25	8.18	13.62	15.84	21.56	30.81	15.23	18.97	22.53	16.49	14.15	-	
Average share price	5.66	4.76	4.18	4.79	5.87	6.94	10.29	13.87	20.39	23.57	24.79	15.91	19.05	19.77	15.66	-	
Lowest share price	4.86	4.24	3.50	4.05	4.75	5.66	7.45	10.45	15.71	20.01	12.77	12.60	17.18	15.53	12.81	-	
Highest share price	6.05	5.80	4.94	5.70	6.52	8.75	13.99	16.90	23.48	31.44	33.00	19.20	22.69	24.09	19.36	-	
Market capitalisation at the end of the period, EUR million	3,949	3,532	3,456	4,017	5,286	6,943	11,810	13,865	19,132	27,319	13,519	16,852	20,015	14,649	12,570	-	

EUR or as indicated	FAS	FAS	FAS	FAS	FAS	FAS											Change	
	1998	1999	2000	2001	2002	2003	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	12/11	
							2004	2005	2006	2007	2008	2009	2010	2011	2012		%	
Trading volumes ⁵⁾																		
Number of shares, 1 000 shares	17,643	112,398	93,900	134,499	251,216	270,278	478,832	900,347	830,764	787,380	628,155	580,899	493,375	524,858	494,765			
In relation to the weighted average number of shares, %	2.2	14.3	11.9	16.8	29.7	31.9	59.2	103.2	94.3	88.5	70.8	65.4	55.5	59.1	55.7			
Number of shares, 1 000 shares	784,783	784,783	845,609	845,609	845,776	849,813	867,084	875,294	887,394	886,683	887,638	888,367	888,367	888,367	888,367			
Number of shares excluding own shares, 1 000 shares	N/A	N/A	794,571	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Average number of shares, 1 000 shares	784,783	784,783	787,223	798,346	845,642	846,831	852,625	872,613	881,194	889,997	887,256	888,230	888,367	888,367	888,367			
Diluted adjusted average number of shares, 1 000 shares	-	-	787,223	798,308	851,482	858,732	861,772	887,653	886,929	891,395	887,839	888,230	888,367	888,367	888,367			

¹⁾ In addition to cash dividend Fortum distributed approximately 85% of Neste Oil Corporation shares as dividend in 2005.

²⁾ Board of Directors' proposal for the Annual General Meeting on 9 April 2013.

³⁾ 2005 payout ratio for continuing and discontinued operations are calculated based on the respective earnings per share from continuing and discontinued operations.

⁴⁾ Payout ratios for dividends in 2006 and 2007 are based on the total earnings per share.

⁵⁾ Trading volumes in the table represent volumes traded on NASDAQ OMX Helsinki. In addition to the NASDAQ OMX Helsinki Ltd., Fortum shares were traded on several alternative market places, for example at Boat, BATS Chi-X and Turquoise, and on the OTC market as well. The total volume of these all trades, including also all other trades than the primary market place, was approximately 1,097 million shares (2011: 1,058) and the turnover was approximately EUR 17,292 million (2011: 21,093) in 2012. In 2012, approximately 55% (2011: 50%) of Fortum's traded shares were traded on other markets than NASDAQ OMX Helsinki Ltd.

Years 1998-2003 have not been restated to comply with IFRS. They are presented under Finnish Accounting Standards (FAS).

[See Definitions of key figures.](#)

Operational key figures, volumes

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		2004	2005	2006	2007	2008	2009	2010	2011	2012
Fortum's total power and heat generation in EU and Norway										
Power generation	TWh	55.5	52.3	54.4	52.2	52.6	49.3	53.7	55.3	53.9
Heat generation	TWh	25.4	25.1	25.8	26.1	25.0	23.2	26.1	22.0	18.5
Fortum's total power and heat generation in Russia										
Power generation	TWh	-	-	-	-	11.6	16.0	16.1	17.4	19.2
Heat generation	TWh	-	-	-	-	15.3	25.6	26.0	25.4	24.8
Fortum's own power generation by source, total in the Nordic area										
Hydropower	TWh	19.1	21.2	19.8	20.0	22.9	22.1	22.0	21.0	25.2
Nuclear power	TWh	25.8	25.8	24.4	24.9	23.7	21.4	22.0	24.9	23.4
Thermal power	TWh	9.5	4.2	9.0	6.2	5.0	4.6	8.3	7.2	3.0
Total	TWh	54.4	51.2	53.2	51.1	51.6	48.1	52.3	53.1	51.6
Fortum's own power generation by source, total in the Nordic area										
Hydropower	%	35	42	37	39	44	46	42	40	49
Nuclear power	%	47	50	46	49	46	44	42	47	45
Thermal power	%	18	8	17	12	10	10	16	13	6
Total	%	100	100	100	100	100	100	100	100	100
Power generation capacity by division										
Power	MW	10,003	9,540	9,560	9,560	9,575	9,709	9,728	9,752	9,702
Heat	MW	1,278	1,373	1,360	1,360	1,213	1,446	1,600	1,670	1,569
Russia	MW	-	-	-	-	2,785	2,785	2,785	3,404	3,404
Total	MW	11,281	10,913	10,920	10,920	13,573	13,940	14,113	14,826	14,675
Heat production capacity by division										
Power	MW	250	250	250	250	250	250	250	250	250
Heat	MW	9,757	10,633	10,973	10,973	10,218	10,284	10,448	10,375	8,785
Russia	MW	-	-	-	-	13,796	13,796	13,796	14,107	13,396
Total	MW	10,007	10,883	11,223	11,223	24,264	24,330	24,494	24,732	22,431

		2004	2005	2006	2007	2008	2009	2010	2011	2012
Fortum's total power and heat sales in EU and Norway										
Electricity sales	EUR million	2,017	2,002	2,437	2,370	2,959	2,802	3,110	2,868	2,700
Heat sales	EUR million	809	867	1,014	1,096	1,157	1,095	1,309	1,278	1,201
Fortum's total power and heat sales in Russia										
Electricity sales	EUR million	-	-	-	-	332	390	505	590	713
Heat sales	EUR million	-	-	-	-	141	219	287	324	300
Fortum's total power sales by area										
Finland	TWh	31.1	26.0	29.6	29.0	28.7	26.1	30.7	24.6	21.6
Sweden	TWh	27.6	30.4	28.5	27.6	28.5	26.9	28.3	29.4	30.1
Russia	TWh	-	-	-	-	14.8	19.5	18.7	20.2	23.3
Other countries	TWh	3.6	3.3	3.5	3.1	3.0	3.2	3.2	3.6	3.8
Total	TWh	62.3	59.7	61.6	59.7	75.0	75.7	80.9	77.8	78.8
Fortum's total heat sales by area										
Finland	TWh	10.5	9.8	10.7	11.1	10.8	8.0	9.6	8.5	5.8
Russia	TWh	-	-	-	-	15.3	25.6	26.8	26.7	26.4
Sweden	TWh	9.6	9.5	9.3	9.2	9.1	9.8	10.9	8.5	8.5
Poland	TWh	0.4	1.1	3.6	3.5	3.6	3.7	4.0	4.3	4.3
Other countries	TWh	3.3	3.4	3.2	3.3	3.4	3.5	3.6	3.4	2.9
Total	TWh	23.8	23.8	26.8	27.1	42.2	50.6	54.9	51.4	47.9
Volume of distributed electricity in distribution networks										
Finland	TWh	6.2	6.3	7.7	9.2	9.3	9.4	10.0	9.5	9.8
Sweden	TWh	14.2	14.4	14.4	14.3	14.0	14.0	15.2	14.2	14.4
Norway	TWh	2.1	2.2	2.3	2.3	2.3	2.3	2.5	2.3	2.4
Estonia	TWh	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.0
Total	TWh	22.7	23.1	24.6	26.0	25.8	25.9	27.9	26.1	26.6

Operational key figures, segments

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As from 2005, Fortum applies International Financial Reporting Standards (IFRS) for the annual and interim reports. The 2005 annual report included one comparison year 2004, which was restated to IFRS. Segment numbers are presented based only on IFRS for comparison purposes, because in the transition to IFRS reportable segments were redefined and segment reporting as such was reassessed.

Following the acquisition of the Russian company, OAO Fortum, Fortum changed its segment reporting during 2008. Comparison numbers for 2004-2007 were restated in 2008.

In October 2009 Fortum restructured its organisation into four business divisions and four staff functions in order to increase the organisation's efficiency, performance accountability and simplicity. The business divisions are Power, Heat, Russia and Electricity Solutions and Distribution. The Electricity Solutions and Distribution (ESD) consists of business areas Distribution and Electricity Sales (former Markets). The reportable segments under IFRS have been renamed correspondingly.

The reorganisation did not lead to a change in Fortum's external financial reporting structure as the reportable segments have remained the same. However there have been some minor changes to the composition of the segments that have taken effect from the beginning of January 2010. The changes have also been reflected in the 2009 figures. The changes relate mainly to the transfer parts of the Power division's Power Solutions business area to Russia and Heat divisions.

[For further information see Note 5 Segment reporting.](#)

Sales by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012
Power	2,084	2,058	2,439	2,350	2,892	2,531	2,702	2,481	2,415
- of which internal	128	-97	-133	323	0	254	-281	-24	296
Heat	1,025	1,063	1,268	1,356	1,466	1,399	1,770	1,737	1,628
- of which internal	49	-12	-32	38	0	23	-8	8	18
Russia	-	-	-	-	489	632	804	920	1,030
- of which internal	-	-	-	-	-	-	-	-	-
Distribution	707	707	753	769	789	800	963	973	1,070
- of which internal	10	-8	8	9	10	13	18	15	37
Electricity Sales	1,387	1,365	1,912	1,683	1,922	1,449	1,798	900	722
- of which internal	92	-101	149	155	177	67	158	95	55
Other	90	91	78	81	83	71	51	108	137
- of which internal	93	-63	62	72	82	-5	169	115	-66
Eliminations	-1,458	-1,407	-1,959	-1,760	-2,005	-1,447	-1,792	-958	-843
Total	3,835	3,877	4,491	4,479	5,636	5,435	6,296	6,161	6,159

Comparable operating profit by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012
Power	730	854	985	1,095	1,528	1,454	1,298	1,201	1,144
Heat	207	253	253	290	250	231	275	278	266
Russia	-	-	-	-	-92	-20	8	74	68
Distribution	240	244	250	231	248	262	307	295	317
Electricity Sales	23	30	-4	-1	-33	22	11	27	38
Other	-52	-47	-47	-51	-56	-61	-66	-73	-94
Comparable operating profit	1,148	1,334	1,437	1,564	1,845	1,888	1,833	1,802	1,739
Non-recurring items	18	30	61	250	85	29	93	284	155
Other items affecting comparability	29	-17	-43	33	33	-135	-218	316	-33
Operating profit	1,195	1,347	1,455	1,847	1,963	1,782	1,708	2,402	1,861

Comparable EBITDA by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012
Power	834	966	1,093	1,198	1,625	1,547	1,398	1,310	1,258
Heat	331	376	397	453	419	393	462	471	476
Russia	-	-	-	-	-25	55	94	148	189
Distribution	373	389	397	393	413	426	485	482	526
Electricity Sales	39	45	15	10	-26	28	13	29	39
Other	-41	-35	-36	-39	-46	-51	-56	-66	-85
Total	1,536	1,741	1,866	2,015	2,360	2,398	2,396	2,374	2,403

Depreciation, amortisation and impairment charges by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012
Power	104	112	108	103	97	93	100	109	114
Heat	124	123	144	163	169	162	187	193	210
Russia	-	-	-	-	67	75	86	108	121
Distribution	133	145	147	162	165	164	178	187	209
Electricity Sales	16	15	19	11	7	6	2	2	1
Other	11	12	11	12	10	10	10	7	9
Total	388	407	429	451	515	510	563	606	664

Share of profit of associates and joint ventures by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012
Power	-21	-21	-9	-23	26	-35	-25	3	-12
Heat	15	11	23	24	12	30	31	19	20
Russia	-	-	-	-	19	20	8	30	27
Distribution	16	20	15	18	16	10	19	14	8
Electricity Sales	0	1	1	0	5	0	1	2	0
Other	2	44	39	222	48	-4	28	23	-22
Total	12	55	69	241	126	21	62	91	21

Capital expenditure by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012
Power	84	83	95	93	134	96	97	131	190
Heat	123	124	184	309	408	358	304	297	464
Russia	-	-	-	-	256	215	599	670	568
Distribution	106	115	183	236	296	188	213	289	324
Electricity Sales	10	10	8	3	3	1	0	5	1
Other	12	14	15	14	11	4	9	16	11
Total	335	346	485	655	1,108	862	1,222	1,408	1,558

Gross investments in shares by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012
Power	23	45	5	52	0	57	25	17	-
Heat	53	87	589	18	23	1	1	32	10
Russia	103	2	140	245	1,492	3	-	24	-
Distribution	0	-	130	1	0	5	0	-	-
Electricity Sales	0	-	6	0	0	-	-	-	-
Other	0	-	40	1	1	1	1	1	6
Total	179	134	910	317	1,516	67	27	74	16

Gross divestments in shares by segment, EUR million	2009	2010	2011	2012
Power	10	0	3	102
Heat	1	52	203	269
Russia	-	43	23	-
Distribution	1	46	323	37
Electricity Sales	-	-	16	2
Other	2	6	0	0
Total	14	147	568	410

Net assets by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012
Power	5,804	5,493	5,690	5,599	5,331	5,494	5,806	6,247	6,454
Heat	2,440	2,551	3,407	3,507	3,468	3,787	4,182	4,191	4,335
Russia	151	153	294	456	2,205	2,260	2,817	3,273	3,846
Distribution	3,091	3,021	3,412	3,239	3,032	3,299	3,683	3,589	3,911
Electricity Sales	194	228	176	247	188	125	210	11	59
Other	220	447	835	1,237	796	382	29	208	237
Total	11,900	11,893	13,814	14,285	15,020	15,347	16,727	17,519	18,842

Return on net assets by segment, %	2004	2005	2006	2007	2008	2009	2010	2011	2012
Power	12.6	14.3	17.5	19.2	29.6	24.5	19.5	24.6	18.4
Heat	9.8	11.6	9.6	9.3	8.9	7.9	8.4	9.9	8.5
Russia	-	-	-	66.3	3.7	0.0	2.4	3.5	3.0
Distribution	8.1	8.8	8.4	7.7	8.1	8.7	9.7	13.7	9.0
Electricity Sales	25.2	17.4	-1.6	6.9	-14.0	28.9	38.4	4.2	118.0

Comparable return on net assets by segment, %	2004	2005	2006	2007	2008	2009	2010	2011	2012
Power	12.0	14.9	17.4	18.9	28.0	26.4	22.3	19.9	18.2
Heat	9.3	11.0	9.2	9.2	7.3	7.6	7.7	7.4	6.8
Russia	-	-	-	0	-3.8	0.0	0.7	3.5	2.7
Distribution	8.3	8.6	8.3	7.6	8.2	8.6	9.3	8.6	8.7
Electricity Sales	17.1	16.4	-0.8	-0.6	-15.3	18.6	9.3	33.5	148.4

Average number of personnel	2004	2005	2006	2007	2008	2009	2010	2011	2012
Power	4,588	4,374	4,147	3,475	3,591	2,068	1,891	1,873	1,896
Heat	1,605	2,186	2,345	2,302	2,422	2,652	2,482	2,682	2,354
Russia	-	-	-	-	5,566	6,170	4,555	4,436	4,301
Distribution	995	1,008	983	1,060	1,222	1,166	1,098	902	873
Electricity Sales	682	745	825	936	766	629	538	510	515
Other	722	626	610	531	510	593	592	607	661
Total	8,592	8,939	8,910	8,304	14,077	13,278	11,156	11,010	10,600

Definitions of key figures

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EBITDA (Earnings before interest, taxes, depreciation and amortisation)	=	Operating profit + Depreciation, amortisation and impairment charges
Comparable EBITDA	=	EBITDA - items affecting comparability - Net release of CSA provision
Items affecting comparability	=	Non-recurring items + other items affecting comparability
Comparable operating profit	=	Operating profit - non-recurring items - other items affecting comparability
Non-recurring items	=	Mainly capital gains and losses
Other items affecting comparability	=	Includes effects from financial derivatives hedging future cash flows where hedge accounting is not applied according to IAS 39 and effects from where the asset in the balance sheet cannot exceed the related liabilities according to IFRIC interpretation 5.
Funds from operations (FFO)	=	Net cash from operating activities before change in working capital
Capital expenditure	=	Capitalised investments in property, plant and equipment and intangible assets including maintenance, productivity, growth and investments required by legislation including borrowing costs capitalised during the construction period. Maintenance investments expand the lifetime of an existing asset, maintain usage/availability and/or maintains reliability. Productivity improves productivity in an existing asset. Growth investments' purpose is to build new assets and/or to increase customer base within existing businesses. Legislation investments are done at a certain point of time due to legal requirements.

Gross investments in shares	=	Investments in subsidiary shares, shares in associated companies and other shares in available for sale financial assets. Investments in subsidiary shares are net of cash and grossed with interest-bearing liabilities in the acquired company.	
Return on shareholders' equity, %	=	$\frac{\text{Profit for the year}}{\text{Total equity average}} \times 100$	
Return on capital employed, %	=	$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Capital employed average}} \times 100$	
Return on capital employed continuing operations, %	=	$\frac{\text{Profit before taxes continuing operations + interest and other financial expenses continuing operations}}{\text{Capital employed continuing operations average}} \times 100$	
Return on net assets, %	=	$\frac{\text{Operating profit + Share of profit (loss) in associated companies and joint ventures}}{\text{Net assets average}} \times 100$	
Comparable return on net assets, %	=	$\frac{\text{Comparable operating profit + Share of profit (loss) in associated companies and joint ventures (adjusted for IAS 39 effects and major sales gains or losses)}}{\text{Comparable net assets average}} \times 100$	
Capital employed	=	Total assets - non-interest bearing liabilities - deferred tax liabilities - provisions	
Net assets	=	Non-interest bearing assets + interest-bearing assets related to the Nuclear Waste Fund - non-interest bearing liabilities - provisions (non-interest bearing assets and liabilities do not include finance related items, tax and deferred tax and assets and liabilities from fair valuations of derivatives where hedge accounting is applied)	
Comparable net assets	=	Net assets adjusted for non-interest-bearing assets and liabilities arising from financial derivatives hedging future cash flows where hedge accounting is not applied according to IAS 39	
Interest-bearing net debt	=	Interest-bearing liabilities - liquid funds	
Gearing, %	=	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}} \times 100$	
Equity-to-assets ratio, %	=	$\frac{\text{Total equity including non-controlling interests}}{\text{Total assets}} \times 100$	
Net debt / EBITDA	=	$\frac{\text{Interest-bearing net debt}}{\text{Operating profit + Depreciation, amortisation and impairment charges}}$	
Comparable net debt / EBITDA	=	$\frac{\text{Interest-bearing net debt}}{\text{Comparable EBITDA}}$	

Net debt / EBITDA continuing operations	=	$\frac{\text{Interest-bearing net debt}}{\text{Operating profit continuing operations} + \text{Depreciation, amortisation and impairment charges continuing operations}}$	
Comparable net debt / EBITDA continuing operations	=	$\frac{\text{Interest-bearing net debt}}{\text{Comparable EBITDA continuing operations}}$	
Interest coverage	=	$\frac{\text{Operating profit}}{\text{Net interest expenses}}$	
Interest coverage including capitalised borrowing costs	=	$\frac{\text{Operating profit}}{\text{Net interest expenses-capitalised borrowing costs}}$	
Average number of employees		Based on monthly average for the whole period	
Earnings per share (EPS)	=	$\frac{\text{Profit for the period} - \text{non-controlling interests}}{\text{Average number of shares during the period}}$	
Cash flow per share	=	$\frac{\text{Net cash from operating activities}}{\text{Average number of shares during the period}}$	
Equity per share	=	$\frac{\text{Shareholders' equity}}{\text{Number of shares at the end of the period}}$	
Payout ratio, %	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$	
Payout ratio continuing operations, %	=	$\frac{\text{Dividend per share continuing operations}}{\text{Earnings per share continuing operations}} \times 100$	
Dividend yield, %	=	$\frac{\text{Dividend per share}}{\text{Share price at the end of the period}} \times 100$	
Price/earnings (P/E) ratio	=	$\frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$	
Average share price	=	$\frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$	
Market capitalisation	=	Number of shares at the end of the period x share price at the end of the period	
Trading volumes	=	Number of shares traded during the period in relation to the weighted average number of shares during the period	

Financial Statements

Consolidated financial statements

Consolidated income statement

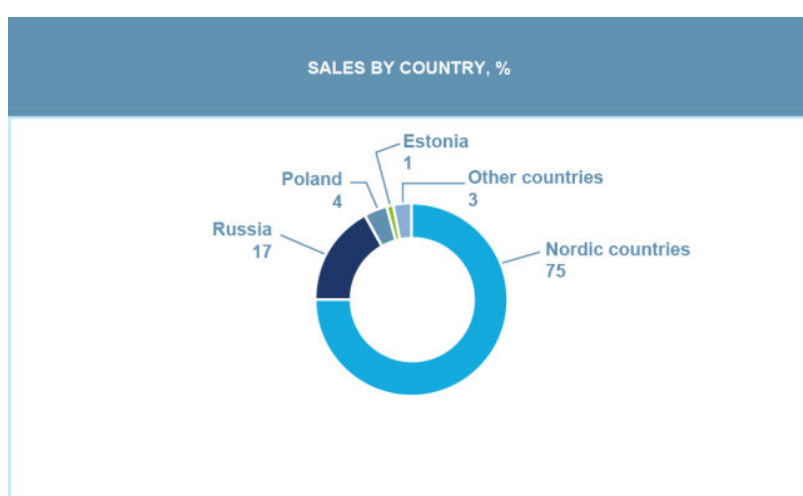
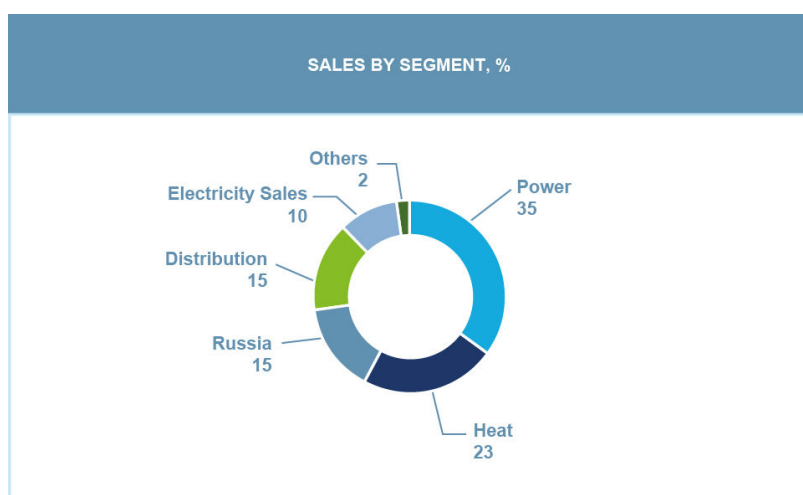
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EUR million	Note	2012	2011
Sales	5	6,159	6,161
Other income	11	109	91
Materials and services	12	-2,548	-2,566
Employee benefits	14	-556	-529
Depreciation, amortisation and impairment charges	5, 15	-664	-606
Other expenses	13	-761	-749
Comparable operating profit	5	1,739	1,802
Items affecting comparability	6, 7	122	600
Operating profit	5	1,861	2,402
Share of profit of associates and joint ventures	5, 24	21	91
Interest expense	16	-300	-284
Interest income	16	54	56
Fair value gains and losses on financial instruments	7, 16	-23	5
Other financial expenses - net	16	-38	-42
Finance costs - net	16	-307	-265
Profit before income tax		1,575	2,228
Income tax expense	17	-72	-366
Profit for the period		1,503	1,862
Attributable to:			
Owners of the parent		1,409	1,769
Non-controlling interests		94	93
		1,503	1,862
Earnings per share (in EUR per share)	18		
Basic		1.59	1.99
Diluted		1.59	1.99

1	EUR million	2012	2011
	Comparable operating profit	1,739	1,802
	Non-recurring items (sales gains)	155	284
	Changes in fair values of derivatives hedging future cash flow	-2	344
	Nuclear fund adjustment	-31	-28
	Operating profit	1,861	2,402

2 Lower share of profits mainly from Hafslund ASA and TGC-1.

3 In 2012 a positive one-time effect from change in Swedish tax rate from 26.3% to 22%.



Consolidated statement of comprehensive income

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Components of Consolidated statement of comprehensive income (OCI) are items of income and expense that are recognised in equity and not recognised in the Consolidated income statement. They include unrealised items, such as fair value gains and losses on financial instruments hedging future cash flows. These items will be realised in the Consolidated income statement when the underlying hedged item is recognised. OCI also includes gains and losses on fair valuation on available for sale financial assets, items in comprehensive income in associated companies and translation differences.

EUR million	2012	2011
Profit for the period	1,503	1,862
Other comprehensive income:		
Cash flow hedges		
Fair value gains / losses in the period	15	299 ¹
Transfers to income statement	-152	480
Transfers to inventory / fixed assets	-5	-23
Tax effect	33	-195
Net investment hedges		
Fair value changes in the period	0	2
Tax effect	0	0
Available for sale financial assets		
Fair value losses in the period	0	-1
Exchange differences on translating foreign operations	207	-75 ²
Share of other comprehensive income of associates	-23	2
Other changes	0	3
Other comprehensive income for the period, net of tax	75	492
Total comprehensive income for the year	1,578	2,354
Total comprehensive income attributable to:		
Owners of the parent	1,466	2,255
Non-controlling interests	112	99
	1,578	2,354

¹ Fair valuation of cash flow hedges mainly relates to hedging electricity price in future cash flows. When electricity price is higher than the hedging price, the impact on equity is negative and vice versa.

² Translation differences from translation of foreign entities, mainly in SEK, NOK and RUB.

Consolidated balance sheet

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EUR million	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Non-current assets			
Intangible assets	22	442	433
Property, plant and equipment	23	16,497	15,234
Participations in associates and joint ventures	24	2,019	2,019
Share in State Nuclear Waste Management Fund	34	678	653
Pension assets	36	54	60
Other non-current assets	25	71	69
Deferred tax assets	33	148	150
Derivative financial instruments	3	451	396
Long-term interest-bearing receivables	26	1,384	1,196
Total non-current assets		21,744	20,210
Current assets			
Inventories	27	428	528
Derivative financial instruments	3	223	326
Trade and other receivables	28	1,270	1,020
Cash and cash equivalents	29	963	731
Assets held for sale ¹⁾	9	-	183
Total current assets		2,884	2,788
Total assets		24,628	22,998

EUR million	Note	31 Dec 2012	31 Dec 2011
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	3,046	3,046
Share premium		73	73
Retained earnings		7,013	6,318
Other equity components		73	195
Total		10,205	9,632
Non-controlling interests	31	616	529
Total equity		10,821	10,161
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	32	7,699	6,845
Derivative financial instruments	3	182	192
Deferred tax liabilities	33	1,893	2,013
Nuclear provisions	34	678	653
Other provisions	35	207	205
Pension obligations	36	27	26
Other non-current liabilities	37	472	465
Total non-current liabilities		11,158	10,399
Current liabilities			
Interest-bearing liabilities	32	1,078	925
Derivative financial instruments	3	264	219
Trade and other payables	38	1,307	1,265
Liabilities related to assets held for sale	9	-	29
Total current liabilities		2,649	2,438
Total liabilities		13,807	12,837
Total equity and liabilities		24,628	22,998

¹⁾ Assets held for sale as of 31 December 2011 includes cash balances of EUR 16 million.

Consolidated statement of changes in total equity

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EUR million	Note	Share capital	Share premium	Retained earnings		Other equity components			Owners of the parent	Non-controlling interests	Total equity
				Retained earnings and other funds	Translation of foreign operations	Cash flow hedges	Other OCI items	OCI items associated companies			
Total equity 31 December 2011		3,046	73	6,670	-352	136	-2	61	9,632	529	10,161
Net profit for the period				1,409					1,409	94	1,503
Translation differences					179	4		3	186	21	207
Other comprehensive income						-106		-23	-129	-3	-132
Total comprehensive income for the period				1,409	179	-102	0	-20	1,466	112	1,578
Cash dividend	19			-888					-888		-888
Dividends to non-controlling interests									0	-26	-26
Changes due to business combinations	8								0	2	2
Other changes				-5					-5	-1	-6
Total equity 31 December 2012		3,046	73	7,186	-173	34	-2	41	10,205	616	10,821
Total equity 31 December 2010		3,046	73	5,726	-278	-419	0	62	8,210	532	8,742
Net profit for the period				1,769					1,769	93	1,862
Translation differences					-74				-74		-74
Other comprehensive income				6		555		-1	560	6	566
Total comprehensive income for the period				1,775	-74	555	0	-1	2,255	99	2,354
Cash dividend	19			-888					-888		-888
Dividends to non-controlling interests										-21	-21
Changes due to business combinations	8			54			-2		52	-81	-29
Other changes				3					3		3
Total equity 31 December 2011		3,046	73	6,670	-352	136	-2	61	9,632	529	10,161

Translation differences

Translation of financial information from subsidiaries in foreign currency is done using average rate for the income statement and end rate for the balance sheet. The exchange rate differences occurring from translation to EUR are booked to equity. Translation differences impacted equity attributable to owners of the parent company with EUR 186 million during 2012 (2011: -74) including net effect from RUB, SEK and NOK amounting to EUR 173 million in 2012 (2011: -63). For information regarding exchange rates used, [see Note 10 Exchange rates](#).

[For information about translation exposure see Note 3.7 Interest rate risk and currency risk.](#)

Cash flow hedges

The impact on equity attributable to owners of the parent from fair valuation of cash flow hedges, EUR -102 million (2011: 555), mainly relates to cash flow hedges hedging electricity price for future transactions. When electricity price is lower/higher than the hedging price, the impact on equity is positive/negative.

Non-controlling interests

The main changes in non-controlling interests in equity are dividend distributions to non-controlling interests EUR -26 million (2011: -21) and in 2011 also changes due to business combinations which relate to the non-controlling interests in OAO Fortum.

Consolidated cash flow statement

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EUR million	Note	2012	2011
Cash flow from operating activities			
Net profit for the period		1,503	1,862
Adjustments:			
Income tax expenses		72	366
Finance costs - net		307	265
Share of profit of associates and joint ventures		-21	-91
Depreciation, amortisation and impairment charges		664	606
Operating profit before depreciations (EBITDA)		2,525	3,008
Non-cash flow items and divesting activities		-181	-726 ¹
Interest received		59	59
Interest paid		-352	-298
Dividends received		45	108
Realised foreign exchange gains and losses and other financial items		-274	-245 ²
Taxes		-269	-394
Funds from operations		1,553	1,512
Change in working capital		-171	101
Total net cash from operating activities		1,382	1,613
Cash flow from investing activities			
Capital expenditures	5, 22, 23	-1,422	-1,285 ³
Acquisitions of shares		-14	-62
Proceeds from sales of fixed assets		13	15
Divestments of shares		239	492
Proceeds from interest-bearing receivables relating divestments		181	89
Shareholder loans to associated companies		-138	-109
Change in other interest-bearing receivables		13	35
Total net cash used in investing activities		-1,128	-825
Cash flow before financing activities			
		254	788
Cash flow from financing activities			
Proceeds from long-term liabilities		1,375	951
Payments of long-term liabilities		-669	-365
Change in short-term liabilities		168	-278
Dividends paid to the owners of the parent	19	-888	-888
Other financing items		-33	-10
Total net cash used in financing activities		-47	-590
Total net increase (+) / decrease (-) in cash and cash equivalents			
		207	198
Cash and cash equivalents at the beginning of the year			
		747	556
Foreign exchange differences in cash and cash equivalents		9	-7
Cash and cash equivalents at the end of the year *)	29	963	747

*) Liquid funds at the end of the year 2012 include cash balances of EUR 0 million (2011: 16) related to assets held for sale.

1 Non-cash flow items includes mainly adjustments for unrealised fair value gains and losses on derivatives not qualifying for hedge accounting EUR 3 million (2011: -358). Divesting activities includes reversals of sales gains included in EBITDA EUR -155 million (2011: -285). The actual proceeds for divestments EUR 252 million for 2012 (2011: 507), are shown under cash flow from investing activities.

2 Includes realised foreign exchange gains and losses amounting to EUR -268 million (2011: -239), which mainly relates to financing of Swedish subsidiaries in SEK and the fact, that the Group's main external financing currency is EUR. The foreign exchange gains and losses arise for rollover of foreign exchange contracts hedging the internal loans as major part of these forwards is entered into with short maturities i.e. less than twelve months.

3 Capital expenditures in cash flow do not include not yet paid investments. Capitalised borrowing costs are included in interest costs paid.

Change in interest-bearing net debt

EUR million	2012	2011
Net debt 1 January	7,023	6,826
Foreign exchange rate differences	89	7
EBITDA	2,525	3,008
Paid net financial costs, taxes and adjustments for non-cash and divestment items	-972	-1,496
Change in working capital	-171	101
Capital expenditures	-1,422	-1,285
Acquisitions	-14	-62
Divestments	252	507
Proceeds from interest-bearing receivables relating to divestments	181	89
Shareholder loans to associated companies	-138	-109
Change in other interest-bearing receivables	13	35
Dividends	-888	-888
Other financing activities	-45	-10
Net cash flow (- increase in net debt)	-679	-110
Fair value change of bonds and amortised cost valuation	23	80
Net debt 31 December	7,814	7,023

Additional cash flow information

[Download as Excel](#)

Change in working capital

EUR million	2012	2011
Change in interest-free receivables, decrease (+) / increase (-)	-226	266
Change in inventories, decrease (+) / increase (-)	109	-143
Change in interest-free liabilities, decrease (-) / increase (+)	-54	-22
Total	-171	101

Negative effect from change in working capital during 2012, EUR -171 million (2011: 101) is mainly due to increase in trade receivables.

Capital expenditure

EUR million	Note	2012	2011
Capital expenditure	5,22, 23	1,558	1,408
Change in not yet paid investments		-56	-70
Capitalised borrowing costs		-80	-53
Capital expenditure in cash flow		1,422	1,285

Capital expenditure in intangible assets and property, plant and equipment in the balance sheet was EUR 1,558 million (2011: 1,408). Capital expenditure in cash flow EUR 1,422 million (2011: 1,285) is presented without not yet paid investments i.e. change in trade payables related to investments EUR 56 million (2011: 70) and capitalised borrowing costs EUR 80 million (2011: 53), which are presented in interest paid.

See also information about the investments by segments and countries in Note 5 Segment reporting and the investment projects by segment in Note 23.2 Capital expenditure.

Acquisition of shares in cash flow

EUR million	Note	2012	2011
Acquisition of subsidiaries, net of cash acquired	8	3	44
Acquisition of associates ¹⁾	24	10	16
Acquisition of available for sale financial assets ²⁾		1	2
Total		14	62

¹⁾ Acquisition of associates includes share issues and other capital contributions.

²⁾ Available for sale financial assets are presented under Other non-current assets in the balance sheet.

Acquisition of shares in subsidiaries, net of cash acquired

EUR million	Note	2012	2011
Gross investments of shares	8	5	47
Changes in non-paid acquisitions		-	-2
Interest bearing debt in acquired subsidiaries		-2	-1
Acquisitions of subsidiaries, net of cash acquired		3	44

Acquisition of shares in associates

EUR million	2012	2011
Gross investments of shares	10	25
Changes in non-paid acquisitions	-	-9
Acquisitions of associates	10	16

There were no material acquisitions during 2012.

Divestments of shares in cash flow

EUR million	Note	2012	2011
Proceeds from sales of subsidiaries, net of cash disposed	8	223	117
Proceeds from sales of associates	24	13	375
Proceeds from sales of other non-current assets		3	0
Total		239	492

Divestments of shares in subsidiaries

EUR million	2012	2011
Gross divestments of shares ³⁾	406	206
Payments not received for proceeds	-2	0
Interest-bearing debt in sold subsidiaries	-181	-89
Proceeds from sales of subsidiaries, net of cash disposed	223	117

³⁾ Cash and cash equivalents in sold subsidiaries EUR 14 million (2011: 14) are netted from gross divestments.

Gross divestment of shares totalled EUR 410 million in 2012 (2011: 568) including interest-bearing debt in sold subsidiaries of EUR 181 million (2011: 89). Proceeds from divestments of shares totalled EUR 239 million in 2012 (2011: 492) including EUR 79 million related to divestment of certain heat businesses in Finland and Estonia (Fortum Energjaratkaisut Oy and Fortum Termest AS), EUR 72 million divestment of Fortum Heat Naantali Oy in Finland, EUR 34 million related to divestment of small hydropower plants in Finland and EUR 25 million related to divestment of small hydropower plants in Sweden.

Notes to the consolidated financial statements

1 Summary of significant accounting policies

[Download as Excel](#)

1.1 Principal activities

Fortum Corporation (the Company) is a Finnish public limited liability company with its domicile in Espoo, Finland. The Company is listed on NASDAQ OMX Helsinki.

Fortum Corporation and its subsidiaries (together the Fortum Group) is a leading energy company focusing on the Nordic countries, Russia and the Baltic Rim area. Fortum's activities cover generation, distribution and sale of electricity and heat, operation and maintenance of power plants as well as energy-related services.

These financial statements were approved by the Board of Directors on 30 January 2013.

1.2 Basis of preparation

The consolidated financial statements of the Fortum Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC Interpretations as adopted by the European Union. The financial statements also comply with Finnish accounting principles and corporate legislation.

The consolidated financial statements have been prepared under the historical cost convention, except for available for sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss and items hedged at fair value.

1.2.1 Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting principles. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in

[Note 2 Critical accounting estimates and judgements.](#)

1.2.2 New standards, amendments and interpretations to existing standards

Fortum has adopted the following amended standard on 1 January 2012:

- IAS 12 *Income taxes* (Amendment) (effective for annual periods beginning on or after 1 January 2012). The amendment provides a practical approach for measuring deferred tax assets and liabilities when investment property is fair valued under IAS 40 Investment property. The amendment did not have an impact on Fortum, since Fortum currently does not have investment properties.

Fortum will apply the following new or amended standards starting from 1 January 2013:

• IAS 19 *Employee benefits* (Amendment) changes the accounting for defined benefit plans by eliminating the corridor approach. Accordingly actuarial gains and losses are immediately recognised in the period they occur in equity. The amendment is not expected to have a material effect on Fortum's financial results or financial position, however it will have an impact to equity through other comprehensive income. The impact of the transition to the main items of the consolidated balance sheet as of 1 January 2012 is presented below. The restated comparative figures for the year 2012, will be presented in the first quarter interim report for 2013.

EUR million	Impact as of 1 Jan 2012
ASSETS	
Pension assets	-60
Deferred tax assets	20
Impact on assets	-40
EQUITY AND LIABILITIES	
Equity (Other equity components)	-120
Deferred tax liabilities	-15
Pension obligations	95
Liabilities	80
Impact on equity and liabilities	-40

includes roundings

- IFRS 13 *Fair value measurement* (effective for annual periods beginning on or after 1 January 2013). The standard establishes a single framework for measuring fair value where that is required by other standards. This standard is not expected to have a material effect on Fortum's financial statements.
- Amendments to IFRS 7 and IAS 32 *Disclosures, Offsetting Financial Assets and Liabilities and the related disclosures* (effective for annual periods beginning on or after 1 January 2013). As the change in accounting policy relates to disclosures, adoption of the standard is not going to have impact on Fortum's reported result or financial position.
- IAS 1 *Presentation of Financial statements* (Amendment) (effective for annual periods beginning on or after 1 July 2012). The amendment relates to presentation of Comprehensive Income. The adoption of the standard is not going to have impact on Fortum's reported result or financial position.
- *Annual improvements to IFRSs* issued in May 2012 (effective for annual periods beginning on or after 1 January 2013). The improvements primarily remove inconsistencies and clarify wording of standards. There are separate transitional provisions for each standard. Amendments are not expected to have an impact on Fortum's financial statements. The amendments are still subject to endorsement by EU.

Fortum will apply the following new or amended standards and interpretations starting from 1 January 2014 or later:

- IFRS 10 *Consolidated financial statements* (mandatory application in EU for annual periods beginning on or after 1 January 2014). The standard builds on existing principles by identifying the concept of control as the determining factor whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. Fortum is currently assessing the impact.
- IFRS 11 *Joint arrangements* (mandatory application in EU for annual periods beginning on or after 1 January 2014). The standard replaces IAS 31 *Interests in joint ventures*. Joint control under IFRS 11 is defined as the contractual sharing of control of an arrangement, which exists only when the decisions about the relevant activities require unanimous consent of the parties sharing control. Fortum is currently assessing the impact.
- IFRS 12 *Disclosures of interests in other entities* (mandatory application in EU for annual periods beginning on or after 1 January 2014). The standard includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Fortum is currently assessing the impact.
- IFRS 9 *Financial instruments* (effective for annual periods beginning on or after 1 January 2015). The standard has new requirements for the classification and measurement of financial assets and liabilities. New requirements are expected to be added to the standard and it will eventually replace IAS 39 and IFRS 7. Fortum will apply the new standard in due course. The Standard is still subject to endorsement by EU.

1.2.3 Classification of current and non-current assets and liabilities

An asset or a liability is classified as current when it is expected to be realised in the normal operating cycle or within twelve months after the balance sheet date or it is classified as financial assets or liabilities held at fair value through profit or loss. Liquid funds are classified as current assets.

All other assets and liabilities are classified as non-current assets and liabilities.

1.2.4 Income statement presentation

In the Consolidated income statement Comparable operating profit is presented to better reflect the Group's business performance when comparing results for the current period with previous periods.

Items affecting comparability are disclosed as a separate line item. The following items are included in "Items affecting comparability":

- non-recurring items, which mainly consist of capital gains and losses;
- effects from fair valuations of derivatives hedging future cash flows which do not obtain hedge accounting status according to IAS 39. The major part of Fortum's cash flow hedges obtain hedge accounting where fair value changes are recorded in equity;
- effects from accounting of Fortum's part of the State Nuclear Waste Management Fund where the assets can not exceed the related liabilities according to IFRIC5.

Comparable operating profit is used for financial target setting, follow up and allocation of resources in the group's performance management.

1.3 Consolidation

1.3.1 Subsidiaries

The consolidated financial statements include the parent company Fortum Corporation and all those companies in which Fortum Corporation has the power to govern the financial and operating policies and generally holds, directly or indirectly, more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

[The Fortum Group subsidiaries are disclosed in Note 46 Subsidiaries by segment on 31 December 2012.](#)

The Fortum Group was formed in 1998 by using the pooling-of-interests method for consolidating Fortum Power and Heat Oy and Fortum Oil and Gas Oy (the latter demerged to Fortum Oil Oy and Fortum Heat and Gas Oy 1 May 2004). In 2005 Fortum Oil Oy was separated from Fortum by distributing 85% of its shares to Fortum's shareholders and by selling the remaining 15%. This means that the acquisition cost of Fortum Power and Heat Oy and Fortum Heat and Gas Oy has been eliminated against the share capital of the companies. The difference has been entered as a decrease in shareholders' equity.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the aggregate of fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, subsidiaries' accounting policies have been changed to ensure consistency with the policies the Group has adopted.

1.3.2 Associates and joint ventures

Associated companies are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities over which the Group has contractually agreed to share the power to govern the financial and operating policies of that entity with another venturer or venturers. The Group's interests in associated companies and jointly controlled entities are accounted for using the equity method of accounting. Assets acquired and liabilities assumed in the investment in associates or joint ventures are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the associate or joint venture acquired, the difference is recognised directly in the income statement.

The Group's share of its associates or joint ventures post-acquisition profits or losses after tax and the expenses related to the adjustments to the fair values of the assets and liabilities assumed are recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. The Group's share of post-acquisition adjustments to associates or joint ventures equity that have not been recognised in the associates or joint ventures income statement, is recognised directly in Group's shareholder's equity and against the carrying amount of the investment.

When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates or joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Fortum owns shareholdings in associated electricity production companies (mainly nuclear and hydro), from which the owners purchase electricity at production cost, including interest costs and production taxes. The share of profit of these companies is mainly IFRS adjustments and depreciations on fair value adjustments from historical acquisitions since the companies are not profit making under local accounting principles.

For further information regarding the shareholdings in these electricity production companies, see :

[Note 24 Participations in associated companies and joint ventures.](#)

[Note 44 Related party transactions.](#)

If more recent information is not available, the share of the profit of certain associated or joint venture companies is included in the consolidated accounts based on the latest available information.

Fortum owns shareholdings in listed associated companies such as Hafslund ASA. The share of profit of these companies is accounted for based on previous quarter information.

Until December 2011 Hafslund ASA owned shares in a listed company Renewable Energy Corporation (REC). Until Q3 2011 Fortum accounted for the fair value changes in REC based on the share price in Oslo stock exchange and the number of shares owned by Hafslund at each closing date since REC is listed in the Oslo stock exchange. When Hafslund publicly announced a divestment of shares in REC, Fortum accounted for any gains or losses of this transaction as soon as information was available. Since Q3 2011 Fortum changed accounting principle for its associated company Hafslund. The share of profits from Hafslund including REC is included in Fortum Group figures based on the previous quarter information since updated interim information is not normally available. If Hafslund divests or impairs its shareholding in REC, Fortum will account for any occurring sales gains or losses and impairment charges based on Hafslund's previous quarter information.

Regarding Fortum's share of profits in TGC-1, the share of profit is accounted for based on previous quarter information. If TGC-1 reverses impairment losses that have been booked prior to Fortum's ownership in TGC-1, Fortum eliminates such reversals as Fortum assesses the need for impairment is separately.

Regarding accounting for Fortum's shareholding in Hafslund ASA and TGC-1, see Note 24 Participations in associated companies and joint ventures.

1.3.3 Non-controlling interests

Non-controlling interests in subsidiaries are identified separately from the equity of the owners of the parent company. The non-controlling interests are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

1.4 Segment reporting

Fortum discloses segment information in a manner consistent with internal reporting to Fortum's Board of Directors and to Fortum Management Team led by the President and CEO. Fortum mainly has segments based on type of business operations, combined with one segment based on geographical area.

The Group's businesses are divided into the following reporting segments: Power, Heat, Russia, Distribution and Electricity Sales.

For further information about the reporting segments, see Note 5 Segment reporting.

1.5 Discontinued operations and assets held for sale

Discontinued operations represent a separate major line of business that either has been disposed of or is classified as held for sale. Assets and liabilities attributable to the discontinued operations must be clearly distinguishable from the other consolidated entities in terms of their operations and cash flows. In addition, the reporting entity must not have any significant continuing involvement in the operations classified as a discontinued operation.

Non-current assets (or disposal groups) classified as held for sale are valued at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These classification criteria do not include non-current assets to be abandoned or those that have been temporarily taken out of use. An impairment loss (or subsequent gain) reduces (or increases) the carrying amount of the non-current assets or disposal groups. The assets are not depreciated or amortised. Interest or other expenses related to these assets are recognised as before the classification as held for sale.

Neste Oil was included in Fortum Group up until 31 March 2005, when the Annual General Meeting took the final decision to separate the oil operations by distributing approximately 85% of Neste Oil Corporation shares as dividend. The remaining approximately 15% of shares were sold to investors in April 2005.

Oil operations have been presented as discontinued operations for 2004 and 2005, see Financial key figures.

1.6 Foreign currency transactions and translation

1.6.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

1.6.2 Transactions and balances

Transactions denominated in foreign currencies are translated using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the closing date are translated using the exchange rate quoted on the closing date. Exchange rate differences have been entered in the income statement. Net conversion differences relating to financing are entered under financial income or expenses, except when deferred in equity as qualifying cash flow hedges. Translation differences on available for sale financial assets are included in Other equity components section of the equity.

1.6.3 Group companies

The income statements of subsidiaries, whose measurement and reporting currencies are not euros, are translated into the Group reporting currency using the average exchange rates for the year based on the month-end exchange rates, whereas the balance sheets of such subsidiaries are translated using the exchange rates on the balance sheet date. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group deems all cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS, i.e. 1 January 2004.

[Exchange rates used to translate reporting currencies into euros are disclosed in Note 10 Exchange rates.](#)

1.6.4 Associates and joint ventures

The Group's interests in associated companies and jointly controlled entities are accounted for by the equity method. Associates and joint ventures, whose measurement and reporting currencies are not euro, are translated into the Group reporting currency using the same principles as for subsidiaries, see 1.6.3 Group companies.

1.7 Revenue recognition

Revenue comprises the fair value consideration received or receivable at the time of delivery of products and/or upon fulfilment of services. Revenue is shown, net of rebates, discounts, value-added tax and selective taxes such as electricity tax. Revenue is recognised as follows:

1.7.1 Sale of electricity, heat, cooling and distribution of electricity

Sale of electricity, heat, cooling and distribution of electricity is recognised at the time of delivery. The sale to industrial and commercial customers and to end-customers is recognised based on the value of the volume supplied, including an estimated value of the volume supplied to customers between the date of their last meter reading and year-end.

Physical energy sales and purchase contracts are accounted for on accrual basis as they are contracted with the Group's expected purchase, sale or usage requirements.

Electricity tax is levied on electricity delivered to retail customers by domestic utilities in Sweden. The tax is calculated on the basis of a fixed tax rate per kWh. The rate varies between different classes of customers. Sale of electricity in the income statement is shown net of electricity tax.

Physical electricity sales and purchases are done through Nord Pool Spot. The sales and purchases are netted on Group level on an hourly basis and posted either as revenue or cost, according to whether Fortum is a net seller or a net buyer during any particular hour.

The prices charged of customers for the sale of distribution of electricity are regulated. The regulatory mechanism differs from country to country. Any over or under income decided by the regulatory body is regarded as regulatory assets or liabilities that do not qualify for balance sheet recognition due to the fact that no contract defining the regulatory aspect has been entered into with a specific customer and thus the receivable is contingent on future delivery. The over or under income is normally credited or charged over a number of years in the future to the customer using the electricity connection at that time. No retroactive credit or charge can be made.

1.7.2 Connection fees

Fees paid by the customer when connected to the electricity, gas, heat or cooling network are recognised as income to the extent that the fee does not cover future commitments. If the connection fee is linked to the contractual agreement with the customer, the income is recognised over the period of the agreement with the customer.

Connection fees paid by customers when connected to the electricity network before 2003 are refundable in Finland if the customer would ever disconnect the initial connection. Also fees paid by the customer when connected to district heating network in Finland are refundable. These connection fees have not been recognised in the income statement and are included in other liabilities in the balance sheet.

1.7.3 Contract revenue

Contract revenue is recognised under the percentage of completion method to determine the appropriate amount to recognise as revenue and expenses in a given period. The stage of completion is measured by reference to the contract costs incurred up to the closing date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'. The Group presents as a liability the amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

1.7.4 Other income

Revenue from activities outside normal operations is reported in other income. This includes recurring items such as rental income.

1.8 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are deducted from the acquisition cost of the asset and are recognised as income by reducing the depreciation charge of the asset they relate to.

1.9 Emission allowances

The Group accounts for emission allowances based on currently valid IFRS standards where purchased emission allowances are accounted for as intangible assets at cost, whereas emission allowances received free of charge are accounted for at nominal value. A provision is recognised to cover the obligation to return emission allowances. To the extent that Group already holds allowances to meet the obligation the provision is measured at the carrying amount of those allowances. Any shortfall of allowances held over the obligation is valued at the current market value of allowances. The cost of the provision is recognised in the income statement within materials and services. Gains from sales of emission rights are reported in other income.

1.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.11 Research and development costs

Research and development costs are recognised as expense as incurred and included in other expenses in the income statement. If development costs will generate future income, they are capitalised as intangible assets and depreciated over the period of the income streams.

1.12 Property, plant and equipment

Property, plant and equipment comprise mainly power and heat producing buildings and machinery, transmission lines, tunnels, waterfall rights and district heating network. Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses as applicable in the consolidated balance sheet. Historical cost includes expenditure that is directly attributable to the acquisition of an item and borrowing costs capitalised in accordance with the Group's accounting policy. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Acquired assets on the acquisition of a new subsidiary are stated at their fair values at the date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured

reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Additionally the cost of an item of property, plant and equipment includes the estimated cost of its dismantlement, removal or restoration.

See also section 1.24.2 *Asset retirement obligations*

Land, water areas, waterfall rights and tunnels are not depreciated since they have indefinite useful lives. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Hydro power plant buildings, structures and machinery	40–50 years
Thermal power plant buildings, structures and machinery	25 years
Nuclear power plant buildings, structures and machinery	25 years
CHP power plant buildings, structures and machinery	15–25 years
Substation buildings, structures and machinery	30–40 years
Distribution network	15–40 years
District heating network	30–40 years
Other buildings and structures	20–40 years
Other tangible assets	20–40 years
Other machinery and equipment	3–20 years
Other non-current investments	5–10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each closing date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

1.12.1 Jointly controlled assets

Fortum owns, through its subsidiary Fortum Power and Heat Oy, the coal condensing power plant Meri-Pori in Finland. Teollisuuden Voima Oyj (TVO) has the contractual right to participate in the plant with 45.45%. The capacity and production can be divided between Fortum and TVO. Each owner can decide when and how much capacity to produce. Both Fortum and TVO purchase fuel and emission rights independently. Since both Fortum and TVO have control, including related risks and rewards, of their share of the power plant, Meri-Pori is accounted for as a jointly controlled asset.

Fortum is accounting for the part of the investment that corresponds to the investment Fortum has made, i.e. 54.55%.

Fortum is also entitled to part of the electricity TVO produces in Meri-Pori through the shareholding of 26.58% of TVO C-series shares.

[For further information regarding Fortum's shareholding in TVO, see Note 24 Participations in associated companies and joint ventures.](#)

1.13 Intangible assets

Intangible assets, except goodwill, are stated at the historical cost less accumulated amortisation and impairment losses if applicable and amortised on a straight-line method over their expected useful lives.

1.13.1 Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to the acquirer when bringing the software into use. These costs are amortised over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives.

1.13.2 Trademarks and licenses

Trademarks and licences are shown at historical cost less accumulated amortisation and impairment losses, as applicable. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (15-20 years).

1.13.3 Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value on acquisition date. The contractual customer relations have a finite useful life and are carried at costs less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected duration of the customer relationship.

1.13.4 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

1.14 Impairment of non-financial assets

The individual assets' carrying values are reviewed at each closing date to determine whether there is any indication of impairment. An asset's carrying amount is written down immediately to its recoverable amount if it is greater than the estimated recoverable amount.

When considering the need for impairment the Group assesses if events or changes in circumstances indicate that the carrying amount may not be recoverable. This assessment is documented once a year in connection with the Business Plan process. Indications for impairment are analysed separately by each division as they are different for each business and include risks such as changes in electricity and fuel prices, regulatory/political changes relating to energy taxes and price regulations etc. Impairment testing needs to be performed if any of the impairment indications exists. Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment.

An impairment loss is recognised in the income statement for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made

to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Value in use is determined by discounting the future cash flows expected to be derived from an asset or cash-generating unit. Cash flow projections are based on the most recent Business Plan that has been approved by management. Cash flows arising from future investments such as new plants are excluded unless projects have been started. The cash outflow needed to complete the assets is included.

The period covered by cash flows is related to the useful lives of the assets reviewed for impairment. Normally projections should cover a maximum period of five years but as the useful lives of power plants and other major assets are over 20 years, the projection period is longer. Cash flow projections beyond the period covered by the most recent business plan are estimated by extrapolating the projections using a steady or declining growth rate for subsequent years.

Non-financial assets other than goodwill that suffered an impairment charge are reviewed for possible reversal of the impairment at each reporting date.

1.15 Financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

1.15.1 Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the closing date.

1.15.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor. They are included in non-current assets, except for maturities under 12 months after the closing date. These are classified as current assets.

1.15.3 Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless there is an intention to dispose of the investment within 12 months of the closing date.

Purchases and sales of investments are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each closing date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

1.16 Trade receivables

Trade receivables are recorded at their fair value. A provision for impairment of trade receivables is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered as indicators that the receivable is impaired. The amount of the impairment charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Trade receivables include revenue based on an estimate of electricity, heat, cooling and distribution of electricity already delivered but not yet measured and not yet invoiced.

1.17 Liquid funds

Liquid funds include cash and cash equivalents such as cash in hand, deposits held at call with banks and other short-term, highly liquid investments with maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

1.18 Treasury shares

Where any group company purchases the Company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until cancelled or reissued. When such shares are subsequently sold or reissued, any consideration received is included in equity.

1.19 Borrowings

Borrowings are recognised initially at fair value less transaction costs incurred. In subsequent periods, they are stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised as interest cost over the period of the borrowing using the effective interest method. Borrowings or portion of borrowings being hedged with a fair value hedge is recognised at fair value.

1.20 Leases

1.20.1 Finance leases

Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments determined at the inception of the lease. Each lease payment is allocated between the reduction of the outstanding liability and the finance charges. The corresponding rental obligations, net of finance charges, are included in the long-term or short-term interest-bearing liabilities according to their maturities. The interest element of the finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Sale and leaseback transactions resulting in a finance lease agreement are recognised according to the principles described above. The difference between the selling price and the carrying amount of the asset sold is deferred and amortised over the lease period.

The property, plant and equipment leased out under a finance lease are presented as interest-bearing receivables at an amount equal to the net investment in the lease. Each lease payment receivable is allocated between the repayment of the principal and the finance income. Finance income is recognised in the income statement over the lease term so as to produce a constant periodic rate of return on the remaining balance of the receivable for each period.

1.20.2 Operating leases

Leases of property, plant and equipment, where the Group does not have substantially all of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the income statement as costs on a straight-line basis over the lease term.

Payments received under operating leases where the Group leases out fixed assets are recognised as other income in the income statement.

1.21 Inventories

Inventories in Fortum mainly consist of fuels consumed in the production process or in the rendering of services. Inventories are stated at the lower of cost and net realisable value being the estimated selling price for the end product, less applicable variable selling expenses and other production costs. Cost is determined using the first-in, first-out (FIFO) method.

Inventories which are acquired primarily for the purpose of trading are stated at fair value less selling expenses.

1.22 Income taxes

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have

been enacted or substantially enacted by the closing date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are set off against deferred tax liabilities if they relate to income taxes levied by the same taxation authority.

Deferred tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

1.23 Employee benefits

1.23.1 Pension obligations

The Group companies have various pension schemes in accordance with the local conditions and practises in the countries in which they operate. The schemes are generally funded through payments to insurance companies or Group's pension fund as determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

The Group's contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

For defined benefit plans, pension costs are assessed using the projected unit credit method. The cost of providing pensions is charged to the income statement as to spread the service cost over the service lives of employees. The defined benefit obligation is calculated annually on the balance sheet date and is measured as the present value of the estimated future cash flows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability. In countries where there is no deep market in such bonds, market yields on government bonds are used instead. The plan assets for pensions are valued at market value. The liability recognised in the balance sheet is the defined benefit obligation at the closing date less the fair value of plan assets with adjustments for unrecognized actuarial gains or losses or past service costs. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Actuarial gains and losses exceeding 10% of total of the present value of defined benefit obligations or the fair value of plan assets (whichever is higher) are recorded in the income statement over the employees' expected average remaining working lives. These limits are calculated and applied separately for each defined benefit plan. Past-service costs are recognised immediately in income statement or amortised on a straight-line basis over the vesting period.

1.23.2 Share-based compensation

The Group operates long-term incentive (LTI) arrangements that are divided into five/six-year share plans. The potential reward is based on the performance of the Group and its divisions. The reward is recognised as an expense during the vesting period with a corresponding increase in the liabilities and for the transactions settled in shares in the equity.

In the new LTI system (first plan started in 2008) the value of the share participation is defined after the three-year earning period when the participants are paid the earned rights in the form of shares (net of taxes and other employment-related expenses). Shares are placed in lock-up for two/three years during which the shares may not be sold, transferred, pledged or disposed in any other way.

The share plans under the new LTI system are accounted for partly cash- and partly equity-settled arrangements. The portion of the earned reward for which the participants will receive shares is accounted for as an equity settled transaction, and the portion of the earned reward to be settled in cash to cover tax and other charges payable by the participants, is accounted for as cash settled transaction. For participants receiving cash only, the arrangement is accounted for as cash-settled arrangement.

Under the previous LTI system (last plan commenced in 2007) the fair value of the potential reward of outstanding share rights is measured based on the market value of the Fortum share initially when the share participation is defined and at each closing date after that. Estimated departures are taken into account when determining the fair value of the potential reward. The changes of the fair value of the potential reward are accrued over the remaining vesting period. A provision is recorded on the social charges related to the arrangement payable by the employer.

In order to hedge the Group against the changes in the fair values of the potential rewards under the previous LTI system the Group has entered into share forward transactions which are settled in cash. The forward transactions do not qualify for hedge accounting and therefore the periodic changes to their fair values are recorded in the income statement.

1.24 Provisions

Provisions for environmental restorations, asset retirement obligations, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events to a third party, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Regarding provisions for decommissioning and provision for disposal of spent fuel for nuclear production, see 1.25.

1.24.1 Environmental provisions

Environmental provisions are recognised, based on current interpretation of environmental laws and regulations, when it is probable that a present obligation has arisen and the amount of such liability can be reliably estimated. Environmental expenditures resulting from the remediation of an existing condition caused by past operations, and which do contribute to current or future revenues, are expensed as incurred.

1.24.2 Asset retirement obligations

Asset retirement obligation is recognised either when there is a contractual obligation towards a third party or a legal obligation and the obligation amount can be estimated reliably. Obligating event is e.g. when a plant is built on a leased land with an obligation to dismantle and remove the asset in the future or when a legal obligation towards Fortum changes. The asset retirement obligation is recognised as part of the cost of an item of property and plant when the asset is put in service or when contamination occurs. The costs will be depreciated over the remainder of the asset's useful life.

1.24.3 Restructuring provisions

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity. Restructuring provisions comprise mainly of employee termination payments and lease termination costs.

1.25 Assets and liabilities related to decommissioning of nuclear power plants and the disposal of spent fuel

Fortum owns Loviisa nuclear power plant in Finland. Fortum's nuclear related provisions and the related part of the State Nuclear Waste Management Fund are both presented separately in the balance sheet. Fortum's share in the State Nuclear Waste Management Fund is accounted for according to IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds which states that the fund assets are measured at the lower of fair value or the value of the related liabilities since Fortum does not have control or joint control over the State Nuclear Waste Management Fund. The related provisions are the provision for decommissioning and the provision for disposal of spent fuel.

The fair values of the provisions are calculated by discounting the separate future cash flows, which are based on estimated future costs and actions already taken. The initial net present value of the provision for decommissioning (at the time of commissioning the nuclear power plant) has been included in the investment cost and is depreciated over the estimated operating time of the nuclear power plant. Changes in the technical plans etc., which have an impact on the future cash flow of the estimated costs for decommissioning, are accounted for by discounting the additional costs to the current point in time. The increased asset retirement cost due to the increased provision is added to property, plant and equipment and depreciated over the remaining estimated operating time of the nuclear power plant.

The provision for spent fuel covers the future disposal costs for fuel used until the end of the accounting period. Costs for disposal of spent fuel are expensed during the operating time based on fuel usage. The impact of the possible changes in the estimated future cash flow for related costs is recognised immediately in the income statement based on the accumulated amount of fuel used until the end of the accounting period. The related interest costs due to unwinding of the provision, for the period during which the spent fuel provision has been accumulated and present point in time, are also recognised immediately in the income statement.

The timing factor is taken into account by recognising the interest expense related to discounting the nuclear provisions. The interest on the State Nuclear Waste Management Fund assets is presented as financial income.

Fortum's actual share of the State Nuclear Waste Management Fund, related to Loviisa nuclear power plant, is higher than the carrying value of the Fund in the balance sheet. The legal nuclear liability should, according to the Finnish Nuclear Energy Act, be fully covered by payments and guarantees to the State Nuclear Waste Management Fund. The legal liability is not discounted while the provisions are, and since the future cash flow is spread over 100 years, the difference between the legal liability and the provisions are material.

The annual fee to the Fund is based on changes in the legal liability, the interest income generated in the State Nuclear Waste Management Fund and incurred costs of taken actions.

Fortum also has minority shareholdings in the associated nuclear power production companies Teollisuuden Voima Oyj (TVO) in Finland and directly and indirectly in OKG AB and Forsmarks Kraftgrupp AB in Sweden. The Group's interests in associated companies are accounted for by the equity method. Accounting policies of the associates regarding nuclear assets and liabilities have been changed where necessary to ensure consistency with the policies adopted by the Group.

[For more information regarding nuclear related assets and liabilities, see Note 34 Nuclear related assets and liabilities.](#)

1.26 Contingent liabilities

A contingent liability is disclosed when there is a possible obligation that arises from events and whose existence is only confirmed by one or more doubtful future events or when there is an obligation that is not recognised as a liability or provision because it is not probable that an outflow of resources will be required or the amount of the obligation cannot be reliably estimated.

1.27 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the owners of the parent company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the warrants and stock options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Fortum share) based on the monetary value of the subscription rights attached to outstanding stock options.

The number of shares calculated as above is deducted from the number of shares that would have been issued assuming the exercise of the stock options. The incremental shares obtained through the assumed exercise of the options and warrants are added to the weighted average number of shares outstanding.

Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options or warrants. Previously reported earnings per share are not retroactively adjusted to reflect changes in price of ordinary shares.

1.28 Dividends

Dividends proposed by the Board of Directors are not recognised in the financial statements until they have been approved by the Company's shareholders at the Annual General Meeting.

1.29 Accounting for derivative financial instruments and hedging activities

Within the ordinary course of business the Group routinely enters into sale and purchase transactions for commodities. The majority of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the commodity in accordance with the Group's expected sale, purchase or usage requirements. Such contracts are not within the scope of IAS 39. All other net-settled commodity contracts are measured at fair value with gains and losses taken to the income statement.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of highly probable forecast transactions (cash flow hedges); (2) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (3) hedges of net investments in foreign operations. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Derivatives are divided into non-current and current based on maturity. Only for those electricity derivatives, which have cash flows in different years, the fair values are split between non-current and current assets or liabilities.

1.29.1 Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity is recognised in the income statement when the forecast transaction is ultimately also recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately recognised in the income statement.

1.29.2 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss for the period to maturity.

1.29.3 Net investment hedging in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed off.

1.29.4 Derivatives that do not qualify for hedge accounting

Certain derivative instruments hedging future cash flows do not qualify for hedge accounting. Fair value changes of these financial derivative instruments are recognised in items affecting comparability in the income statement.

1.30 Fair value estimation

Fair value measurements are classified using a fair value hierarchy i.e. Level 1, Level 2 and Level 3 that reflects the significance of the inputs used in making the measurements.

[Financial instruments that are measured in the balance sheet at fair value are presented according to fair value measurement hierarchy in the Note 21 Financial assets and liabilities by fair value hierarchy.](#)

1.30.1 Fair values under Level 1 measurement hierarchy

The fair value of some commodity derivatives traded in active markets (such as publicly traded electricity options, coal and oil forwards) are market quotes at the closing date.

1.30.2 Fair values under Level 2 measurement hierarchy

The fair value of financial instruments including electricity derivatives traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the closing date. Known calculation techniques, such as estimated discounted cash flows, are used to determine fair value of interest rate and currency financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the closing date. Fair values of options are determined by using option valuation models. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. In fair valuation, credit spread has not been adjusted, as quoted market prices of the instruments used are believed to be consistent with the objective of a fair value measurement.

The Group bases the calculation on existing market conditions at each closing date. Financial instruments used in Fortum are standardised products that are either cleared via exchanges or widely traded in the market. Commodity derivatives are generally cleared through exchanges such as for example NASDAQ OMX Commodities Europe and financial derivatives done with creditworthy financial institutions with investment grade ratings.

1.30.3 Fair values under Level 3 measurement hierarchy

Fair valuation of electricity derivatives maturing over six years which are not standard NASDAQ OMX Commodities Europe products are based on prices collected from reliable market participants.

1.30.4 Other measurements

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

2 Critical accounting estimates and judgements

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The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results and timing may differ from these estimates. Below are areas where management's accounting estimates and judgements are most critical to reported results and financial position.

2.1 Intangible assets and property, plant and equipment acquired in a business combination

In an acquisition acquired intangible and tangible assets are fair valued and their remaining useful lives are determined. Management believes that the assigned values and useful lives, as well as the underlying assumptions, are reasonable, though different assumptions and assigned lives could have a significant impact on the reported amounts.

2.2 Impairment of property, plant and equipment and intangible assets

The Group has significant carrying values in property, plant and equipment as well as goodwill which are tested for impairment according to the accounting policy stated in Note 1 Accounting policies. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations are based on estimated future cash flows. Preparation of these estimates requires management to make assumptions relating to future expectations. Assumptions vary depending on the business the tested assets are in. For power and heat generation business the main assumptions relate to the estimated future operating cash flows and the discount rates used to present value them. The distribution business is regulated and supervised by national authorities. Estimated future cash flows include assumptions relating to the development of the future regulatory framework.

[Key assumptions used in goodwill impairment testing are discussed in Note 22 Intangible assets.](#)

The Group has not recognised any impairment losses in 2012 based on impairment testing done in late 2012.

Impairment losses recognised during 2012 relating to specific items are presented in:

[Note 5 Segment reporting,](#)

[Note 22 Intangible asset and](#)

[Note 23 Property, plant and equipment.](#)

The Group has considered the sensitivity of key assumptions as part of the impairment testing. When doing this any consequential effect of the change on the other variables has also been considered. The calculations are most sensitive to changes in estimated future operating profit levels and discount rate. If the revised estimated operating profit before depreciation on 31 December 2012 was 10% lower than management's estimates or pre-tax discount rate applied to the discounted cash flows was 10% higher than management's estimates, the Group would not have recognised impairment losses for property plant and equipment or goodwill.

2.3 Deferred and income taxes

Fortum has deferred tax assets and liabilities which are expected to be realised through the income statement over the extended periods of time in the future. In calculating the deferred tax items, Fortum is required to make certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets and liabilities as recorded in the financial statements and their tax basis.

Assumptions made include the expectation that future operating performance for subsidiaries will be consistent with historical levels of operating results, recoverability periods for tax loss carry-forwards will not change, and that existing tax laws and rates will remain unchanged into foreseeable future. Fortum believes that it has prudent assumptions in developing its deferred tax balances.

The Group recognises liabilities for anticipated tax dispute issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. If the actual final outcome (regarding tax disputes) would differ negatively from management's estimates with 10%, the Group would need to increase the income tax liability by EUR 14 million.

2.4 Liabilities related to nuclear production

The provision for future obligations for nuclear waste management including decommissioning of Fortum's nuclear power plant and related spent fuel is based on long-term cash flow forecasts of estimated future costs. The main assumptions are technical plans, timing, cost estimates and discount rate. The technical plans, timing and cost estimates are approved by governmental authorities.

Any changes in the assumed discount rate would affect the provision. If the discount rate used would be lowered, the provision would increase. Fortum has contributed cash to the State Nuclear Waste Management Fund based on a non-discounted legal liability, which leads to that the increase in provision would be offset by an increase in the recorded share of Fortum's part of the State Nuclear Waste Management Fund in the balance sheet. The total effect on the income statement would be positive since the decommissioning part of the provision is treated as an asset retirement obligation. This situation will prevail as long as the legal obligation to contribute cash to the State Nuclear Waste Management Fund is based on a non-discounted liability and IFRS is limiting the carrying value of the assets to the amount of the provision since Fortum does not have control or joint control over the fund.

[See Note 34 Nuclear related assets and liabilities.](#)

2.5 Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

[Assumptions used and sensitivity analysis for changes in major assumptions is presented in Note 36 Pension obligations.](#)

3 Financial risk management

[Download as Excel](#)

Risk management objectives, principles and framework including governance, organisation and processes as well as description of risks i.e. strategic, financial and operational risks are described in the Operating and financial review (OFR).

[See also Risk management.](#)

3.1 Commodity market risks

Commodity market risk refers to the negative effects of market price movements or volume changes in electricity, fuels and environmental values. A number of different methods, such as Profit-at-Risk and Value-at-Risk, are used throughout Fortum to quantify these risks taking into account their interdependencies. Stress-testing is carried out in order to assess the effects of extreme price movements on Fortum's earnings.

Commodity market risk management aims to capture potential upside by optimising hedging or by trading in the markets. Risk taking is limited by risk mandates. Risk mandates include the Group minimum EBITDA mandate approved by the CEO and volumetric limits, Value-at-Risk limits and Stop-Loss limits.

3.2 Electricity price and volume risk

Strategies for hedging the electricity price are developed and executed by the Trading unit in Power division in co-operation with the divisions within set mandates approved by the CEO. In the Nordic markets, the hedging strategies are executed by entering into commodity derivatives contracts. The majority of electricity price risk in Russia is hedged with physical fixed priced delivery contracts. Hedging strategies for Russia are developed in line with the development of the financial electricity market. Risk in the hedging strategies and their execution are continuously evaluated in accordance with models approved by the Chief Risk Officer and mandates approved by CEO.

Fortum's sensitivity to electricity market price is dependent on the hedge level for a given time period. The hedge ratio on 31 December 2012 was approximately 70% for the year 2013 and 35% for 2014. Assuming no changes in generation volumes, hedge ratios or cost structure a 1 EUR/MWh change in the market price of electricity would affect Fortum's 2013 profit before income tax by approximately EUR 15 million and for 2014 by approximately EUR 30 million. The volume used in this sensitivity analysis is 50 TWh which includes the electricity generation sold to the spot market in Sweden and Finland in the Power and Heat divisions without minority owner's shares of electricity or other pass-through sales. This volume is heavily dependent on price level, the hydrological situation, the length of annual maintenance periods and availability of power plants. Sensitivity is calculated only for electricity market price movements. Hydrological conditions, temperature, CO₂ allowance prices, fuel prices and the import/export situation all affect the electricity price on short-term basis and effects of individual factors cannot be separated.

3.2.1 Sensitivity arising from financial instruments according to IFRS 7

Sensitivity analysis shows the sensitivity arising from financial electricity derivatives as defined in IFRS 7. These derivatives are used in hedging and proprietary trading purposes within Fortum. Sensitivities are calculated based on 31 December 2012 (31 December 2011) position. Positions are actively managed in the day-to-day business operations and therefore the sensitivities vary from time to time. Sensitivity analysis includes only the market risks arising from derivatives i.e. the underlying physical electricity sales and purchase are not included. Sensitivity is calculated with the assumption that electricity forward quotations in NASDAQ OMX Commodities Europe and in EEX would change 1 EUR/MWh for the period Fortum has derivatives.

Sensitivity according to IFRS 7

+/- 1 EUR/MWh change in electricity forward quotations, EUR million	Effect	2012	2011
Effect on Profit before income tax	-/+	26	3
Effect on Equity	-/+	20	44

3.2.2 Electricity derivatives

The tables below disclose the Group's electricity derivatives used mainly for hedging electricity price risk. The fair values represent the values disclosed in the balance sheet.

See also [Note 1 Accounting policies for accounting principles and bases for fair value estimations and Note 7 Fair value changes of derivatives and underlying items in income statement for the effects in the income statement regarding electricity derivatives not getting hedge accounting status.](#)

Electricity derivatives by instrument 2012

	Volume, TWh				Fair value, EUR million		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Sales swaps	63	27	0	90	376	62	314
Purchase swaps	35	10	0	45	26	164	-138
Purchased options	0	0	0	0	0	0	0
Written options	0	2	0	2	1	0	1
Total	98	39	0	137	403	226	177
Netting against electricity exchanges ¹⁾					-193	-193	0
Total					210	33	177

Electricity derivatives by accounting status 2012

	Volume, TWh				Fair value, EUR million		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Derivatives with hedge accounting status	26	14	0	40	152	60	92
Derivatives with non-hedge accounting status ²⁾	72	25	0	97	251	166	85
Total	98	39	0	137	403	226	177
Netting against electricity exchanges ¹⁾							
Derivatives with hedge accounting status					-55	-55	0
Derivatives with non-hedge accounting status ²⁾					-138	-138	0
Total					-193	-193	0
Total					210	33	177
Of which long-term					76	14	62
Short-term					134	19	115

Electricity derivatives by instrument 2011

	Volume, TWh				Fair value, EUR million		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Sales swaps	60	35	0	95	612	53	559
Purchase swaps	35	13	0	48	36	325	-289
Purchased options	0	1	0	1	1	0	1
Written options	0	1	0	1	1	0	1
Total	95	50	0	145	650	378	272
Netting against electricity exchanges ¹⁾							
					-340	-340	0
Total					310	38	272

Electricity derivatives by accounting status 2011

	Volume, TWh				Fair value, EUR million		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Derivatives with hedge accounting status	58	33	0	91	432	192	240
Derivatives with non-hedge accounting status ²⁾	37	17	0	54	218	186	32
Total	95	50	0	145	650	378	272
Netting against electricity exchanges ¹⁾							
Derivatives with hedge accounting status					-183	-183	0
Derivatives with non-hedge accounting status ²⁾					-157	-157	0
Total					-340	-340	0
Total					310	38	272
Of which long-term					79	11	68
Short-term					231	27	204

¹⁾ Receivables and liabilities against electricity exchanges arising from standard derivative contracts with same delivery period are netted.

²⁾ Derivatives with non-hedge accounting status consist of trading derivatives and cash flow hedges without hedge accounting status.

Maturity analysis of electricity derivatives

Amounts disclosed below are non-discounted cash flows for electricity derivatives.

EUR million	2012				2011			
	Under 1 year	1-5 years	Over 5 years	Total	Under 1 year	1-5 years	Over 5 years	Total
Electricity derivatives liabilities	174	51	1	226	-319	-58	-1	-378
Electricity derivatives assets	288	21	80	389	522	127	1	650

3.3 Fuel price and volume risks

Exposure to fuel prices is to some extent limited because of Fortum's flexible generation possibilities, which allow for switching between different fuels according to prevailing market conditions, and in some cases, the fuel price risk can be transferred to the customer. The remaining exposure to fuel price risk is mitigated through fixed price purchases that cover forecasted consumption levels. Fixed price purchases can be either for physical deliveries or in the form of financial hedges, such as oil and coal derivatives. In addition to this, Fortum has a proprietary trading book which includes oil and coal derivatives.

Oil derivatives

	2012		2011	
	Volume 1,000 bbl	Net fair value MEUR	Volume 1,000 bbl	Net fair value MEUR
Sales swaps and futures	9,419	-8	10,000	-6
Purchase swaps and futures	9,452	3	9,910	4

Coal derivatives

	2012		2011	
	Volume kt	Net fair value MEUR	Volume kt	Net fair value MEUR
Sold	8,305	127	12,325	94
Bought	8,390	-123	11,642	-80

3.4 Emission allowance price and volume risk

Part of Fortum's power and heat generation is subject to requirements of emission trading schemes. Fortum manages its exposure to CO₂ allowance prices related to own production through the use of CO₂ forwards and by ensuring that the costs of allowances are taken into account during production planning. Most of these CO₂ forwards are own use contracts valued at cost and some are treated as derivatives in the accounts.

In addition to own production Fortum has a proprietary trading book. These allowances are treated as derivatives in the accounts.

CO₂ emission allowance derivatives

	2012		2011	
	Volume ktCO ₂	Net fair value MEUR	Volume ktCO ₂	Net fair value MEUR
Sold	12,810	50	15,283	89
Bought	14,005	-32	13,981	-59

In 2008 Fortum and the Russian Territorial Generating Company 1 (TGC-1) signed an agreement according to which Fortum will purchase emission reduction units (ERU) from TGC-1. The estimated amount of ERU's is approximately 1 million tonnes. The ERUs will come from Joint Implementation projects conducted at TGC-1's production facilities corresponding emission reductions taken place during the Kyoto Period (2008-2012) of the European Emission Trading Scheme. The agreement has been classified as an own use contract and valued at cost.

3.5 Proprietary trading risks

Fortum is trading electricity forwards, futures and options mainly on the NASDAQ OMX Commodities Europe and EEX markets, CO₂ allowances on the European market and financial coal and oil derivatives on the ICE and OTC markets.

Trading risks are monitored and reported daily, and have stringent controls in place. Overall trading mandates for Fortum are set by the CEO, and these mandates are further cascaded down to individual portfolios. Stop-loss mandates are set to limit the cumulative maximum, and "red-flag" thresholds for losses are established at predefined levels to signal the need for management involvement before reaching the stop-loss limit. Value-at-Risk mandates are set to limit the maximum level of risk at any given time.

3.6 Liquidity and refinancing risk

Fortum's business is capital intensive and the Group has a regular need to raise financing. Fortum has a diversified loan portfolio mainly consisting of long-term financing denominated in EUR and SEK. Long-term financing is primarily raised by issuing bonds under Fortum's Euro Medium Term Note programme as well as through bilateral and syndicated loan facilities from a variety of different financial institutions. Seasonal variations in working capital are generally financed by issuing short-term commercial papers under the Group's Swedish (SEK) and Finnish (EUR) Commercial Paper programmes.

Financing is primarily raised on parent company level and distributed internally through various internal financing arrangements. On 31 December 2012, 93% (2011: 90%) of the Group's total external financing was raised by the parent company Fortum Oyj.

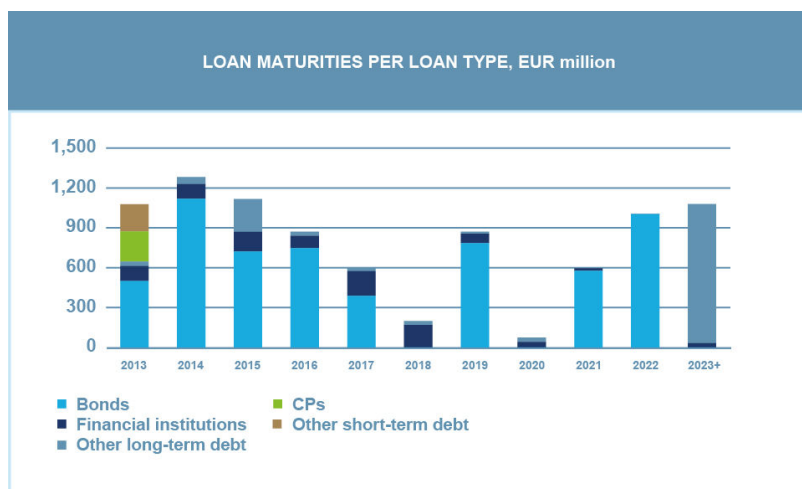
On 31 December 2012, the total interest-bearing debt was EUR 8,777 million (2011: 7,770) and the interest-bearing net debt was EUR 7,814 million (2011: 7,023).

Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. The Group shall at all times have access to cash, marketable securities and unused committed credit facilities including overdrafts, to cover all loans maturing within the next twelve-month period. However, cash/marketable securities and unused committed credit facilities shall always amount to at least EUR 500 million.

On 31 December 2012, loan maturities for the coming twelve-month period amounted to EUR 1,078 million (2011: 925). Cash and cash equivalents amounted to EUR 963 million (2011: 747) including OAO Fortum's bank deposits amounting to EUR 105 million (2011: 194) earmarked for capacity increase investments in Russia and the total amount of committed credit facilities amounted to EUR 2,722 million (2011: 2,719) of which EUR 2,722 million (2011: 2,719) was undrawn.

Maturity of interest-bearing liabilities

EUR million	2012
2013	1,078
2014	1,282
2015	1,117
2016	871
2017	604
2018 and later	3,825
Total	8,777



Cash and cash equivalents, major credit lines and debt programmes 2012

EUR million	Total facility	Drawn amount	Available amount
Cash and cash equivalents			963
of which in Russia (OAO Fortum)			128
Committed credit lines			
EUR 2,500 million syndicated credit facility	2,500	-	2,500
Bilateral overdraft facilities	222	-	222
Total	2,722	-	2,722
Debt programmes (uncommitted)			
Fortum Corporation, CP programmes EUR 500 million	500	100	400
Fortum Corporation, CP programmes SEK 5,000 million	583	128	455
Fortum Corporation, EMTN programmes EUR 6,000 million	6,000	5,841	159
Total	7,083	6,069	1,014

Cash and cash equivalents, major credit lines and debt programmes 2011

EUR million	Total facility	Drawn amount	Available amount
Cash and cash equivalents			747
of which in Russia (OAO Fortum)			211
Committed credit lines			
EUR 2,500 million syndicated credit facility	2,500	-	2,500
Bilateral overdraft facilities	219	-	219
Total	2,719	-	2,719
Debt programmes (uncommitted)			
Fortum Corporation, CP programmes EUR 500 million	500	-	500
Fortum Corporation, CP programmes SEK 5,000 million	561	122	439
Fortum Corporation, EMTN programmes EUR 6,000 million	6,000	4,859	1,141
Total	7,061	4,981	2,080

Cash and cash equivalents amounted to EUR 963 million (2011: 747), including OAO Fortum's bank deposits amounting to EUR 105 million (2011: 194) earmarked for capacity increase investments in Russia. Of these deposits at year-end 2012 EUR 100 million (2011: 164) were in euros and EUR 5 million (2011: 30) in Russian roubles.

See also Note 29 Cash and cash equivalents.

Maturity analysis of interest-bearing liabilities and derivatives

Amounts disclosed below are non-discounted expected cash flows (future interest payments and amortisations) of interest-bearing liabilities and interest rate and currency derivatives.

EUR million	2012				2011			
	Under 1 year	1-5 years	Over 5 years	Total	Under 1 year	1-5 years	Over 5 years	Total
Interest-bearing liabilities	1,377	4,626	4,274	10,277	1,217	4,661	3,380	9,258
Interest rate and currency derivatives liabilities	8,695	1,365	304	10,364	6,309	2,855	193	9,357
Interest rate and currency derivatives receivables	-8,560	-1,473	-330	-10,363	-6,198	-2,858	-241	-9,297
Total	1,512	4,518	4,248	10,278	1,328	4,658	3,332	9,318

Interest-bearing liabilities include loans from the State Nuclear Waste Management Fund and Teollisuuden Voima Oyj with EUR 940 million (2011: 887). These loans are renewed yearly and the related interest payments are calculated for ten years in the table above.

For further information regarding loans from the State Nuclear Waste Management Fund and Teollisuuden Voima Oyj, see Note 34 Nuclear related assets and liabilities.

3.7 Interest rate risk and currency risk

3.7.1 Interest rate risk

The Treasury risk policy stipulates that the average duration of the debt portfolio shall always be kept within a range of 12 and 36 months and that the flow risk i.e. changes in interest rates shall not affect the net interest payments of the Group by more than EUR 65 million for the next rolling 12-month period. Within these mandates, strategies are evaluated and developed in order to find an optimal balance between risk and financing cost.

On 31 December 2012, the average duration of the debt portfolio (including derivatives) was 2.1 years (2011: 2.0). Approximately 45% (2011: 47%) of the debt portfolio was on a floating rate basis or fixed rate loans maturing within the next 12 month period. The effect of one percentage point change in interest rates on the present value of the debt portfolio was EUR 175 million on 31 December 2012 (2011: 151). The flow risk, measured as the difference between the base case net interest cost estimate and the worst case scenario estimate for Fortum's debt portfolio for the coming 12 months, was EUR 24 million (2011: 37).

The average interest rate on loans and derivatives on 31 December 2012 was 4.5% (2011: 4.4%). Average cumulative interest rate on loans and derivatives for 2012 was 4.7% (2011: 4.4%).

3.7.2 Currency risk

Fortum's policy is to hedge major transaction exposures to avoid exchange differences in the profit and loss statement. These exposures are mainly hedged with forward contracts.

Translation exposures in the Fortum Group are generally not hedged as the majority of these assets are considered to be long-term strategic holdings. In Fortum this means largely entities operating in Sweden, Russia, Norway and Poland, whose base currency is not euro.

The currency risk relating to transaction exposures is measured using Value-at-Risk (VaR) for a one-day period at 95% confidence level. Translation exposures relating to net investments in foreign entities are measured using a five day period at 95% confidence level. The limit for transaction exposure is VaR EUR 5 million. On 31 December 2012 the open transaction and translation exposures were EUR 1 million (2011: 1) and EUR 4,993 million (2011: 4,495) respectively. The VaR for the transaction exposure was EUR 0 million (2011: 0) and VaR for the translation exposure was EUR 45 million (2011: 57).

Group Treasury's transaction exposure

EUR million	2012			2011		
	Net position	Hedge	Open	Net position	Hedge	Open
SEK	6,789	-6,789	0	6,334	-6,335	-1
USD	-61	61	0	211	-211	0
NOK	94	-94	0	140	-140	0
RUB	571	-571	0	219	-218	1
PLN	114	-114	0	90	-90	0
Other	96	-95	1	100	-99	1
Total	7,603	-7,602	1	7,094	-7,093	1

In addition OAO Fortum is hedging its euro investments with euro deposits EUR 100 million (2011: 164), which qualifies as a cash flow hedge in Fortum group accounts.

Transaction exposure is defined as already contracted or forecasted foreign exchange dependent items and cash flows. Transaction exposure is divided into balance sheet exposure and cash flow exposure. Balance sheet exposure reflects currency denominated assets and liabilities for example loans, deposits and accounts receivable/payable in currencies other than the company's base currency. Cash flow exposure reflects future forecasted or contracted currency flows in foreign currency deriving from business activities such as sales, purchases or investments. Net conversion differences from transaction exposure are entered under financial income or expense when related to financial items or when related to accounts receivable/payable entered under items included in operating profit. Conversion differences related to qualifying cash flow hedges are deferred to equity.

Fortum's policy is to hedge balance sheet exposures in order to avoid exchange rate differences in the income statement. The Group's balance sheet exposure mainly relates to financing of Swedish subsidiaries and the fact that the Group's main external financing currency is EUR. For derivatives hedging this balance exposure Fortum does not apply hedge accounting, because they have a natural hedge in the income statement.

Contracted cash flow exposures shall be hedged to reduce volatility in future cash flows. These hedges normally consist of currency derivative contracts, which are matched against the underlying future cash flow according to maturity. Fortum has currency cash flow hedges both with and without hedge accounting treatment under IFRS. Those currency cash flow hedges, which do not qualify for hedge accounting are mainly hedging electricity derivatives. Unrealised hedges create volatility in the operating profit.

Group Treasury's translation exposure

EUR million	2012			2011		
	Investment	Hedge	Open	Investment	Hedge	Open
RUB	3,086	-26	3,060	2,877	-	2,877
SEK	1,217	-	1,217	948	-	948
NOK	451	-	451	448	-	448
PLN	135	-	135	121	-	121
Other	130	-	130	101	-	101
Total	5,019	-26	4,993	4,495	-	4,495

Translation exposure position includes net investments in foreign subsidiaries and associated companies. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity. The net effect of exchange differences on equity attributable to equity holders from SEK, NOK and RUB was EUR 173 million in 2012 (2011: -63).

Interest rate and currency derivatives by instrument 2012

EUR million	Notional amount Remaining lifetimes				Fair value		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Forward foreign exchange contracts	8,148	523	-	8,671	38	197	-159
Interest rate swaps	477	2,856	2,935	6,268	362	161	201
Interest rate and currency swaps	227	317	-	544	-	8	-8
Forward rate agreements	87	29	-	116	0	0	0
Total	8,939	3,725	2,935	15,599	400	366	34
Of which long-term					358	165	193
Short-term					42	201	-159

Interest rate and currency derivatives by use 2012

EUR million	Notional amount Remaining lifetimes				Fair value		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Net investment hedging foreign exchange derivatives	61	-	-	61	-	0	0
Cash flow hedging foreign exchange derivatives	262	177	-	439	5	5	0
Non-hedging foreign exchange derivatives ¹⁾	7,825	346	-	8,171	33	192	-159
Total forward foreign exchange contracts	8,148	523	-	8,671	38	197	-159
Fair value hedging interest rate derivatives	-	-	1,975	1,975	181	0	181
Cash flow hedging interest rate derivatives	74	824	210	1,108	1	56	-55
Non-hedging interest rate derivatives ¹⁾	490	2,061	750	3,301	180	105	75
Total interest rate derivatives	564	2,885	2,935	6,384	362	161	201
Net investment hedging, interest rate and currency swaps ¹⁾	-	26	-	26	-	0	0
Non-hedging interest rate and currency swaps ¹⁾	227	291	-	518	-	8	-8
Total interest rate and currency swaps	227	317	-	544	-	8	-8
Total	8,939	3,725	2,935	15,599	400	366	34

¹⁾ Consists of deals without hedge accounting status.

Interest rate and currency derivatives by instrument 2011

EUR million	Notional amount Remaining lifetimes				Fair value		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Forward foreign exchange contracts	6,115	2,142	-	8,257	38	181	-143
Interest rate swaps	395	2,788	1,554	4,737	253	112	141
Interest rate and currency swaps	20	227	-	247	1	0	1
Forward rate agreements	168	28	-	196	0	0	0
Total	6,698	5,185	1,554	13,437	292	293	-1
Of which long-term					268	164	104
Short-term					24	129	-105

Interest rate and currency derivatives by use 2011

EUR million	Notional amount Remaining lifetimes				Fair value		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Cash flow hedging foreign exchange derivatives	197	98	-	295	12	3	9
Non-hedging foreign exchange derivatives ¹⁾	5,918	2,044	-	7,962	26	178	-152
Total forward foreign exchange contracts	6,115	2,142	-	8,257	38	181	-143
Fair value hedging interest rate derivatives	-	100	1,250	1,350	162	-	162
Cash flow hedging interest rate derivatives	392	535	304	1,231	0	42	-42
Non-hedging interest rate derivatives ¹⁾	171	2,181	-	2,352	91	70	21
Total interest rate derivatives	563	2,816	1,554	4,933	253	112	141
Non-hedging interest rate and currency swaps ¹⁾	20	227	-	247	1	-	1
Total interest rate and currency swaps	20	227	-	247	1	-	1
Total	6,698	5,185	1,554	13,437	292	293	-1

¹⁾ Consists of deals without hedge accounting status.

3.8 Share derivatives

Cash-settled share forwards are used as a hedging instrument for the Fortum share price risk regarding the Fortum Group's long-term incentive schemes.

The amounts disclosed are non-discounted cash flows for the share derivatives. The maturity of the share forwards is 1 year.

See Note 14 Employee benefits for more information about the Group's long-term incentive schemes.

EUR million	2012		2011	
	Notional value	Net fair value	Notional value	Net fair value
Share forwards	8	7	9	9

3.9 Credit risk

Fortum is exposed to credit risk whenever there is a contractual obligation with an external counterpart. Fortum has procedures in place to ensure that credit risks are kept at an acceptable level. All larger exposures are monitored centrally against limits which are approved according to authority levels defined in the Corporate Credit Guidelines. Counterpart creditworthiness is continuously monitored and reported.

Credit risk exposures relating to derivative instruments are often volatile due to rapidly changing market prices and are therefore monitored closely. Currency and interest rate derivative counterparts are limited to investment grade banks and financial institutions. ISDA Master agreements, which include netting clauses and in some cases collateral support agreements, are in place with most of these counterparts. The majority of the Group's commodity derivatives are cleared through an exchange such as NASDAQ OMX Commodities Europe (former name Nord Pool). Some derivative transactions are also executed on the OTC market. These OTC counterparts are limited to those considered of high creditworthiness. Master agreements, such as ISDA, FEMA and EFET, which include netting clauses, are in place with the majority of the counterparts. Furthermore, collaterals are used if dealing with counterparts without approved limits or when exposures arising from engagements are considered too high in relation to the counterpart creditworthiness.

Parent company guarantees are requested when dealing with subsidiaries not considered creditworthy on a stand-alone basis. Fortum, like any capital intensive business, is exposed to credit risks in the financial sector. Credit risk relating to banks is monitored closely as the creditworthiness of financial institutions can deteriorate quickly. Where possible, exposures have been concentrated to key relationship banks considered to be of high credit quality and importance to the financial stability of their respective countries. In Russia, bank guarantees are used to cover exposures to suppliers related to the investment programme of OAO Fortum. In case a contractor defaults or does not fulfill its obligations, there are guarantees covering prepayments as well as performance guarantees in place. Issuers of these guarantees are banks with a strong local presence and understanding of the contractor. The creditworthiness of these banks as well as exposures arising from issued guarantees is monitored closely.

Credit risk relating to customers is well diversified over a large number of private individuals and businesses across several geographic regions and industry sectors. Russia, Finland and Sweden account for most of the exposure, of which exposure to Russia represents the highest risk of non-payment.

3.9.1 Credit quality of major financial assets

Amounts disclosed below are presented by counterparties for interest-bearing receivables including finance lease receivables, bank deposits and derivative financial instruments recognised as assets.

EUR million	2012		2011	
	Carrying amount	of which past due	Carrying amount	of which past due
Investment grade receivables	571	-	953	-
Electricity exchanges	160	-	249	-
Associated companies	1,332	-	1,186	-
Other	109	-	86	-
Total	2,172	-	2,474	-

Investment grade receivables consist of bank deposits EUR 105 million (2011: 540), fair values of interest rate and currency derivatives EUR 400 million (2011: 292) and fair values of electricity, coal, oil and CO₂ emission allowance derivatives EUR 66 million (2011: 121). Electricity exchange receivable is the fair value of derivatives on NASDAQ OMX Commodities Europe. Associated companies receivables consist of loan receivables EUR 1,332 million (2011: 1,186) and fair values of electricity

derivatives EUR 0 million (2011: 0). Other receivables consist of loan and other interest bearing receivables EUR 58 million (2011: 10), finance lease receivables EUR 3 million (2011: 16) and fair values of electricity, coal, oil, and CO₂ emission allowance derivatives EUR 48 million (2011: 60).

The following tables indicate how bank deposits and fair values of derivatives are distributed by rating class.

Bank deposits

EUR million	2012	2011
Counterparties with external credit rating from Standard & Poor's and / or Moody's		
Investment grade ratings		
AAA	-	-
AA+/AA/AA-	17	93
A+/A/A-	-	296
BBB+/BBB/BBB-	88	151
Total investment grade ratings	105	540
Non-investment grade ratings	-	-
Counterparties without external credit rating from Standard & Poor's and / or Moody's	-	-
Total	105	540

In addition to the bank deposits above, cash in bank accounts totalled EUR 858 million on 31 December 2012 (2011: 207).

Interest rate and currency derivatives

EUR million	2012		2011	
	Receivables	Netted amount	Receivables	Netted amount
Counterparties with external credit rating from Standard & Poor's and / or Moody's				
Investment grade ratings				
AAA	-	-	-	-
AA+/AA/AA-	12	0	10	0
A+/A/A-	374	272	282	214
BBB+/BBB/BBB-	14	8	-	-
Total investment grade ratings	400	280	292	214
Counterparties without external credit rating from Standard & Poor's and / or Moody's	-	-	-	-
Total	400	280	292	214

Electricity, coal and oil derivatives and CO₂ emission allowances treated as derivatives

EUR million	2012		2011	
	Receivables	Netted amount	Receivables	Netted amount
Counterparties with external credit rating from Standard & Poor's and / or Moody's Investment grade ratings				
AAA	-	-	-	-
AA+/AA/AA-	0	0	-	-
A+/A/A-	66	32	121	42
BBB+/BBB/BBB-	-	-	-	-
Total investment grade ratings	66	32	121	42
Non-investment grade ratings				
BB+/BB/BB-	1	1	7	6
B+/B/B-	-	-	-	-
Below B-	-	-	-	-
Total non-investment grade ratings	1	1	7	6
Total associated companies	0	0	0	0
Counterparties without external credit rating from Standard & Poor's or Moody's				
Government or municipality	2	2	4	3
Fortum Rating 5 - Lowest risk	10	9	32	27
Fortum Rating 4 - Low risk	10	9	17	15
Fortum Rating 3 - Normal risk	16	15	0	0
Fortum Rating 2 - High risk	9	9	0	0
Fortum Rating 1 - Highest risk	0	0	-	-
No rating	0	0	0	0
Total non-rated counterparties	47	44	53	45
Total	114	77	181	93

For derivatives, the receivable is the sum of the positive fair values, i.e the gross amount. Netted amount includes negative fair values where a valid netting agreement is in place with the counterpart. When the netted amount is less than zero, it is not included. In cases where a parent company guarantee is in place, the exposure is shown on the issuer of the guarantee.

All counterparties for currency and interest rate derivatives and the majority of counterparties for bank deposits have an external rating from Standard & Poor's and Moody's credit agencies. The above rating scale is for Standard & Poor's rating categories. For those counterparties only rated by Moody's, the rating has been translated to the equivalent Standard and Poor's rating category with conservative approach.

In the electricity, coal and oil derivatives market, there are a number of counterparties not rated by Standard & Poor's or Moody's. For these counterparties, Fortum assigns an internal rating. The internal rating is based on external credit ratings from other credit agencies. For 2011 the risk class from Asiakastiето was used for Finnish counterparties, the rating from Creditinform was used for Norwegian counterparties, the risk indicator from UC (Upplysningscentralen) was used for Swedish counterparties and for other counterparties the rating from Dun & Bradstreet was used. Starting 2012 the rating from Soliditet is used for Finnish, Norwegian and Swedish counterparties and for other counterparties the rating from Dun & Bradstreet is used. Governments and municipal companies are typically not rated, and are shown separately. This rating category does not include companies owned by governments or municipalities. Counterparties that have not been assigned a rating by the above listed credit agencies are in the "No rating" category.

4 Capital risk management

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Fortum wants to have a prudent and efficient capital structure which at the same time allows the implementation of its strategy. Maintaining a strong balance sheet and the flexibility of the capital structure is a priority. The Group monitors the capital structure based on Comparable net debt to EBITDA ratio. Net debt is calculated as interest-bearing liabilities less cash and cash equivalents. EBITDA is calculated by adding back depreciation, amortisation and impairment charges to operating profit, whereas Comparable EBITDA is calculated by deducting items affecting comparability and net release of CSA provision from EBITDA. In September 2010 with launching the revised strategy Fortum adjusted its net debt to EBITDA target to be around 3. The earlier target was a range of 3.0-3.5.

Capital expenditure, acquisitions, dividend distributions, repurchases of own shares and capital returns to shareholders are ways to move towards the target capital structure. Fortum's dividend policy states that the company aims to pay a dividend which corresponds to an average payout ratio of 50 to 60%.

During the fourth quarter of 2012, Fortum Corporation's long-term credit rating with Standard and Poor's was downgraded from A (negative) to A- (negative) while Moody's affirmed the A2 rating, but changed the outlook from stable to negative.

Net debt / EBITDA ratios

EUR million	Note	2012	2011
Interest-bearing liabilities	32	8,777	7,770
Less: Cash and cash equivalents ¹⁾	29	963	747
Net debt		7,814	7,023
Operating profit		1,861	2,402
Add: Depreciation, amortisation and impairment charges		664	606
EBITDA		2,525	3,008
Less: Net release of CSA provision		122	600
Comparable EBITDA		2,403	2,374
Net debt / EBITDA		3.1	2.3
Comparable net debt / EBITDA		3.3	3.0

¹⁾ Including cash balances of EUR 0 million (2011: 16) classified as assets held for sale in balance sheet.

5 Segment reporting

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5.1 Fortum's business structure

Fortum's business operations are organised in four divisions and five corporate staff functions. The business divisions are Power, Heat, Russia and Electricity Solutions and Distribution. The Electricity Solutions and Distribution (ESD) Division consists of business areas Distribution and Electricity Sale. The staff functions are Corporate Finance, Corporate Communications, Corporate Human Resources, Corporate Relations and Corporate R&D and Innovation. The shared service centers, as parts of the staff functions, charge the companies according to service level agreements.

5.2 Segment structure in Fortum

The business divisions (Power, Heat and Russia) and the business areas of ESD Division (Distribution and Electricity Sales) are Fortum's reportable segments under IFRS.

Below is the description of the reportable segments:

Power consists of Fortum's power generation, power trading and power capacity development as well as expert services for power producers. Power sells its power mainly to the Nordic power exchange Nord Pool Spot.

Heat segment's main business is combined heat and power (CHP) generation, district heating activities and business to business heating solutions in the Nordic countries and other parts of the Baltic Rim. The power from CHP-production is sold to Nord Pool Spot and to end customers mainly by long-term contracts.

Russia consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's over 25% interest in TGC-1, which is an associated company and consolidated according to the equity method.

Distribution owns and operates distribution and regional networks and distributes electricity to a total of 1.6 million customers in Sweden, Finland and Norway. Electricity distribution is a regulated business, and is therefore supervised by national energy authorities. Models and principles for supervision and considerations of reasonable tariffs differ from country to country.

Electricity Sales is responsible for retail sales of electricity to a total of 1.2 million private customers. It is the leading seller of eco-labeled and CO₂-free electricity in the Nordic countries. Electricity Sales buys its electricity from Nord Pool Spot. Electricity supply in the Nordic countries is a deregulated business since 1995 which means that customers can freely change electricity supplier.

Other segment includes mainly the shareholding in the associated company Hafslund ASA and Fortum Group staff functions.

5.3 Definitions for segment information

Financial target setting, follow up and allocation of resources in the group's performance management process is mainly based on the business units' comparable operating profit including share of profit from associated companies and comparable return on net assets. Fortum discloses in the segment information operating profit, comparable operating profit, comparable EBITDA and share of profit from associated companies as well as return on net assets and comparable return on net assets.

Consolidation by segment is based on the same principles as for the Group as a whole. Comparable operating profit is reported to give a better view of each segment's performance. The difference between Comparable operating profit and Operating profit is that Comparable operating profit does not include "Items affecting comparability", which are:

- non-recurring items, which mainly consist of capital gains and losses;

- effects from fair valuations of derivatives hedging future cash flows which do not obtain hedge accounting status according to IAS 39. The major part of Fortum's cash flow hedges obtain hedge accounting where the fair value changes are recorded in equity; [See Note 7 Fair value changes of derivatives and underlying items in income statement.](#)
- effects from the accounting of Fortum's part of the State Nuclear Waste Management Fund where the assets in the balance sheet cannot exceed the related liabilities according to IFRIC 5.

[See Note 34 Nuclear related assets and liabilities.](#)

The segments' net assets consist primarily of non-interest-bearing assets and liabilities such as property, plant and equipment, intangible assets, participations in associated companies, inventories, operative related accruals and trade and other receivables and liabilities. Net assets also include Fortum's share of the State Nuclear Waste Management Fund, nuclear related provisions, pension and other provisions as well as assets and liabilities from fair valuations of derivatives hedging future cash flows which do not obtain hedge accounting status according to IAS 39.

Interest-bearing receivables and liabilities and related accruals, current and deferred tax items, as well as assets and liabilities from fair valuations of derivatives hedging future cash flows which obtain hedge accounting status according to IAS 39 are not allocated to the segments' net assets.

In comparable net assets, segment's net assets are adjusted for assets and liabilities from fair valuations of derivatives hedging future cash flows which do not obtain hedge accounting status according to IAS 39 to be in line with comparable operating profit.

Gross investments in shares include investments in subsidiary shares, shares in associated companies and other shares in available for sale financial assets. Investments in subsidiary shares are net of cash and grossed with interest-bearing liabilities in the acquired company.

Gross divestments in shares include divestments in subsidiary shares, shares in associated companies and other shares in available for sale financial assets. Divestments in subsidiary shares are net of cash and grossed with interest-bearing liabilities in the sold company.

[See also Financial key figures, Definitions of key figures and Quarterly financial information.](#)

[Quarterly segment information from 2005 to 2012 is available on Fortum's website \[www.fortum.com/investors/financial information\]\(http://www.fortum.com/investors/financial information\).](#)

5.4 Inter-segment transactions and eliminations

Power segment sells its production to Nord Pool Spot and Electricity Sales buys its electricity from Nord Pool Spot. Eliminations of sales include eliminations of sales and purchases with Nord Pool Spot that are netted on group level on an hourly basis and posted either as revenue or cost depending on if Fortum is a net seller or net buyer during any particular hour. Inter-segment sales, expenses and results for the different business segments are affected by intra-group deliveries, which are eliminated on consolidation. Inter-segment transactions are based on commercial terms.

5.5 Segment information 2012

Income statement

EUR million	Note	Power	Heat	Russia	Distri- bution	Elec- tricity Sales	Other	Netting and elimina- tions ¹⁾	Total
Sales		2,415	1,628	1,030	1,070	722	137	-843	6,159
of which internal		296	18	-	37	55	-66	-340	0
External sales		2,119	1,610	1,030	1,033	667	203	-503	6,159
Depreciation, amortisation and impairment		114	210	121	209	1	9	-	664
Comparable EBITDA		1,258	476	189	526	39	-85	-	2,403
Comparable operating profit		1,144	266	68	317	38	-94	-	1,739
Non-recurring items	6	57	80	11	5	1	1	-	155
Changes in fair values of derivatives hedging future cash-flow	6, 7	3	-7	0	6	-1	-3	-	-2
Nuclear fund adjustment	6, 34	-31	-	-	-	-	-	-	-31
Operating profit		1,173	339	79	328	38	-96	-	1,861
Share of profit of associated companies and joint ventures	24, 34	-12	20	27	8	0	-22	-	21
Finance costs - net									-307
Income taxes									-72
Profit for the period									1,503

¹⁾ Netting and eliminations include eliminations of Group internal sales and netting of Nord Pool Spot transactions. Sales and purchases with Nord Pool Spot, EUR 503 million, are netted on Group level on an hourly basis and posted either as revenue or cost depending on if Fortum is a net seller or net buyer during any particular hour.

Impairment losses and restructuring costs

EUR million	Power	Heat	Russia	Distri- bution	Elec- tricity Sales	Other	Total
Recognised impairment losses for trade receivables	0	-3	-8	-2	-1	0	-14
Recognised impairment losses for intangible assets and property, plant and equipment	0	-	-	-	-	-	0
Restructuring costs	0	-2	-	0	0	0	-2

Impairment losses and restructuring costs are included in comparable operating profit.

Assets and liabilities

EUR million	Power	Heat	Russia	Distribution	Electricity Sales	Other	Eliminations	Total
Non-interest-bearing assets	6,506	4,640	3,833	4,324	293	336	-403	19,529
Participations in associated companies and joint ventures	906	157	476	109	0	371		2,019
Assets included in Net assets	7,412	4,797	4,309	4,433	293	707	-403	21,548
Interest-bearing receivables								1,393
Deferred taxes								148
Other assets								576
Cash and cash equivalents								963
Total assets								24,628
Liabilities included in Net assets	958	462	463	522	234	470	-403	2,706
Deferred tax liabilities								1,893
Other liabilities								431
Total liabilities included in Capital employed								5,030
Interest-bearing liabilities								8,777
Total equity								10,821
Total equity and liabilities								24,628

Investments/Divestments

EUR million	Note	Power	Heat	Russia	Distribution	Electricity Sales	Other	Total
Gross investments in shares	8, 24	-	10	-	-	-	6	16
Capital expenditure	22, 23	190	464	568	324	1	11	1,558
of which capitalised borrowing costs		1	10	68	1	-	-	80
Gross divestments of shares		102	269	-	37	2	0	410

Comparable return on net assets

	Net assets by segments EUR million	Return on net assets, %	Comparable return on net assets, %
Power	6,454	18.4	18.2
Heat	4,335	8.5	6.8
Russia	3,846	3.0	2.7
Distribution	3,911	9.0	8.7
Electricity Sales	59	118.0	148.4
Other	237	-57.6	-30.9

Employees

	Power	Heat	Russia	Distri- bution	Elec- tricity Sales	Other	Total
Number of employees 31 Dec	1,846	2,212	4,253	870	509	681	10,371
Average number of employees	1,896	2,354	4,301	873	515	661	10,600

5.6 Segment information 2011

Income statement

EUR million	Note	Power	Heat	Russia	Distri- bution	Elec- tricity Sales	Other	Netting and elimina- tions ¹⁾	Total
Sales		2,481	1,737	920	973	900	108	-958	6,161
of which internal		-24	8	-	15	95	115	-209	0
External sales		2,505	1,729	920	958	805	-7	-749	6,161
Depreciation, amortisation and impairment		109	193	108	187	2	7	-	606
Comparable EBITDA		1,310	471	148	482	29	-66	-	2,374
Comparable operating profit		1,201	278	74	295	27	-73	-	1,802
Non-recurring items	6	2	86	0	193	3	0	-	284
Changes in fair values of derivatives hedging future cash-flow	6, 7	301	16	-	-10	-27	64	-	344
Nuclear fund adjustment	6, 34	-28	-	-	-	-	-	-	-28
Operating profit		1,476	380	74	478	3	-9	-	2,402
Share of profit of associated companies and joint ventures	24, 34	3	19	30	14	2	23	-	91
Finance costs - net									-265
Income taxes									-366
Profit for the period									1,862

¹⁾ Netting and eliminations include eliminations of Group internal sales and netting of Nord Pool Spot transactions. Sales and purchases with Nord Pool Spot, EUR 749 million, are netted on Group level on an hourly basis and posted either as revenue or cost depending on if Fortum is a net seller or net buyer during any particular hour.

Impairment losses and restructuring costs

EUR million	Power	Heat	Russia	Distri- bution	Elec- tricity Sales	Other	Total
Recognised impairment losses for trade receivables	0	-4	-2	-2	-2	-	-10
Recognised impairment losses for intangible assets and property, plant and equipment	0	0	0	0	-	-	0
Restructuring costs	0	0	-1	-1	0	0	-2

Impairment losses and restructuring costs are included in comparable operating profit.

Assets and liabilities ²⁾

EUR million	Power	Heat	Russia	Distribution	Electricity Sales	Other	Eliminations	Total
Non-interest-bearing assets	6,213	4,437	3,249	4,086	249	233	-306	18,161
Participations in associated companies and joint ventures	921	160	443	101	0	395		2,020
Assets included in Net assets	7,134	4,597	3,692	4,187	249	628	-306	20,181
Interest-bearing receivables								1,219
Deferred taxes								150
Other assets								717
Liquid funds								731
Total assets								22,998
Liabilities included in Net assets	887	406	419	598	238	420	-306	2,662
Deferred tax liabilities								2,013
Other liabilities								392
Total liabilities included in Capital employed								5,067
Interest-bearing liabilities								7,770
Total equity								10,161
Total equity and liabilities								22,998

Investments/Divestments

EUR million	Note	Power	Heat	Russia	Distribution	Electricity Sales	Other	Total
Gross investments in shares	8, 24	17	32	24	-	-	1	74
Capital expenditure	22, 23	131	297	670	289	5	16	1,408
of which capitalised borrowing costs		0	4	49	0	-	-	53
Gross divestments of shares*		3	203	23	323	16	0	568

* Comparative information adjusted to gross based figure.

Comparable return on net assets ²⁾

	Net assets by segments EUR million	Return on net assets, %	Comparable return on net assets, %
Power	6,247	24.6	19.9
Heat	4,191	9.9	7.4
Russia	3,273	3.5	3.5
Distribution	3,589	13.7	8.6
Electricity Sales	11	4.2	33.5
Other	208	5.3	-12.7

²⁾ Including assets and liabilities relating to Assets held for sale and related liabilities.

See also Note 9 Assets held for sale.

Employees

	Power	Heat	Russia	Distribution	Electricity Sales	Other	Total
Number of employees 31 Dec	1,847	2,504	4,379	898	519	633	10,780
Average number of employees	1,873	2,682	4,436	902	510	607	11,010

5.7 Group-wide disclosures

The Group's operating segments operate mainly in the Nordic countries, Russia, Poland and other parts of the Baltic Rim area. Power, Distribution and Electricity Sales operate mainly in Finland and Sweden, whereas Heat operates in all of these geographical areas except Russia. Other countries are mainly Latvia, Lithuania and the U.K. The home country is Finland.

The information below is disclosing sales by product area as well as sales by the country in which the customer is located. Assets, capital expenditure and personnel are reported where the assets and personnel are located. Participations in associates and joint ventures are not divided by location since the companies concerned can have business in several geographical areas.

External sales by product area

EUR million	2012	2011
Power sales excluding indirect taxes	3,413	3,458
Heat sales	1,501	1,602
Network transmissions	1,002	905
Other sales	243	196
Total	6,159	6,161

Heating sales include sale of delivered heat and transmission of heat.

Due to the large number of customers and the variety of its business activities, there is no individual customer whose business volume is material compared with Fortum's total business volume.

Sales by market area based on customer location

EUR million	2012	2011
Nordic	4,641	4,760
Russia	1,029	923
Poland	220	207
Estonia	69	105
Other countries	200	166
Total	6,159	6,161

The Nordic power production is not split by countries since Nordic power production is mainly sold through Nord Pool Spot.

Capital expenditure by location

EUR million	2012	2011
Finland	338	239
Sweden	492	392
Russia	568	670
Poland	19	18
Estonia	10	12
Norway	35	19
Other countries	96	58
Total	1,558	1,408

Segment assets by location ¹⁾

EUR million	2012	2011
Finland	4,444	4,305
Sweden	10,409	9,775
Russia	3,833	3,249
Poland	386	346
Estonia	203	263
Norway	285	245
Other countries	263	202
Eliminations	-294	-224
Non-interest bearing assets	19,529	18,161
Participations in associates and joint ventures	2,019	2,020
Total	21,548	20,181

¹⁾ Including assets and liabilities relating to Assets held for sale and related liabilities.

See also Note 9 Assets held for sale.

Number of employees on 31 December by location

	2012	2011
Finland	2,647	2,683
Sweden	2,050	2,040
Russia	4,252	4,376
Poland	687	859
Estonia	204	331
Norway	145	139
Other countries	386	352
Total	10,371	10,780

6 Items affecting comparability

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EUR million	2012	2011
Capital gains on disposal	155	284
Fair value changes on derivatives that do not qualify for hedge accounting	-2	344
Nuclear fund adjustments	-31	-28
Total	122	600

Items affecting comparability are exceptional items or unrealised items which fluctuate between the years. Items affecting comparability are disclosed separately in Fortum's income statement as they are necessary for understanding the financial performance when comparing results for the current period with previous periods. Items affecting comparability are not included in Comparable operating profit.

Capital gains in 2012 mainly include sales gains from sales of Fortum Energiaratkaisut Oy, Fortum Termost AS and Fortum Heat Naantali Oy, which are included in Heat segment, and Estonian subsidiary Fortum Elekter AS and ownership in Imatran Seudun Sähkö Oy, which are included in Distribution segment. Capital gains also include sales gains from sale of small hydropower plants in Finland and Sweden, which are included in Power segment.

Capital gains in 2011 mainly include sales gain from sales of the district heat and production facilities outside Stockholm, which is included in Heat segment, and sales gain from the sale of Fingrid Oyj shares, which is included in Distribution segment.

Changes in the fair values of financial derivative instruments hedging future cash flows that do not qualify for hedge accounting are recognised in items affecting comparability. This is done to improve the understanding of the financial performance when comparing results from one period to another.

Nuclear fund adjustment includes effects from the accounting principle of Fortum's part of the State Nuclear Waste Management Fund where the assets in the balance sheet cannot exceed the nuclear related provisions according to IFRIC 5. As long as the Fund is overfunded from an IFRS perspective, the effects to the operating profit from this adjustment will be positive if the provisions increase more than the Fund and negative if actual value of the fund increases more than the provisions.

[For more information regarding fair value changes of derivatives, see Note 7 Fair value changes of derivatives and underlying items in income statement.](#)

[For more information regarding disposals of shares, see Note 8 Acquisitions and disposals and Note 24 Participations in associated companies and joint ventures.](#)

[For more information regarding nuclear waste management, see Note 34 Nuclear related assets and liabilities.](#)

7 Fair value changes of derivatives and underlying items in income statement

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Fair value changes in operating profit presented below are arising from financial derivatives hedging future cash flows where hedge accounting is not applied according to IAS 39 and the ineffectiveness from cash flow hedges.

Fair value changes of currency derivatives in net financial expenses are arising mainly from balance sheet hedges without hedge accounting status according to IAS 39, because they are natural hedges of loans and receivables. Fair value change of interest rate hedges without hedge accounting is EUR -12 million (2011: -3). The net effect of fair value changes of hedging derivative and hedged bonds are EUR 0 million (2011: 6).

EUR million	2012	2011
In operating profit		
Fair value changes from derivatives not getting hedge accounting status		
Electricity derivatives	46	281
Currency derivatives	1	9
Oil derivatives	0	-1
Coal and CO ₂ derivatives	-22	24
Share derivatives with hedged items ¹⁾	0	0
Ineffectiveness from cash flow hedges	-27	31
Total effect in operating profit	-2	344
Fair value changes of derivatives not getting hedge accounting included in share of profit of associated companies	1	0
In finance costs		
Exchange gains and losses on loans and receivables	246	40
Fair value changes of derivatives not getting hedge accounting status		
Cross currency interest rate derivatives	-12	-4
Foreign currency derivatives	-231	-37
Rate difference on forward contracts	-11	2
Currency derivatives	-254	-39
Interest rate derivatives	-12	-3
Fair value change of hedging derivatives in fair value hedge relationship	39	98
Fair value change of hedged items in fair value hedge relationship	-39	-92
Total ²⁾	-266	-36
Total effect in finance costs	-20	4
Total effect on profit before income tax	-21	348

¹⁾ Related to cash-settled share forwards used as a hedging instrument for Fortum Group's share bonus system.

²⁾ Including fair value gains and losses on financial instruments and exchange gains and losses on derivatives.

8 Acquisitions and disposals

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Gross Investments in subsidiary shares by segment

EUR million	2012	2011
Power	1	-
Heat	-	23
Russia	-	24
Distribution	-	-
Electricity Sales	-	-
Other	4	-
Total	5	47

Gross Investments in subsidiary shares by country

EUR million	2012	2011
Finland	5	0
Sweden	-	0
Russia	-	24
Other countries	-	23
Total	5	47

Gross investments in subsidiary shares consist of interest-bearing debt as well as paid cash according to purchase agreement added with direct costs relating to the acquisition less cash and cash equivalents in acquired subsidiary.

8.1 Acquisitions in 2012 and 2011

Total investment in subsidiary shares in 2012 amounted to EUR 5 million (2011: 47).

The Polish competition authorities approved Fortum's acquisitions of 85% of the shares in the Polish power and heat companies Elektrociepłownia Zabrze S.A. and Zespół Elektrociepłowni Bytom S.A. on 3 January 2011. Acquisition price for the transaction was EUR 22 million (PLN 82 million).

In 2011 the remaining part of the payment related to the divestment of Fortum's shares St. Petersburg Sales Company was paid in OAO Fortum shares (3.04%). After that Fortum's ownership in OAO Fortum is 97.55%.

8.2 Disposals in 2012 and 2011

During Q4 2012 Fortum divested small hydropower plants in Sweden, a minor gain was recognised in the Power segment.

Fortum sold its shares in Fortum Heat Naantali Oy to Turun Seudun Maakaasu ja Energiantuotanto Oy (TSME) in which Fortum has 49.5% interest at 31 December 2012. The total sales price (less liquid funds in sold company) was approximately EUR 74 million, of which EUR 2 million is unpaid as of 31 December 2012. Fortum's capital gain EUR 21 million was recognised in Heat segment. In connection with the sale Fortum participated in the share issue in TSME with EUR 10 million and gave a shareholder loan to the company amounting to EUR 13 million.

Fortum closed its divestment of Fortum Energjaratkaisut Oy and Fortum Termest AS to EQT Infrastructure Fund on January 31, 2012. The total sales price, including net debt, was approximately EUR 200 million. Fortum's capital gain was EUR 58 million. The assets and liabilities related to the divested operations were presented as assets and liabilities held for sale in December 2011.

In the beginning of January 2012 Fortum sold Distribution's Estonian subsidiary Fortum Elekter AS to Imatran Seudun Sähkö. In connection with the sale Fortum also sold its ownership in Imatran Seudun Sähkö Oy. The assets and liabilities related to the divested operations were presented as assets and liabilities held for sale in December 2011.

During Q1 2012 Fortum divested small hydropower plants in Finland with the sale of a 60% share in Killin Voima Oy to Koillis-Satakunnan Sähkö Oy and sale of 14 small hydropower plants in Finland to Koskienergia Oy. Capital gain from these transactions was EUR 47 million booked in the Power segment's first-quarter results.

In December 2010 Fortum signed an agreement to divest district heat operations and production facilities outside Stockholm in Sweden. The divestment was completed on 31 March 2011. The total sales price was approximately EUR 220 million and the recognised gain EUR 82 million. The operations were part of the Heat segment and the gain is recognised in Heat segment. Major part of the divested operations were owned by Fortum's subsidiary AB Fortum Värme samägt med Stockholms stad in which the city of Stockholm has a 50% economic interest. The assets and liabilities related to the divested operations were presented as assets and liabilities held for sale in December 2010.

Fortum's divestment of 25% shareholding in the Finnish transmission system operator Fingrid Oyj was completed on 19 April 2011.

Divestments

EUR million	2012	2011
Divestment of subsidiaries		
Property, plant and equipment	247	138
Other non-current and current assets	73	42
Liquid funds	14	14
Interest-bearing loans	-181	-89
Other liabilities and provisions	-53	-54
Non-controlling interests	0	-8
Gain on sale	139	82
Sales price received	239	125
Less proceeds not yet settled in cash	2	0
Less liquid funds	14	14
Sales price for the shares (net of cash)	223	111
Proceeds from interest-bearing receivables	181	89
Proceeds not yet settled in cash	2	0
Total	406	200
Other divestments	4	6
Gross divestment of shares	410	206

For more information see Note 24 Participations in associated companies and joint ventures.

9 Assets held for sale

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9.1 Assets held for sale 2012

As of 31 December 2012 there were no Assets held for sale.

9.2 Assets held for sale 2011

Fortum closed its divestment of Fortum Energjaratkaisut Oy and Fortum Termest AS to EQT Infrastructure Fund on January 31, 2012. The assets and liabilities related to the disposal are presented as assets held for sale in the financial statements as of 31 December 2011.

Fortum sold Distribution's Estonian subsidiary Fortum Elekter AS to Imatran Seudun Sähkö in the beginning of January, 2012. The assets and liabilities related to the disposal are presented as assets held for sale in the financial statements as of 31 December 2011.

[Please see note 8 Acquisitions and disposals.](#)

Assets held for sale ¹⁾

EUR million	2012	2011
Property, plant and equipment	-	128
Other assets	-	39
Cash and cash equivalents	-	16
Total	-	183

Liabilities related to assets held for sale ¹⁾

EUR million	2012	2011
Interest-bearing liabilities	-	0
Other liabilities	-	29
Total	-	29

¹⁾ Amounts are presented net of internal balances with other Fortum subsidiaries, such as internal financing.

10 Exchange rates

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The income statement of subsidiaries, whose measurement and reporting currencies are not euros, are translated into the Group reporting currency using the average exchange rates, whereas the balance sheet of such subsidiaries are translated using the exchange rates on the balance sheet date.

The balance sheet date rate is based on the exchange rate published by the European Central Bank for the closing date. The average exchange rate is calculated as an average of each month's ending rate from the European Central Bank during the year and the ending rate of the previous year.

Key exchange rates for Fortum Group applied in the accounts

	Currency	Average rate		Balance sheet date rate	
		2012	2011	31 Dec 2012	31 Dec 2011
Sweden	SEK	8.7015	9.0038	8.5820	8.9120
Norway	NOK	7.4840	7.7824	7.3483	7.7540
Poland	PLN	4.1900	4.1254	4.0740	4.4580
Russia	RUB	40.2354	41.0219	40.3295	41.7650

11 Other income

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EUR million	2012	2011
Gain on sale of emission rights	43	13
Rental income	16	10
Insurance compensation	6	9
Other items	44	59
Total	109	91

Revenue from activities outside normal operations is reported in other income. This includes recurring items such as rental income and non-recurring items such as insurance compensation.

Gain on sale of emission rights amounted to EUR 43 million (2011: 13). Costs for made emissions which are not covered by emission rights received for free were EUR 17 million (2011: 37). The costs are included in Materials and services.

12 Materials and services

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EUR million	2012	2011
Materials	1,651	1,687
Materials purchased from associated companies	679	662
Transmission costs	192	179
External services	26	38
Total	2,548	2,566

Materials contain mainly coal, gas and nuclear fuels used for producing power and heat.

Materials purchased from associated companies consist of nuclear and hydropower purchased at production cost (including interest costs and production taxes) and purchased fuels used in CHP production.

Total materials and services include production taxes and duties EUR 193 million (2011: 209), of which nuclear related capacity and property taxes EUR 88 million (2011: 90) and hydro power related property taxes EUR 13 million (2011: 13). Taxes related to nuclear and hydro production include taxes paid through electricity purchased from associated companies as mentioned above.

[See Note 24 Participations in associated companies and joint ventures.](#)

13 Other expenses

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EUR million	2012	2011
Operation and maintenance costs	280	289
Property taxes	125	118
IT and telecommunication costs	72	67
Other items	284	275
Total	761	749

The major components recorded in other expenses are the external operation and maintenance costs of power and heat plants and of transmission lines. Property taxes include property taxes relating to directly owned hydropower production EUR 72 million (2011: 94).

Principal auditors' fees

EUR million	2012	2011
Audit fees	1.6	1.4
Audit related assignments	0.1	0.1
Tax assignments	0.1	0.3
Other assignments	0.0	0.1
Total	1.8	1.9

Deloitte is the appointed auditor until the next Annual General Meeting, to be held in 2013. Audit fees include fees for the audit of the consolidated financial statements, review of the interim reports as well as the fees for the audit of Fortum Oyj and its subsidiaries. Audit related assignments include fees for assurance and associated services related the audit. Tax assignments include fees for tax advice services.

14 Employee benefits

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EUR million	2012	2011
Wages and salaries	377	370
Pensions		
Defined contribution plans	37	33
Defined benefit plans	24	16
Social security costs	73	71
Share-based remunerations	8	10
Other employee costs	37	29
Total	556	529

The compensation package for Fortum employees consists of a combination of salaries, fringe benefits, short-term incentives, profit sharing paid to the Personnel Fund and share-based long-term incentives. The majority of Fortum employees are covered by a performance bonus system. The long-term incentive schemes are intended for senior executives and other management of the Fortum Group.

The Nomination and Remuneration Committee discusses, assesses and makes recommendations and proposals on the remuneration policy, pay structures, bonus and incentive systems for the Group and its management, and contributes to the Group's nomination issues. The remuneration policy is determined by the Board of Directors.

[For further information on pensions see Note 36 Pension obligations.](#)

14.1 Short term incentives

Fortum's short-term incentive scheme, i.e. bonus system, supports the realisation of the Group's financial performance targets, sustainability targets, values and structural changes. The system ensures that the performance targets of individual employees align with the targets of the division and the Group. All Fortum employees, with the exception of certain personnel groups in Poland and Russia, are covered by the bonus system.

The criteria used in determining the size of the bonus for senior management (the President and CEO and other members of the Fortum Management Team) are decided annually by the Board of Directors on the recommendation of the Board's Nomination and Remuneration Committee. The size of each senior executive's bonus is dependent on the Group's financial performance, as well as on their own success in reaching personal goals. The performance bonus criteria may also include indicators related to sustainability targets. The maximum bonus level for the senior management is 40% of the executive's annual salary including fringe benefits.

For executives with division responsibilities, the bonus system reflects the performance of their division together with the Group's financial performance. The criteria for evaluating an executive's personal performance are mutually agreed between the executive and his/her superior in an annual performance discussion at the beginning of each year. The performance of the President and CEO is evaluated annually by the Board of Directors.

14.2 Long-term incentives

Fortum's share bonus system is a performance-based, long-term incentive (LTI) arrangement. The share bonus system is divided into five/six-year share plans, within which participants have the possibility to earn rights to company shares. A new plan commences annually if the Board of Directors so decides. The arrangement was launched in 2003 and was further developed in 2008 (called new LTI arrangement below). At present, approximately 140 managers, all of whom have been elected by the Board of Directors, are participants in at least one of the six on-going annual LTI plans.

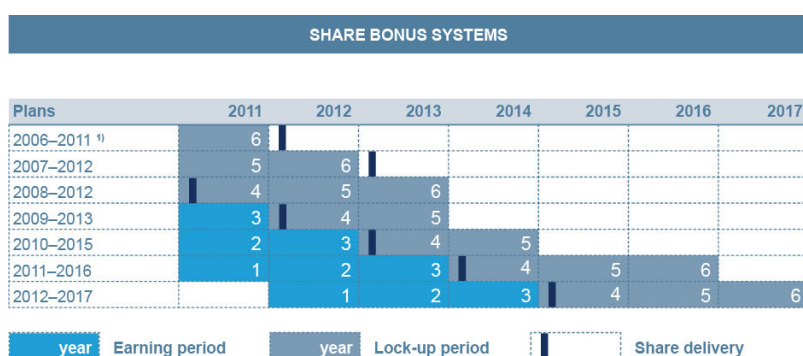
The share bonus plans (on-going plans 2008–2012, 2009–2013, 2010–2015, 2011–2016 and 2012–2017) launched under the new LTI arrangement run over a five or six-year period. Each share bonus plan begins with a three-year earning period during which participants may earn share rights if the earnings criteria set by the Board of Directors are fulfilled.

After the earning period, income tax and statutory employment related expenses are deducted from the reward and the net reward is used to acquire Fortum shares in the name of the participant. The value in shares given to a participant after the three years earning period cannot at that time exceed the participant's one-year salary including fringe benefits following Cabinet Committee's Economic Policy.

The earning period is followed by a two or three-year lock-up period. During the lock-up period the shares may not be sold, transferred, pledged or disposed in any other way. Dividends and other financial returns paid on the shares during the lock-up period are, however, not subject to restrictions. The shares are released from the lock-up after publishing of the Company's financial results for the fifth or sixth calendar year of an individual plan, provided that the participant remains employed by the Group.

Under the previous LTI arrangement (on-going plan 2007–2012), the amount of the reward as share rights was decided after the three year earning period. The reward is settled in cash after the lock-up period provided that the participant remains employed by the Group. The reward is adjusted during the lock-up period by any dividends paid up until the settlement date. The participant has approved that the earned reward will be used to acquire Fortum shares in the name of the participant.

The expense recorded as employee costs for the period was EUR 8 million (2011: 10). Estimated departures 5% have been taken into account when determining the expense. The LTI liability including social charges at the end of the year 2012 was EUR 15 million (2011: 15), including EUR 2 million (2011: 3) recorded in equity.



¹⁾ Plan 2006–2011 has ended and the shares were granted to the participants in February 2012.

Shares granted

	Plan 2009-2013	Plan 2008-2012
Grant date	8.2.2012	9.2.2011
Grant price, EUR	18.16	21.85
Number of shares granted	165,643	150,436
Number of shares subsequently forfeited	-	-3,509
Number of shares under lock-up at the end of the year 2012	165,643	146,927
Fortum share price at the end of the grant year, EUR	14.15	16.49

In addition to the shares granted above, share rights have been granted to participants that will receive cash payments instead of shares after the lock-up period. The gross amount of share rights outstanding at the end of the year 2012 for plan 2009-2013 was 54,149 share rights and for plan 2008-2012 47,830 share rights.

The outstanding number of calculative share rights relating to the plan 2007-2012 at the end of the year 2012 was 323,127 share rights. The calculative share rights have been adjusted with dividends (18,730 share rights) and payments and cancellations (8,175 share rights) during the year. In spring 2012 the plan 2006-2011 was settled and 60,155 share rights were paid to the participants.

14.3 Fortum Personnel Fund

The Fortum Personnel Fund (for employees in Finland only) has been in operation since year 2000. The Board of Directors determines the criteria for the fund's annual profit-sharing bonus. Persons included in Fortum's long-term incentive schemes are not eligible to be members of this fund. Members of the personnel fund are the permanent and fixed-term employees of the Group. The membership of employees joining the company starts at the beginning of the next month after the employment relationship has been ongoing for six months. The membership in the fund terminates when the member has received his/her share of the fund in full.

The profit-sharing received by the fund is distributed equally between the members. Each employee's share is divided into a tied amount and an amount available for withdrawal. It is possible to transfer a maximum of 15% of capital from the tied amount to the amount available for withdrawal each year, once the employee has been a member for five years.

The amount available for withdrawal (maximum 15% of the tied amount) is decided each year by the council of the fund and it is paid to members who want to exercise their withdrawal rights.

A new law for personnel funds has been effective from beginning of 2011. The main change concerns the members' right to withdraw funds. According to the new law an employee is entitled to make withdrawals right from the beginning of the membership. The starting time of the membership will also change due to the new law and employees will become members five months after employment has begun. Some changes also relate to timing of the withdrawals after the employment has ended. The rules of the personnel fund will be amended accordingly and approved by the Ministry of Employment and the Economy. The new rules will be taken into use after the approval of the Annual General Meeting of the Fortum personnel fund in 2013.

The fund's latest financial year ended at 30 April 2012 and the fund then had a total of 2,727 members (2011: 2,805). At the end of April 2012 Fortum contributed EUR 2.5 million (2011: 4.7) to the personnel fund as an annual profit-sharing bonus based on the financial results of 2011. The combined amount of members' shares in the fund was EUR 22.0 million (2011: 24.4).

The contribution to the personnel fund is expensed as it is earned.

14.4 The President and CEO and the management team remuneration

The Fortum Management Team (FMT) consists of eight members, including the President and CEO. The following table presents the total remuneration of the President and CEO and the Fortum Management Team and take into account the changes in FMT during the year. The expenses are shown on accrual basis.

[Additional information about cash based remuneration is available in section Remuneration.](#)

Management remuneration

EUR thousands	2012		2011	
	The President and CEO	Other FMT members	The President and CEO	Other FMT members
Salaries and fringe benefits	980	2,803	952	2,800
Performance bonuses	27	170	276	791
Share-based remuneration	637	1,455	592	1,476
Pensions (statutory and voluntary)	424	1,092	497	1,329
Social security expenses	60	333	65	318
Total	2,128	5,853	2,382	6,714

The President and CEO's additional pension arrangement is a defined contribution pension plan, which annual contribution is 25% of the annual salary. The annual salary consists of a base salary, fringe benefits and bonus. The President and CEO's retirement age is 63. In case his assignment is terminated before retirement age, the President and CEO is entitled to retain the benefits accrued in the arrangement for his benefit.

For other management team members the retirement age is 60 or 63 depending on the arrangement. The pension paid is maximum 66% or 60% of the remuneration upon retirement. In the first case they are defined benefit pension plans and are insured and paid by Fortum's pension fund. In the latter, pensions are either defined benefit or defined contribution schemes insured by an insurance company.

[Additional information about the terms and conditions of the remuneration of the President and CEO Tapio Kuula is available online at: www.fortum.com/en/corporation/corporate-governance/remuneration-board/employment-terms-conditions-president-ceo/pages/de](http://www.fortum.com/en/corporation/corporate-governance/remuneration-board/employment-terms-conditions-president-ceo/pages/de) and in section Remuneration.

Number of shares delivered to the management

The table below shows the number of shares delivered in 2012 and 2011 to the President and CEO and other FMT members under the LTI arrangements. In spring 2012 there was deliveries of LTI plans 2006-2011 and 2009-2013. Shares delivered under the plan 2009-2013 are subject to a two-year lock-up period under which they cannot be sold or transferred to a third party.

Name	2012	2011
FMT Members at 31 December 2012		
Tapio Kuula	17,171	19,663
Helena Aatinen (from 1 November 2012)	N/A	N/A
Alexander Chuvayev ¹⁾	18,749	12,960
Mikael Frisk	4,576	5,285
Timo Karttinen	5,213	6,053
Per Langer	3,966	4,273
Markus Rauramo (from 1 September 2012)	N/A	N/A
Matti Ruotsala	7,283	6,219
Former FMT Members		
Anne Brunila (until 31 October 2012)	3,983	2,524
Juha Laaksonen (until 31 August 2012)	6,840	6,620
Maria Paatero-Kaarnakari (until 31 January 2012)	3,367	3,118

¹⁾ Share rights will be paid in cash instead of shares after the lock-up period due to local legislation.

14.5 Management shareholding

On 31 December 2012, the members of the Board of Directors owned a total of 11,950 shares (2011: 9,550), which corresponds to 0.00% (2011: 0.00%) of the company's shares and voting rights.

The President and CEO and other members of the Fortum Management Team owned a total of 268,992 shares (2011: 253,276) which corresponds to approximately 0.03% (2011: 0.03%) of the company's shares and voting rights.

Number of shares held by members of the Board of Directors

	2012	2011
Board Members at 31 December 2012		
Chairman, Sari Baldauf	2,300	2,300
Deputy Chairman, Christian Ramm-Schmidt	2,250	2,250
Ilona Ervasti-Vaintola	4,000	4,000
Joshua Larson	-	-
Minoo Akhtarzand	-	-
Heinz-Werner Binzel	1,000	1,000
Kim Ignatius	2,400	N/A
Former Board Members		
Esko Aho	N/A	-
Total	11,950	9,550

Number of shares held by members of the Fortum Management Team

	2012	2011
FMT Members at 31 December 2012		
Tapio Kuula	118,403	101,232
Helena Aatinen	-	N/A
Alexander Chuvaev	12,093	-
Mikael Frisk	32,049	28,473
Timo Karttinen	60,228	55,015
Per Langer	16,717	12,751
Markus Rauramo	13,000	N/A
Matti Ruotsala	16,502	6,219
Former FMT Members		
Anne Brunila	N/A	2,524
Juha Laaksonen	N/A	40,861
Maria Paatero-Kaarnakari	N/A	6,201
Total	268,992	253,276

14.6 Board remuneration

The Board of Directors comprises five to eight members who are elected at the Annual General Meeting for a one-year term of office, which expires at the end of the first Annual General Meeting following the election. At the 2012 Annual General Meeting seven members were elected.

The Annual General meeting confirms the yearly compensation for the Board of Directors. In addition, a EUR 600 meeting fee is paid. The meeting fee is also paid for committee meetings and is paid in double to a member who lives outside Finland in Europe and triple to a member who lives outside Europe. The members are entitled to travel expense compensation in accordance with the company's travel policy. Board members are not offered any long-term incentive benefits or participation in other incentive schemes. There is no pension plan for the Board members. Social security costs EUR 12 thousand (2011: 10) have been recorded for the fees in accordance with local legislation in respective countries.

Compensation for Board service

EUR / year / meeting	2012	2011
Chairman	75,000	66,000
Deputy Chairman	57,000	49,200
Members	40,000	35,400
Meeting fee	600	600

Total compensation for Board of Directors

EUR	2012	2011
Board Members at 31 December 2012		
Chairman, Sari Baldauf ¹⁾	80,353	70,261
Deputy Chairman, Christian Ramm-Schmidt ²⁾	64,479	54,800
Minoo Akhtarzand (from 31 March 2011)	54,349	34,478
Heinz-Werner Binzel (from 31 March 2011)	53,149	37,478
Ilona Ervasti-Vaintola	46,549	43,800
Kim Ignatius (from 11 April 2012)	48,100	N/A
Joshua Larson	67,549	56,400
Former Board Members		
Former Chairman Matti Lehti (until 31 March 2011)	N/A	19,500
Esko Aho (until 11 April 2012)	13,000	43,800
Birgitta Johansson-Hedberg (until 31 March 2011)	N/A	11,250
Total	427,528	371,767

¹⁾ Chairman from 31 March 2011, before that deputy Chairman.

²⁾ Deputy Chairman from 31 March 2011.

14.7 Supervisory Board remuneration in 2011

The Supervisory Board was dissolved and the Articles of Association were amended on 4 April 2011 after the Annual General Meeting in March 2011. Below is the compensation of the Supervisory Board for their services up to that date.

Total compensation for Supervisory Board

EUR	1 Jan - 4 April 2011
Markku Laukkanen, Chairman	3,200
Sanna Perkiö, Deputy Chairman	2,000
Martti Alakoski	1,700
Tarja Filatov	1,700
Sampsa Kataja	1,700
Kimmo Kiljunen	1,700
Katri Komi	1,700
Panu Laturi	1,700
Juha Mieto	1,700
Helena Pesola	1,700
Total	18,800

15 Depreciation, amortisation and impairment charges

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EUR million	2012	2011
Depreciation of property, plant and equipment		
Buildings and structures	107	106
Machinery and equipment	530	473
Other tangible assets	5	8
Amortisation of intangible assets	22	19
Total	664	606
Impairment charges		
Other intangible assets	0	0
Buildings and structures	0	0
Total	0	0
Depreciation, amortisation and impairment charges total	664	606

See also Note 5 Segment reporting.

16 Financial costs – net

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EUR million	Note	2012	2011
Interest expense			
Borrowings		-379	-335
Other interest expense		-1	-2
Capitalised borrowing costs	23	80	53
Total		-300	-284
Interest income			
Loan receivables		51	49
Other interest income		3	7
Total		54	56
Fair value gains and losses on financial instruments			
	7		
Fair value change of interest rate derivatives not getting hedge accounting		-12	-3
Fair value change of hedging derivatives in fair value hedge relationship		39	98
Fair value change of hedged items in fair value hedge relationship		-39	-92
Rate difference on forward contracts		-11	2
Total		-23	5
Exchange gains and losses			
Loans and receivables	7	246	40
Cross currency interest rate derivatives	7	-12	-4
Foreign currency derivatives	7	-231	-37
Dividend income		0	0
Interest income on share of State Nuclear Waste Management Fund	34	16	17
Unwinding of discount on nuclear provisions	34	-36	-36
Unwinding of discount on other provisions	35	-15	-16
Other financial income		1	1
Other financial expenses		-7	-7
Total		-38	-42
Finance costs - net		-307	-265

Interest expenses include interest expenses on interest-bearing loans, interest on interest rate and currency swaps and forward points on forward foreign exchange contracts hedging loans and receivables. Other interest expenses includes interest on financial leases EUR 0 million (2011: -1) and other interest cost EUR -1 million (2011: -1).

Further information can be found in the Notes mentioned in the table.

Interest income includes EUR 40 million (2011: 33) from shareholders' loans in Finnish and Swedish nuclear companies, EUR 7 million (2011: 10) from deposits. Other interest income includes EUR 1 million (2011: 3) income from financial leases as a lessor.

Fair value gains and losses on financial instruments include change in clean price of interest rate and cross currency swaps not getting hedge accounting and fair value changes of interest rate derivatives in hedge relationship and hedged items. Accrued interest on these derivatives is entered in interest expenses of borrowings. Fair value gains and losses include also rate difference from forward contracts hedging loans and receivables without hedge accounting.

Exchange gains and losses includes exchange rate differences arising from valuation of foreign currency loans and receivables and exchange rate differences from forward foreign exchange contracts and interest rate and currency swaps.

Fair value changes on interest rate and currency derivatives

EUR million	2012	2011
Interest rate and cross currency swaps		
Interest expenses on borrowings	29	20
Exchange rate difference from derivatives	-12	-4
Rate difference in fair value gains and losses on financial instruments ¹⁾	27	95
Total fair value change of interest rate derivatives in finance costs - net	44	111
Forward foreign exchange contracts		
Interest expenses on borrowings	-108	-60
Exchange rate difference from derivatives	-231	-37
Rate difference in fair value gains and losses on financial instruments	-11	2
Total fair value change of currency derivatives in finance costs - net	-350	-95
Total fair value change of interest and currency derivatives in finance costs - net	-306	16

¹⁾ Fair value gains and losses on financial instruments include fair value changes from interest rate swaps not getting hedge accounting amounting to EUR -12 million (2011: -3).

Aggregated exchange rate differences included in operating profit were EUR 1 million (2011: 0) and in finance costs EUR 1 million (2011: -1).

17 Income tax expense

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17.1 Profit before tax

EUR million	2012	2011
Finnish companies	495	913
Swedish companies	616	837
Other companies	464	478
Total	1,575	2,228

17.2 Major components of income tax expense by major countries

EUR million	2012	2011
Current taxes		
Finnish companies	-97	-94
Swedish companies	-91	-155
Other companies	-13	-22
Total	-201	-271
Deferred taxes		
Finnish companies	-13	-42
Swedish companies	174	-33
Other companies	-30	-6
Total	131	-81
Adjustments recognised for current tax of prior periods		
Finnish companies	0	-11
Swedish companies	-2	1
Other companies	0	-4
Total	-2	-14
Total income taxes	-72	-366

17.3 Income tax rate

The table below explains the difference between the theoretical enacted tax rate in Finland compared to the tax rate in the income statement.

EUR million	2012	%	2011	%
Profit before tax	1,575		2,228	
Tax calculated at nominal Finnish tax rate	-386	24.5	-579	26.0
Tax rate changes	230	-14.6	29	-1.3
Differences in tax rates and regulations	41	-2.6	89	-4.0
Income not subject to tax	16	-1.0	11	-0.6
Tax exempt capital gains	32	-2.0	81	-3.6
Expenses not deductible for tax purposes	-7	0.4	-5	0.2
Share of profit of associated companies and joint ventures	4	-0.3	23	-1.0
Taxes related to dividend distributions	-4	0.3	1	-0.1
Tax losses for which no deferred tax was recognised	-6	0.4	-12	0.5
Utilisation of previously unrecognised tax losses	9	-0.6	3	-0.1
Changes in tax provisions	0	0.0	3	-0.1
Adjustments recognised for taxes of prior periods	-1	0.1	-10	0.5
Tax charge in the income statement	-72	4.6	-366	16.4

The weighted average applicable tax rate was 25.6% (2011: 26.9%). The tax rate according to the income statement was 4.6% (2011: 16.4%). In November 2012 the Swedish Parliament passed legislation lowering the income tax rate from 26.3% to 22%. The one-time positive effect in the income tax cost from the tax rate change was approximately EUR 230 million of which EUR 34 million is attributable to non-controlling interests. Respectively, in 2011 tax rate was positively effected with EUR 29 million from lowering of Finnish tax rate from 26% to 24.5%. The tax rate used in the income statement is always impacted by the balance of income in different countries taxed at different rates and local terms and by the fact that share of profits of associates and joint ventures are recorded based on Fortum's share of profits after tax. Excluding the share of profits from associates, capital gains and tax rate changes, the tax rate in 2012 was 21.2% (2011: 21.4%).

Current income taxes for the year 2012 in Finland were EUR 97 million (2011: 94), Sweden EUR 91 million (2011: 155) and other countries EUR 13 million (2011: 22). Fortum has also other taxes (other taxes borne) such as production taxes (i.e. fuel taxes and nuclear related capacity taxes), employment taxes (employer's contribution) and property taxes that are booked to the income statement. These taxes were EUR 359 million (2011: 373) for 2012. Total taxes borne were EUR 562 million (2011: 658). Fortum's total tax rate including all taxes borne was 29.0% (2011: 25.3%) of the earnings before taxes (excluding taxes borne).

In addition Fortum administrates and collects different taxes on behalf of governments and authorities. Such taxes include VAT and excise taxes on power consumed by customers. Gross amount of taxes administrated and collected by Fortum was EUR 3,918 million (2011: 4,112).

17.4 One-time effects

During 2012 Swedish Parliament decided to decrease the income tax rate from 26.3% to 22%. Decreased tax rate will be applicable as from the beginning of 2013, but due to revaluating of the deferred taxes a major positive effect was accounted for already during 2012. In 2012, there were also several tax exempt capital gains. The major part of them related to divestment of certain heat businesses in Finland and Estonia (Fortum Energiaratkaisut Oy and Fortum Termost AS), divestment of Fortum Heat Naantali Oy in Finland and divestments related to small hydropower plants in Finland and Sweden.

During 2011 Finnish Government decided to decrease the income tax rate from 26% to 24.5%. Decreased tax rate was applicable as from the beginning of 2012, but effected positively already during 2011 through revaluating the deferred taxes. The major part of the tax exempt capital gains in 2011 related to the sale of shares in Fingrid Oyj.

Fortum has had several tax audits ongoing during 2012. No provision has been accounted for in the financial statements related to tax audits.

[See also Note 33 Deferred income taxes and Note 43 Legal actions and official proceedings.](#)

18 Earnings per share

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18.1 Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent company by the weighted average number of ordinary shares in issue during the year.

	2012	2011
Profit attributable to owners of the parent (EUR million)	1,409	1,769
Weighted average number of shares (thousands)	888,367	888,367
Basic earnings per share (EUR per share)	1.59	1.99

18.2 Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At the end of 2012 Fortum had no diluting stock option schemes.

19 Dividend per share

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A dividend in respect of 2012 of EUR 1.00 per share, amounting to a total dividend of EUR 888 million based on the amount of shares registered as of 30 January 2013, is to be proposed at the Annual General Meeting on 9 April 2013. These Financial statements do not reflect this dividend.

The Annual General Meeting on 11 April 2012 decided to distribute a dividend of EUR 1.00 per share, totalling EUR 888 million, in respect of 2011 to the shareholders. The dividend was paid on 23 April 2012.

The Annual General Meeting on 31 March 2011 decided to distribute a dividend of EUR 1.00 per share, totalling EUR 888 million, in respect of 2010 to the shareholders. The dividend was paid on 12 April 2011.

20 Financial assets and liabilities by categories

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Financial assets and liabilities in the tables below are split into categories in accordance with IAS 39. The categories are further split into classes which are the basis for valuing a respective asset or liability. Further information can be found in the Notes mentioned in the table.

Financial assets by categories 2012

EUR million	Note	Loans and receivables	Financial assets at fair value through profit and loss		Fair value recognised in equity, cash flow hedges	Available-for-sale financial assets	Finance leases	Total financial assets
		Amortised cost	Hedge accounting, fair value hedges	Non-hedge accounting				
Financial instruments in non-current assets								
Other non-current assets	25	39				32		71
Derivative financial instruments	3							
Electricity derivatives				34	42			76
Interest rate and currency derivatives			181	175	2			358
Oil and other futures and forward contracts				17				17
Long-term interest-bearing receivables	26	1,381					3	1,384
Financial instruments in current assets								
Derivative financial instruments	3							
Electricity derivatives				79	55			134
Interest rate and currency derivatives				38	4			42
Oil and other futures and forward contracts				45	2			47
Trade receivables	28	914						914
Other short-term interest-bearing receivables	28	9						9
Cash and cash equivalents	29	963						963
Total		3,306	181	388	105	32	3	4,015

Financial assets by categories 2011

EUR million	Note	Loans and receivables		Financial assets at fair value through profit and loss		Fair value recognised in equity, cash flow hedges	Available-for-sale financial assets	Finance leases	Total financial assets
		Amortised cost	Hedge accounting, fair value hedges	Non-hedge accounting					
Financial instruments in non-current assets									
Other non-current assets	25	33					36		69
Derivative financial instruments	3								
Electricity derivatives				16		63			79
Interest rate and currency derivatives			162	101		5			268
Oil and other futures and forward contracts				49					49
Long-term interest-bearing receivables	26	1,189						7	1,196
Financial instruments in current assets									
Derivative financial instruments	3								
Electricity derivatives				45		186			231
Interest rate and currency derivatives				17		7			24
Oil and other futures and forward contracts				71					71
Trade receivables	28	689							689
Other short-term interest-bearing receivables	28	14						9	23
Cash and cash equivalents	29	731							731
Total		2,656	162	299		261	36	16	3,430

Financial liabilities by categories 2012

EUR million	Note	Financial assets at fair value through profit and loss		Fair value recognised in equity, cash flow hedges	Other financial liabilities		Total financial liabilities	
		Hedge accounting, fair value hedges	Non-hedge accounting		Amortised costs	Fair value		Finance leases
Financial instruments in non-current liabilities								
Interest-bearing liabilities	32				5,781	1,895 ¹⁾	23	7,699
Derivative financial instruments	3							
Electricity derivatives			10	4				14
Interest rate and currency derivatives			108	57				165
Oil and other futures and forward contracts			3					3
Financial instruments in current liabilities								
Interest-bearing liabilities	32				1,076		2	1,078
Derivative financial instruments	3							
Electricity derivatives			18	1				19
Interest rate and currency derivatives			197	4				201
Oil and other futures and forward contracts			40	4				44
Trade payables	38				558			558
Other liabilities	38				228			228
Total		-	376	70	7,643	1,895	25	10,009

Financial liabilities by categories 2011

EUR million	Note	Financial assets at fair value through profit and loss		Fair value recognised in equity, cash flow hedges	Other financial liabilities		Total financial liabilities	
		Hedge accounting, fair value hedges	Non-hedge accounting		Amortised costs	Fair value		Finance leases
Financial instruments in non-current liabilities								
Interest-bearing liabilities	32				5,362	1,459 ¹⁾	24	6,845
Derivative financial instruments	3							
Electricity derivatives			7	4				11
Interest rate and currency derivatives			124	40				164
Oil and other futures and forward contracts			17					17
Financial instruments in current liabilities								
Interest-bearing liabilities	32				923		2	925
Derivative financial instruments	3							
Electricity derivatives			22	5				27
Interest rate and currency derivatives			124	5				129
Oil and other futures and forward contracts			63					63
Trade payables	38				443			443
Other liabilities	38				165			165
Total		-	357	54	6,893	1,459	26	8,789

¹⁾ Fair valued part of bond in fair value hedge relationship.

21 Financial assets and liabilities by fair value hierarchy

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Financial instruments that are measured in the balance sheet at fair value are presented according to following fair value measurement hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that is not based on observable market data (unobservable inputs).

[See Note 1 Accounting policies, 1.30 Fair value estimation.](#)

Financial assets

EUR million	Note	Level 1		Level 2		Level 3		Netting ³⁾		Total	
		2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
In non-current assets											
Available for sale financial assets ¹⁾	25					32	36			32	36
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				56	94			-14	-31	42	63
Non-hedge accounting		1	3	55	29	2	1 ²⁾	-24	-17	34	16
Interest rate and currency derivatives											
Hedge accounting				183	167					183	167
Non-hedge accounting				175	101					175	101
Oil and other futures and forward contracts											
Non-hedge accounting		10	51	17	21			-10	-23	17	49

In current assets										
Derivative financial instruments	3									
Electricity derivatives										
Hedge accounting			96	338			-41	-152	55	186
Non-hedge accounting	18	58	175	127			-114	-140	79	45
Interest rate and currency derivatives										
Hedge accounting			4	7					4	7
Non-hedge accounting			38	17					38	17
Oil and other futures and forward contracts										
Hedge accounting			2						2	
Non-hedge accounting	125	143	60	22			-140	-94	45	71
Total	154	255	861	923	34	37	-343	-457	706	758

Financial liabilities

EUR million	Note	Level 1		Level 2		Level 3		Netting ³⁾		Total	
		2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
In non-current liabilities											
Interest-bearing liabilities	32			1,895	1,459 ⁴⁾					1,895	1,459
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				17	34	1	1 ²⁾	-14	-31	4	4
Non-hedge accounting		12	1	22	23			-24	-17	10	7
Interest rate and currency derivatives											
Hedge accounting				57	40					57	40
Non-hedge accounting				108	124					108	124
Oil and other futures and forward contracts											
Non-hedge accounting		3	33	10	7			-10	-23	3	17

In current liabilities										
Derivative financial instruments	3									
Electricity derivatives										
Hedge accounting			42	157			-41	-152	1	5
Non-hedge accounting	23	60	109	102			-114	-140	18	22
Interest rate and currency derivatives										
Hedge accounting			4	5					4	5
Non-hedge accounting			197	124					197	124
Oil and other futures and forward contracts										
Hedge accounting			4						4	0
Non-hedge accounting	116	139	64	18			-140	-94	40	63
Total	154	233	2,529	2,093	1	1	-343	-457	2,341	1,870

¹⁾ Available for sale financial assets, i.e. shares which are not classified as associated companies or joint ventures, consists mainly of shares in unlisted companies of EUR 31 million (2011: 34), for which the fair value cannot be reliably determined. These assets are measured at cost less possible impairment.

Available for sale financial assets include listed shares at fair value of EUR 1 million (2011: 2). The cumulative fair value change booked in Fortum's equity was EUR -3 million (2011: -2).

²⁾ NASDAQ OMX Commodities Europe quotes the closest 5 years, for years beyond a systematic price estimate made by Fortum is used. Reason for transferring electricity derivatives from level 3 to level 2 is the maturity of contracts.

³⁾ Receivables and liabilities against electricity, oil and other commodity exchanges arising from standard derivative contracts with same delivery period are netted.

⁴⁾ Fair valued part of bond in fair value hedge relationship.

22 Intangible assets

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EUR million	Goodwill		Other intangible assets		Total	
	2012	2011	2012	2011	2012	2011
Cost 1 January	294	301	447	412	741	713
Translation differences and other adjustments	15	-7	5	-1	20	-8
Increases through business combinations	-	-	4	-	4	-
Capital expenditure	-	-	35	27	35	27
Change in emission rights	-	-	-25	13	-25	13
Disposals	-	-	-17	-2	-17	-2
Reclassifications	-	-	8	0	8	0
Moved to Assets held for sale	-	-	-	-2	-	-2
Cost 31 December	309	294	457	447	766	741
Accumulated depreciation						
1 January	-	-	308	292	308	292
Translation differences and other adjustments	-	-	7	-1	7	-1
Increases through business combinations	-	-	2	-	2	-
Disposals	-	-	-17	-2	-17	-2
Reclassifications	-	-	2	0	2	0
Impairment charges	-	-	0	0	0	0
Depreciation for the period	-	-	22	19	22	19
Accumulated depreciation						
31 December	-	-	324	308	324	308
Carrying amount 31 December	309	294	133	139	442	433

The goodwill is included in Russia segment and relates to the acquisition of OAO Fortum (former TGC-10). The goodwill has been tested for impairment by comparing recoverable amounts of the net operating assets of OAO Fortum, including goodwill, with their carrying amounts. The recoverable amounts were determined on the basis of value in use, applying discounted cash flow calculations.

Key assumptions made by management and used in calculating value in use were: expected development of Russian power market, utilization of power plants and other assets, forecasted maintenance and refurbishment investments as well as finalisation of the investment programme and rate used for discounting. The assumptions are based on expectations of future events that are believed to be reasonable under the circumstances. The process used to determine these assumptions has not changed from previous year.

The cash flows are based on business plan approved by the Board of Directors. The Russian wholesale power market was fully liberalised from the beginning of 2011. OAO Fortum's investment programme has been accelerated in light of the recovering demand and development of the Russian capacity market. The last new units are scheduled to commission in 2014. The first three units started commercial operation in 2011. The discount rate is determined taking into account the risk profile of the country in which the cash flows are generated. Pre-tax discount rate used for Russia was 10.8% (2011: 11%). There have not been any major changes in the discount rate components or in the methods used to determine them.

As of 31 December 2012, the recoverable values were found to be in excess of their carrying values and therefore the related goodwill is not impaired. According to management a reasonably possible change in discount rate or in the level of earnings would not cause Russian cash generating unit's carrying amount to exceed its recoverable amount.

The main items in other intangible assets are costs for software products and software licenses, which are amortised over their useful lives. Other intangible assets also include bought emission rights and emission rights received free of charge, which are recognised to the lower of fair value and historical cost. The amount of emission rights in intangible assets is EUR 15 million (2011: 40).

23 Property, plant and equipment

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EUR million	Land, waterfall, rights and tunnels	Buildings, plants and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Cost 1 January 2012	3,277	3,305	14,830	200	1,864	23,476
Translation differences and other adjustments	124	105	418	4	64	715
Increases through business combinations	-	-	0	-	-	0
Capital expenditure	1	33	272	0	1,217	1,523
Nuclear asset retirement cost	-	-	-1	-	-	-1
Disposals	-4	-79	-625	-10	-3	-721
Reclassifications	3	72	504	5	-592	-8
Cost 31 December 2012	3,401	3,436	15,398	199	2,550	24,984
Accumulated depreciation 1 January 2012	-	1,460	6,629	153	-	8,242
Translation differences and other adjustments	-	32	192	3	-	227
Increases through business combinations	-	-	0	-	-	0
Disposals	-	-47	-568	-7	-	-622
Depreciation for the period	-	107	530	5	-	642
Reclassifications	-	-3	1	0	-	-2
Accumulated depreciation 31 December 2012	-	1,549	6,784	154	-	8,487
Carrying amount 31 December 2012	3,401	1,887	8,614	45	2,550	16,497

Property, plant and equipment has increased during 2012. The increase is mostly due to the ongoing investment programme in OAO Fortum and Heat segment's building of four CHP plants, which are estimated to be taken into commercial use during 2013.

[For more information on credit risks regarding ongoing investments, see Note 3.9 Credit risk.](#)

Property, plant and equipment that are subject to restrictions in the form of real estate mortgages amounts to EUR 261 million (2011: 285).

[See Note 39 Pledged assets.](#)

EUR million	Land, waterfall, rights and tunnels	Buildings, plants and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Cost 1 January 2011	3,243	3,098	13,937	198	1,649	22,125
Translation differences and other adjustments	18	3	61	-1	-29	52
Increases through business combinations	15	40	91	0	0	146
Capital expenditure	1	54	125	4	1,197	1,381
Nuclear asset retirement cost	-	-	5	-	-	5
Disposals	-1	-16	-39	-1	1	-56
Reclassifications	1	229	710	5	-945	0
Moved to Assets held for sale	-	-103	-60	-5	-9	-177
Cost 31 December 2011	3,277	3,305	14,830	200	1,864	23,476
Accumulated depreciation 1 January 2011	-	1,339	6,016	149	-	7,504
Translation differences and other adjustments	-	18	107	-2	-	123
Increases through business combinations	-	37	83	0	-	120
Disposals	-	-10	-32	-1	-	-43
Depreciation for the period	-	106	473	8	-	587
Moved to Assets held for sale	-	-30	-18	-1	-	-49
Accumulated depreciation 31 December 2011	-	1,460	6,629	153	-	8,242
Carrying amount 31 December 2011	3,277	1,845	8,201	47	1,864	15,234

23.1 Capitalised borrowing costs

EUR million	Buildings, plants and structures		Machinery and equipment		Advances paid and construction in progress		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
1 January	16	7	74	32	67	73	157	112
Translation differences and other adjustments	1	0	3	-1	2	-3	6	-4
Increases	-	-	-	-	80	53	80	53
Reclassification	0	10	0	46	0	-56	0	0
Depreciation	0	-1	-4	-3	-	-	-4	-4
31 December	17	16	73	74	149	67	239	157

New borrowing costs of EUR 80 million were capitalised in 2012 (2011: 53) for the OAO Fortum investment program, and for CHP plant projects in Finland, Sweden, Latvia and Lithuania. The interest rate used for capitalisation varied between 3.4 - 8.1% (2011: 3.2 - 9.7%) depending on country and loan currency.

23.2 Capital expenditure ¹⁾

EUR million	Finland		Sweden		Other countries		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Power								
Hydropower	12	9	86	60	-	-	98	69
Nuclear power	53	34	-	-	-	-	53	34
Fossil-based electricity	4	8	-	-	-	-	4	8
Renewable-based electricity	1	-	27	16	-	-	28	16
Other	1	1	-	2	6	1	7	4
Total Power	71	52	113	78	6	1	190	131
Heat								
Fossil-based heat	9	5	12	5	3	8	24	18
Fossil-based electricity	-	2	-	-	1	2	1	4
Renewable heat	66	22	150	84	87	56	303	162
District heat	12	9	33	32	46	26	91	67
Other	12	12	32	34	1	0	45	46
Total Heat	99	50	227	155	138	92	464	297
Distribution	158	118	151	157	15	14	324	289
Electricity Sales	-	5	0	-	1	-	1	5
Other	10	14	1	2	0	0	11	16
Total excluding Russia segment	338	239	492	392	160	107	990	738
Russia								
Fossil-based electricity							535	627
Fossil-based heat							32	43
Other							1	0
Total Russia							568	670
Total including Russia segment							1,558	1,408

¹⁾ Includes capital expenditure to both intangible assets and property, plant and equipment.

Maintenance investments during 2012 in property, plant and equipment were EUR 247 million (2011: 202). Investments due to requirements of legislation were EUR 223 million (2011: 192). Investments increasing productivity were EUR 422 million (2011: 245) and growth investments were EUR 666 million (2011: 769).

23.2.1 Power

In Finland, Fortum invested EUR 53 million (2011: 38) into the Loviisa nuclear power plant. Fortum continued to invest EUR 27 million (2011: 18) into several hydro projects, focusing on growth and productivity. The biggest of these was Pyhäkoski refurbishment in Finland, EUR 8 million (2011: 1). Power has also participated in building the Blaiken Wind park, EUR 27 million (2011: 13). Power segment invested additionally EUR 83 million (2011: 63) into refurbishment type investments. Investments for CO₂ free production were EUR 178 million (2011: 119).

23.2.2 Heat

In 2012 four new CHP plants were under construction; Klaipeda, Järvenpää, Jelgava and Brista 2. The plants are planned to be commissioned in 2013. Growth investments in Heat segment totalled EUR 142 million (2011: 193). Refurbishment and other

investments totalled EUR 102 (2011: 103). This amount consists mainly of investments in district heat networks and plants as well as the maintenance of existing CHP plants and measures defined by legal requirements. Larger ongoing projects in 2012 comprised of a new pyrolysis based bio-oil plant connected to the Joensuu power plant in Finland and new fuel handling systems in Stockholm aiming to increase biomass share of fuels in the coal fired CHP-plant KVV6 in Värtan. Investments for CO₂ free production were EUR 301 million (2011: 158).

23.2.3 Distribution

Distribution invested EUR 324 million (2011: 289) in reliability of electricity distribution, maintenance and new investments in Finland, Sweden, and Norway. This includes EUR 59 million (2011: 37) investment in the Finnish smart metering with hourly measurement capabilities to network customers.

23.2.4 Russia

OAO Fortum has an extensive investment programme aiming to increase its power capacity with 2,300 MW. During 2012 EUR 371 million (2011: 558) was invested in this programme. The value for the remaining part of the programme is estimated to be approximately EUR 540 million from January 2013 onwards. The first three units of Fortum's extensive investment programme in Russia started commercial operation in 2011. Tyumen CHP-1 in western Siberia started capacity sales at the beginning of February and Chelyabinsk CHP-3 in the Urals region at the beginning of June. The new capacity in Tobolsk was taken into commercial operation on 1 October 2011. During 2012 the construction of the three units in Nyagan was continued. Altogether, Fortum's extensive investment programme in Russia consists of eight new units.

23.3 Assets leased in by finance lease agreements

EUR million	2012	2011
Acquisition cost	41	39
Accumulated depreciation at 1 January	-17	-14
Depreciation charge for the year	-2	-2
Total	22	23

The assets leased by financial lease agreements are classified as machinery and equipment.

Fortum also acts as a lessor under financial lease agreements and has leased out property, plant and equipment for EUR 3 million (2011: 42), which are not included in property, plant and equipment in the consolidated financial statements. The decrease from 2011 is due to the fact that financial leases in Finland have been sold during 2012.

23.4 Assets leased out by operating lease agreements

EUR million	2012	2011
Acquisition cost	8	11
Accumulated depreciation at 1 January	-2	-2
Depreciation charge for the year	0	-1
Total	6	8

24 Participations in associated companies and joint ventures

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EUR million	2012	2011
Historical cost		
1 January	1,637	1,661
Translation differences and other adjustments	41	-6
Acquisitions	10	9
New share issues and shareholders' contributions	-	16
Reclassifications	-5	-4
Divestments	-	-38
Moved to Assets held for sale	-	-1
Historical cost 31 December	1,683	1,637
Equity adjustments to participations in associates and joint ventures		
1 January	382	500
Translation differences and other adjustments	-7	4
Share of profits of associates	21	91
Reclassifications	5	4
Divestments	-	-108
Dividends received	-45	-108
OCI items associated companies	-20	-1
Equity adjustments 31 December	336	382
Total	2,019	2,019

The carrying amount of investments in associated companies at the end of 2012 was EUR 2,019 million (2011: 2,019). Fortum owns shares in three (2011: three) companies classified as joint ventures. The total carrying value of these joint ventures was EUR 54 million (2011: 62).

24.1 Investments

In December 2012 Turun Seudun Maakaasu ja Energiantuotanto Oy increased the company's share capital by EUR 20 million of which Fortum's share is EUR 10 million. The additional participation was recognised and paid in December 2012.

Teollisuuden Voima Oyj's (TVO) Annual General meeting in March 2011 decided to raise the company's share capital by EUR 65 million (2010: 79.3) of which Fortum's share was EUR 16 million (2010: 20). The increase in Fortum's participation in TVO was paid in November 2011.

24.2 Divestments

There were no material divestments of shares in associated companies during 2012.

In the first quarter of 2011 Electricity Sales segment divested its 30.78% share in Energiapolar Oy. In the fourth quarter of 2011 Electricity Sales segment divested its 24.5% share in Ishavskraft AS.

In January 2011 Fortum, the Finnish State (Ministry of Employment and The National Emergency Supply Agency) and Ilmarinen Mutual Pension Insurance Company came to a preliminary agreement according to which Fortum was going to sell its 25% shareholding in the Finnish transmission system operator Fingrid Oyj. The divestment was completed on 19 April 2011. The State

bought approximately 81% and Ilmarinen bought approximately 19% of Fortum's Fingrid Oyj shares. The sales price for the total amount of shares was EUR 325 million and consequently, Fortum booked a gain of EUR 192 million in addition to the share of profits for the first quarter amounting to EUR 8 million. The shares were part of the Distribution segment and the gain was recognised in the Distribution segment. Fortum sold its holding in Fingrid Oyj as a result of the EU's third energy market package that calls for the separation of high voltage transmission and power generation. The package entered into force in September 2009.

24.3 Share of profits from associates

Some of the principal associates present their financial statements according to local accounting principles. Fortum makes adjustments to the reported numbers to ensure consistency with policies adopted by the Group. If more recent information is not available, the share of profit of associated companies is based on the previous quarterly information.

Fortum's share of profit for the full year 2012 amounted to 21 million (2011: 91), of which Hafslund represented EUR -22 million (2011: 23), TGC-1 EUR 27 million (2011: 30) and Gasum EUR 15 million (2011: 16). Share of profits from associates also includes Fortum's share of the Swedish nuclear associates Forsmarks Kraftgrupp AB and OKG AB with EUR -4 million (2011: 7), of which EUR 1 million (2011: 17) is due to accounting of nuclear related assets and liabilities.

[See Note 34 Nuclear related assets and liabilities.](#)

In 2012 the share of profit from Hafslund included EUR -25 million related to Hafslund's extraordinary write-downs and provisions on BioWood Norway AS, Bio-EI Fredrikstad and an ongoing tax dispute and EUR 7 million loss in relation to Hafslund's divestment of REC shares.

In 2011 write-downs on REC shares amounted to EUR 36 million. In December 2010 Hafslund sold its fully-owned subsidiary Hafslund Fibernett AS. Fortum recognised EUR 38 million in relation to Hafslund's divestment of Hafslund Fibernett AS shares as a part of the share of profit of associates and joint ventures in 2011.

According to Fortum Group accounting policies the share of profits from Hafslund and TGC-1 will be included in Fortum Group figures based on the previous quarter information since updated interim information is not normally available.

24.4 Dividends received

During 2012 Fortum has received EUR 45 million (2011: 108) in dividends from associates of which EUR 22 million (2011: 64) was received from Hafslund, EUR 10 million (2011: 23) from Gasum and EUR 4 million (2011: 3) from Infratek ASA.

24.5 Principal associated companies

EUR million			Participation %		Carrying amount in Group	
Company	Segment	Domicile	2012	2011	2012	2011
Kemijoki Oy	Power	Finland	18	18	223	230
Teollisuuden Voima Oyj (TVO)	Power	Finland	26	26	270	272
OKG AB	Power	Sweden	46	46	142	142
Forsmarks Kraftgrupp AB	Power	Sweden	26	26	115	116
Gasum Oy	Heat	Finland	31	31	121	116
Territorial Generating Company 1 (TGC-1)	Russia	Russia	26	26	476	452
Hafslund ASA	Other	Norway	34	34	371	394
Others					301	297
Total					2,019	2,019

Fortum owns 63.8% of the hydro shares and 15.4% of the monetary shares in Kemijoki Oy. Each owner of hydro shares is entitled to the hydropower production in proportion to its hydro shareholding. Fortum's total ownership is 17.5% of the share capital. Since Fortum has significant influence due to its representation on the Board of Directors and participation in policy-making processes, Kemijoki Oy is accounted for as an associated company.

TVO has three series of shares which entitle the shareholders to electricity produced in the different power plants owned by TVO. Series A entitles to electricity produced in nuclear power plants Olkiluoto 1 and 2, series B entitles to electricity in the nuclear power plant presently being built, Olkiluoto 3, and series C entitles to electricity produced in TVO's share of the thermal power plant Meri-Pori. The Meri-Pori power plant is a jointly controlled asset between Fortum and TVO. Fortum accounts for its 54.55% of the assets and TVO for 45.45%.

See also [Jointly controlled assets in Note 1.12.1 in Accounting principles](#).

Fortum owns 25.7% of the shares in Territorial Generating Company 1 (TGC-1). TGC-1 was formed in late 2006 by mergers of several Russian companies. According to Fortum's accounting policy the share of TGC-1's profits is recognised based on the previous quarter information.

Market value, based on market quotations of Fortum's shareholding in the listed principal associated companies on 31 December 2012 (Hafslund ASA and TGC-1) was EUR 581 million (2011: 718), of which Hafslund was EUR 412 million (2011: 498) and TGC-1 was EUR 169 million (2011: 220). The market quotation for the TGC-1 share is affected by the low liquidity of the TGC-1 shares in the Russian stock exchanges. During 2012 trading volumes of TGC-1 shares in relation to the number of shares of the company were approximately 12.8% in Russian stock exchanges.

Assets, liabilities, sales and profit and loss as presented by the Group's principal associates

EUR million Company	Domicile	Assets	Liabilities	Sales	Profit/ Loss	Owner- ship,%	Votes, %
Kemijoki Oy ^{1) 3)}	Finland	459	355	41	-8	18	18
Teollisuuden Voima Oyj ^{1) 2)}	Finland	6,424	5,110	260	-1	26	26
OKG AB ^{1) 3)}	Sweden	2,518	2,052	565	1	46	46
Forsmarks Kraftgrupp AB ^{1) 3)}	Sweden	2,386	1,893	654	0	26	26
Gasum Oy ²⁾	Finland	781	391	916	26	31	31
Territorial Generating Company 1 (TGC-1) ²⁾	Russia	3,542	1,362	1,054	84	26	26
Hafslund ASA ²⁾	Norway	3,261	2,255	248	-79	34	33

¹⁾ Power plants are often built jointly with other power producers. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership or other agreements and each owner is liable for an equivalent portion of costs. The associated companies are not profit making, since the owners purchase electricity at production cost including interest cost and production taxes.

See also [Note 12 Materials and services and Note 44 Related party transactions](#).

²⁾ Based on September 2012 figures.

³⁾ Based on December 2011 figures.

24.6 Transactions and balances

Associated company transactions

EUR million	2012	2011
Sales to associated companies	5	21
Interest on associated company loan receivables	41	34
Purchases from associated companies	652	661

Purchases from associated companies are purchases of nuclear and hydro power at production cost including interest costs and production taxes.

[See Note 12 Materials and services.](#)

[See Note 44 Related party transactions.](#)

Associated company balances

EUR million	2012	2011
Receivables from associated companies		
Long-term interest-bearing loan receivables	1,332	1,178
Trade receivables	10	11
Other receivables	9	7
Liabilities to associated companies		
Long-term loan payables	234	223
Trade payables	21	14
Other payables	6	13

Long-term interest-bearing receivables are mainly receivables from Swedish nuclear companies, OKG AB and Forsmarks Kraftgrupp AB, EUR 1,249 million (2011: 1,110).

Investments in Swedish nuclear companies are financed through loans from owners of the nuclear companies, pro rata ownership.

Transactions and balances with joint ventures

EUR million	2012	2011
Sales to joint ventures	118	-
Purchases from joint ventures	27	1
Receivables from joint ventures	49	14
Other payables to joint ventures	2	10

Sales to joint ventures during 2012 include sales of inventory and services to Turun Seudun Maakaasu ja Energiantuotanto Oy (TSME) and purchases from joint ventures include purchases of electricity and steam from TSME. Receivables from joint ventures included long-term interest-bearing loan receivables of EUR 38 million (2011: 9).

[See Note 8 Acquisitions and disposals for information regarding the sale of Fortum Heat Naantali Oy shares to TSME.](#)

25 Other non-current assets

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EUR million	2012	2011
Available for sale financial assets	32	36
Other	39	33
Total	71	69

Available for sale financial assets, i.e. shares which are not classified as associated companies or joint ventures, consist mainly of shares in unlisted companies of EUR 31 million (2011: 34), for which the fair value can not be reliably determined. These assets are measured at cost less possible impairment.

Available for sale financial assets include listed shares at fair value of EUR 1 million (2011: 2). The cumulative fair value change booked in Fortum's equity was EUR -3 million (2011: -2).

26 Long-term and short-term interest-bearing receivables

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EUR million	2012	2011
Long-term loan receivables	1,381	1,189
Finance lease receivables	3	7
Total long-term interest-bearing receivables	1,384	1,196
Other short-term interest-bearing receivables	9	14
Short-term finance lease receivables	0	9
Total short-term interest-bearing receivables ¹⁾	9	23
Total	1,393	1,219

¹⁾ Included in trade and other receivables in the balance sheet, see Note 28.

Long-term loan receivables include receivables from associated companies EUR 1,332 million (2011: 1,178), mainly from Swedish nuclear companies, OKG AB and Forsmarks Kraftgrupp AB, EUR 1,249 million (2011: 1,110). These companies are mainly funded with shareholder loans, pro rata each shareholder's ownership. The increase is related to investments made according to plan in OKG AB and Forsmarks Kraftgrupp AB.

Long-term loan receivables also include receivables from Teollisuuden Voima Oyj (TVO) amounting to EUR 58 million (2011: 45). Olikiluoto 3, the nuclear power plant being built by the associated company TVO, is funded through external loans, share issues and shareholder loans according to shareholders' agreement between the owners of TVO. In March 2009, TVO's shareholders committed to providing a EUR 300 million subordinated shareholders' loan to TVO. The facility will be available until the end of 2015. Fortum's share of this commitment is at maximum EUR 75 million. In March 2012 a new subordinated shareholder loan was given to fund planning of Olikiluoto 4, where Fortum's share of the commitment is totally 72 million of which 13 has been given during 2012.

[For further information regarding credit risk management, see Note 3.9 Credit risk.](#)

26.1 Interest-bearing receivables

EUR million	Effective interest rate, %	Carrying amount 2012	Repricing			Fair value 2012	Carrying amount 2011	Fair value 2011
			Under 1 year	1-5 years	Over 5 years			
Long-term loan receivables	2.6	1,389	1,364	14	11	1,440	1,191	1,201
Finance lease receivables	8.5	3	-	-	3	5	16	16
Total long-term interest-bearing receivables ¹⁾	2.6	1,392	1,364	14	14	1,445	1,207	1,217
Other short-term interest-bearing receivables	0.1	1	1	-	-	1	12	12
Total interest-bearing receivables	2.6	1,393	1,365	14	14	1,446	1,219	1,229

¹⁾ Including current portion of long-term receivables EUR 8 million (2011: 2) and short-term finance lease receivable EUR 0 million (2011: 9).

26.2 Finance lease receivables

Fortum owns assets (mainly CHP and heating plants) that it leases to customers under financial leasing agreements in Norway. The financial leases in Finland have been sold during 2012. These assets are recorded at the gross investment cost in the lease, less unearned financial income. The average lease term is approximately 12 years.

Present value of future minimum lease payment receivables

EUR million	2012	2011
Gross investment in finance lease contracts	3	16
Less unearned finance income	0	0
Total	3	16

Maturity of finance lease receivables

EUR million	2012	2011
Gross investment		
Less than 1 year	0	9
1-5 years	1	5
Over 5 years	2	2
Total	3	16

Maturity of present value of future minimum lease payment receivables

EUR million	2012	2011
Less than 1 year	0	9
1-5 years	1	5
Over 5 years	2	2
Total	3	16

No contingent rents were recognised in income statement neither in 2012 nor in 2011.

27 Inventories

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EUR million	2012	2011
Nuclear fuel	91	109
Coal	140	203
Oil	46	48
Biofuels	74	95
Other inventories	77	73
Total	428	528

No write downs have been booked related to inventories during 2012 or 2011.

28 Trade and other receivables

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EUR million	2012	2011
Trade receivables	914	689
Income tax receivables	110	55
Accrued interest income	1	6
Accrued income and prepaid expenses	44	45
Other receivables	192	202
Short-term finance lease receivables ¹⁾	0	9
Other short-term interest-bearing receivables ¹⁾	9	14
Total	1,270	1,020

¹⁾ See also Note 26 Long-term and short-term interest-bearing receivables.

The management considers that the carrying amount of trade and other receivables approximates their fair value.

28.1 Trade receivables

Ageing analysis of trade receivables

EUR million	2012		2011	
	Gross	Impaired	Gross	Impaired
Not past due	865	2	630	3
Past due 1-90 days	45	6	63	6
Past due 91-180 days	9	1	6	2
Past due more than 181 days	68	64	58	57
Total	987	73	757	68

Impairment losses recognised in the income statement were EUR 14 million (2011: 10), of which EUR 8 million (2011: 2) are impairment losses recognised in OAO Fortum Group. On 31 December 2012, trade receivables of EUR 73 million (2011: 68) were impaired and provided for, of which EUR 63 million (2011: 57) refers to OAO Fortum Group.

[For information regarding impairment losses by segment, see Note 5 Segment reporting.](#)

Trade receivables by currency

EUR million	2012	2011
EUR	242	183
SEK	463	347
RUB	180	144
NOK	37	28
PLN	36	31
Other	29	24
Total	987	757

Trade receivables are arising from a large number of customers mainly in EUR and SEK mitigating the concentration of risk. Fortum held on 31 December 2012 bank guarantees as collaterals for trade receivables amounting to EUR 0.1 million (2011: 0.7).

For further information regarding credit risk management and credit risks, see [Counterpart risks in the Operating and financial review and Note 3.9 Credit risk.](#)

29 Cash and cash equivalents

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EUR million	2012	2011
Cash at bank and in hand	858	191
Bank deposits with maturity under 3 months	105	540
Cash and cash equivalents	963	731
Cash and cash equivalents included in Assets held for sale	-	16
Total	963	747

Bank deposits include bank deposits held by OAO Fortum amounting to EUR 105 million (2011: 194). At the year end 2012 OAO Fortum's deposits included EUR 100 million in Euros and EUR 5 million in Russian roubles. The funds in OAO Fortum are committed to the investment program to further increase OAO Fortum's electricity production capacity. The bank deposits in euros held by OAO Fortum are hedging future payments in euros.

Maturity of cash and cash equivalents is under 3 months.

For further information regarding credit risk management and credit risks, see [Counterpart risks in the Operating and financial review and Note 3.9 Credit risk.](#)

30 Share capital

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EUR million	2012		2011	
	Number of shares	Share capital	Number of shares	Share capital
Registered shares at 1 January	888,367,045	3,046	888,367,045	3,046
Registered shares at 31 December	888,367,045	3,046	888,367,045	3,046

Fortum Oyj has one class of shares. By the end of 2012, a total of 888,367,045 shares had been issued. The nominal value of one share is EUR 3.40 and each share entitles the holder to one vote at the Annual General Meeting. All shares entitle holders to an equal dividend. At the end of 2012 Fortum Corporation's share capital, paid in its entirety and entered in the trade register, was EUR 3,046,185,953.00.

The registered share capital exceeds the aggregate nominal value of the issued shares due to the cancellations of the company's own shares in 2006 and 2007 (in total 7,570,000 shares) without decreasing the share capital.

Fortum Corporation's shares are listed on NASDAQ OMX Helsinki. The trading code is FUM1V. Fortum Corporation's shares are in the Finnish book entry system maintained by Euroclear Finland Ltd.

At the end of 2012, the Finnish State owned 50.76% of the Company's shares. The Finnish Parliament has authorised the Government to reduce the Finnish State's holding in Fortum Corporation to no less than 50.1% of the share capital and voting rights.

At the end of 2012, the President and CEO and other members of the Fortum Management Team owned 268,992 shares (2011: 253,276), representing approximately 0.03% (2011: 0.03%) of the shares in the Company.

[Details on the President and CEO and other members of the Fortum Management Team's shareholdings and interest in the equity incentive schemes is presented in Note 14 Employee benefits.](#)

[A description of shares, share capital and shareholders in Fortum is shown in the Operating and financial review.](#)

30.1 Treasury shares

At the end of 2012, Fortum Corporation did not own its own shares and the Board of Directors of Fortum Corporation has no unused authorisations from the General Meeting of shareholders to repurchase the company's own shares.

30.2 Convertible bond loans, bonds with warrants and unused authorisations

Fortum Corporation has not issued any convertible bonds or bonds with attached warrants, which would entitle the bearer to subscribe for Fortum shares. The Board of Directors of Fortum Corporation has no unused authorisations from the General Meeting of shareholders to issue convertible bond loans or bonds with warrants or increase the company's share capital.

31 Non-controlling interests

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Principal non-controlling interests

EUR million		2012	2011
AB Fortum Värme Holding samägt med Stockholms stad Group	Sweden	507	429
OAo Fortum Group	Russia	64	61
Tartu Energi Group	Estonia	20	15
Other		25	24
Total		616	529

Fortum owns, via Fortum Power and Heat AB, 90.1% of the shares which represents 50.1% of the votes in AB Fortum Värme Holding samägt med Stockholms stad. 9.9% of the shares are owned by the City of Stockholm. The City of Stockholm holds preference shares in AB Fortum Värme Holding samägt med Stockholms stad, which entitles them 50% of the economical output. The ownership and administration of AB Fortum Värme Holding samägt med Stockholms stad is settled by a consortium agreement.

32 Interest-bearing liabilities

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EUR million	2012	2011
Bonds	5,342	4,466
Loans from financial institutions	869	947
Finance lease liabilities	23	24
Other long-term interest-bearing debt	1,465	1,408
Total long-term interest-bearing debt	7,699	6,845
Current portion of long-term bonds	499	393
Current portion of loans from financial institutions	114	246
Current portion of other long-term interest-bearing debt	31	30
Current portion of financial lease liabilities	2	2
Commercial papers	228	122
Other short-term interest-bearing debt	204	132
Total short-term interest bearing debt	1,078	925
Total	8,777	7,770

Interest-bearing debt

EUR million	Effective interest rate, %	Carrying amount 2012	Repricing			Fair value 2012	Carrying amount 2011	Fair value 2011
			under 1 year	1-5 years	over 5 years			
Bonds	4.1	5,841	976	2,498	2,367	6,239	4,859	5,218
Loans from financial institutions	3.9	983	708	-	275	1,062	1,193	1,272
Other long-term interest-bearing debt ¹⁾	1.9	1,521	1,495	21	5	1,566	1,464	1,496
Total long-term interest-bearing debt ²⁾	3.7	8,345	3,179	2,519	2,647	8,867	7,516	7,986
Commercial papers	0.9	228	228	-	-	228	122	122
Other short-term interest-bearing debt	0.1	204	204	-	-	204	132	132
Total short-term interest-bearing debt	0.5	432	432	-	-	432	254	254
Total interest-bearing debt ³⁾	3.5	8,777	3,611	2,519	2,647	9,299	7,770	8,240

¹⁾ Includes loans from State Nuclear Waste Management Fund and Teollisuuden Voima Oyj EUR 940 million (2011: 887), financial leases EUR 25 million (2011: 26), loans from Finnish pension institutions EUR 228 million (2011: 258) and other loans EUR 328 million (2011: 293).

²⁾ Including current portion of long-term debt.

³⁾ The average interest rate on loans and derivatives on 31 December 2012 was 4.5% (2011: 4.4%).

The interest-bearing debt increased in 2012 by EUR 1,007 million to EUR 8,777 million (2011: 7,770). The amount of short-term financing increased with EUR 178 million, and at the end of the year the amount of short term financing was EUR 432 million (2011: 254).

On 7 March 2012, Fortum issued under its existing Euro Medium Term Note programme two 5 year bonds amounting to SEK 2,750 million consisting of SEK 1,000 million with floating rate and SEK 1,750 million at 3.25% fixed rate.

During the second quarter Fortum increased the amount of re-borrowing from the Finnish nuclear waste fund by EUR 53 million to EUR 940 million. During the same quarter Fortum repaid a maturing SEK 3,500 million bond and maturing debt SEK 1,000 million to Svensk Exportkredit.

On August 30th 2012, Fortum issued a EUR 1,000 million ten-year bond under its existing Euro Medium Term Note programme. The bond carries a fixed rate coupon of 2.25%.

During the last quarter OAO Fortum repaid a bilateral loan of RUB 4,000 million.

For more information please see [Note 3 Financial risk management](#), [Note 39 Pledged assets and](#) [Note 42 Contingent liabilities](#).

32.1 Bond issues

Issued / Maturity	Interest basis	Interest rate, %	Effective interest, %	Currency	Nominal million	Carrying amount EUR million
Fortum Oyj EUR 6,000 million EMTN Programme ¹⁾						
2003 / 2013	Fixed	5.000	5.164	EUR	500	499
2006 / 2016	Fixed	4.500	4.615	EUR	750	747
2007 / 2014	Fixed	4.700	4.764	SEK	2,600	303
2009 / 2014	Fixed	4.625	4.714	EUR	750	749
2009 / 2019	Fixed	6.000	3.095	EUR	750	785
2009 / 2014	Fixed	5.250	5.400	NOK	500	68
2009 / 2017	Fixed	6.125	6.240	NOK	500	68
		Stibor				
2010 / 2015	Floating	3M+0.95		SEK	3,100	361
2010 / 2015	Fixed	3.125	3.235	SEK	3,100	360
2011 / 2021	Fixed	4.000	4.123	EUR	500	577
		Stibor				
2012 / 2017	Floating	3M+1.2		SEK	1,000	204
2012 / 2017	Fixed	3.250	3.260	SEK	1,750	116
2012 / 2022	Fixed	2.250	2.344	EUR	1,000	1,004
OA0 Fortum (former TGC-10)						
2008 / 2013	Fixed	9.750	9.988	RUB	5,000	0
Total outstanding carrying amount 31 December 2012						5,841

¹⁾ EMTN = Euro Medium Term Note

32.2 Finance lease liabilities

On 31 December 2012 Fortum had a small number of finance lease agreements for machinery and equipment.

Present value of finance lease liabilities

EUR million	2012	2011
Minimum lease payments	28	30
Less future finance charges	3	4
Total	25	26

Maturity of minimum lease payments

EUR million	2012	2011
Less than 1 year	3	3
1-5 years	25	27
Over 5 years	-	-
Total	28	30

Maturity of finance lease liabilities

EUR million	2012	2011
Less than 1 year	2	2
1-5 years	23	24
Over 5 years	-	-
Total	25	26

33 Deferred income taxes

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The movement in deferred tax assets and liabilities during 2012

EUR million	1 Jan 2012	Charged to income state- ment	Charged to other compre- hensive income	Exchange rate differences reclassi- fications and other changes	Acqui- sitions, disposals and assets held for sale	31 Dec 2012
Deferred tax assets						
Property, plant and equipment	21	-4	-	-	-	17
Provisions	43	-1	-	-	-	42
Tax losses and tax credits carry-forward	84	-4	-	-	-	80
Derivative financial instruments	0	-	-	-	-	0
Other	42	1	-	-	-	43
Total deferred tax assets	190	-8	-	-	0	182
Offset against deferred tax liabilities	-40	6	-	-	-	-34
Net deferred tax assets	150	-2	0	0	0	148
Deferred tax liabilities						
Property, plant and equipment	1,967	-179	-	58	-6	1,840
Derivative financial instruments	66	2	-39	-	-	29
Other	20	38	-	-	-	58
Total deferred tax liabilities	2,053	-139	-39	58	-6	1,927
Offset against deferred tax assets	-40	6	-	-	-	-34
Net deferred tax liabilities	2,013	-133	-39	58	-6	1,893

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred income tax liabilities of EUR 8 million (2011: 6) have been recognised for the withholding tax and other taxes that would be payable on the all unremitted earnings of Estonian subsidiaries. Unremitted earnings from these companies totalled EUR 26 million on 31 December 2012 (2011: 21).

Deferred tax assets and liabilities from acquisitions, disposals and assets held for sale in 2012 mainly relate to the sale of Fortum Heat Naantali Oy shares.

[See Note 9 Assets held for sale.](#)

The movement in deferred tax assets and liabilities during 2011

EUR million	1 Jan 2011	Charged to income statement	Charged to other comprehensive income	Exchange rate differences reclassifications and other changes	Acquisitions, disposals and assets held for sale	31 Dec 2011
Deferred tax assets						
Property, plant and equipment	16	5	-	-	-	21
Provisions	52	-9	-	-	-	43
Tax losses and tax credits carry-forward	79	5	-	-	-	84
Derivative financial instruments	238	0	-	-238	-	0
Other	36	4	-	-1	3	42
Total deferred tax assets	421	5	-	-239	3	190
Offset against deferred tax liabilities	-280	2	-	238	-	-40
Net deferred tax assets	141	7	0	-1	3	150
Deferred tax liabilities						
Property, plant and equipment	1,949	17	-	5	-4	1,967
Derivative financial instruments	0	106	198	-238	-	66
Other	56	-37	-	1	-	20
Total deferred tax liabilities	2,005	86	198	-232	-4	2,053
Offset against deferred tax assets	-280	2	-	238	-	-40
Net deferred tax liabilities	1,725	88	198	6	-4	2,013

Deferred income tax assets are recognised for tax loss carry-forward to the extent that realisation of the related tax benefit through future profits is probable. The recognised tax assets relate to losses carry-forward with no expiration date and partly with expiry date as described below.

Deferred income tax assets recognised for tax loss carry-forwards

EUR million	2012		2011	
	Tax losses	Deferred tax asset	Tax losses	Deferred tax asset
Losses without expiration date	10	3	18	5
Losses with expiration date	262	78	229	78
Total	272	81	247	83

Deferred tax assets of EUR 31 million (2011: 26) have not been recognised in the consolidated financial statements, because the realisation is not probable. The major part of the unrecognised tax asset relates to loss carry-forwards that are unlikely to be used in the foreseeable future.

34 Nuclear related assets and liabilities

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Fortum owns the Loviisa nuclear power plant in Finland. Based on the Nuclear Energy Act in Finland, Fortum has a legal obligation to fully fund the legal liability decided by the governmental authorities, for decommissioning of the power plant and disposal of spent fuel through the State Nuclear Waste Management Fund.

The text below should be read in conjunction with information in Note 1 Accounting policies.

EUR million	2012	2011
Amounts recognised in the balance sheet		
Nuclear provisions	678	653
Share in the State Nuclear Waste Management Fund	678	653
Legal liability and actual share of the State Nuclear Waste Management Fund		
Liability for nuclear waste management according to the Nuclear Energy Act	996	968
Funding obligation target	996	941
Fortum's share of the State Nuclear Waste Management Fund	956	903

34.1 Nuclear related provisions

The nuclear provisions are related to future obligations for nuclear waste management including decommissioning of the power plant and disposal of spent fuel. The fair values of the provisions are calculated according to IAS 37 based on future cash flows regarding estimated future costs for each of the provisions separately. The cash flows used are based on the cost estimates which are also the basis for the legal liability. Provisions for decommissioning and for disposal of spent fuel are both included in Nuclear provisions in the balance sheet.

According to the renewed Nuclear Energy Act Fortum submitted the proposal for the nuclear waste management liability regarding the Loviisa nuclear power plant to the Ministry of Employment and the Economy at the end of June 2010. The legal liability is calculated according to the Nuclear Energy Act in Finland and is decided by the Ministry of Employment and the Economy in December every year. The liability is based on a technical plan, which is made every third year. Following the update of technical plan in 2010, the discounted liability increased due to updated cost estimates related to interim and final storage of spent fuel. An updated technical plan has been submitted in end 2012 and related cost estimate will be completed in first half 2013. The updated cost estimate will be the basis for updated liability proposal which will be submitted to the Ministry of Employment and the Economy in June 2013.

The legal liability by the end of 2012, decided by the Ministry of Employment and the Economy and calculated according to the Nuclear Energy Act, is EUR 996 million (2011: 968). The carrying value of the nuclear provisions in the balance sheet, calculated according to IAS 37, have increased by EUR 25 million compared to 31 December 2011, totaling EUR 678 million on 31 December 2012. The main reason for the difference between the carrying value of the provision and the legal liability is the fact that the legal liability is not discounted to net present value.

The change of the provision for decommissioning is added to the capitalised nuclear decommissioning cost and depreciated over the remaining estimated operating time of the nuclear power plant.

[See also Note 23 Property, plant and equipment.](#)

Nuclear provisions

EUR million	2012	2011
1 January	653	625
Additional provisions	10	17
Used during the year	-21	-25
Unwinding of discount	36	36
31 December	678	653
Fortum's share in the State Nuclear Waste Management Fund	678	653

34.2 Fortum's share in the State Nuclear Waste Management Fund

Fortum contributes funds to the State Nuclear Waste Management Fund in Finland to cover future obligations based on the legal liability calculated according to the Finnish Nuclear Energy Act. The Fund is managed by governmental authorities. The carrying value of the Fund in Fortum's balance sheet is calculated according to IFRIC 5 *Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*.

According to the Nuclear Energy Act, Fortum is obligated to contribute the funds in full to the State Nuclear Waste Management Fund to cover the legal liability.

The Fund is from an IFRS perspective overfunded with EUR 278 million (2011: 250), since Fortum's share of the Fund on 31 December 2012 is EUR 956 million (2011: 903) and the carrying value in the balance sheet is EUR 678 million (2011: 653).

Operating profit for 2012 includes a negative total adjustment of EUR -31 million (2011: -28), since the value of the Fund has increased more than the carrying value of the provision. These adjustments are recognised in "Items affecting comparability" and are not included in comparable operating profit in the Power segment, see Note 5 Segment reporting and Note 6 Items affecting comparability. As long as the Fund stays overfunded from an IFRS perspective, positive accounting effects to operating profit will always occur when the nuclear provision is increasing more than the net payments to the Fund. Negative accounting effects will occur when the net payments to the Fund are higher than the increase of the provision.

34.2.1 Funding obligation target

The funding obligation target for each year is decided by the Ministry of Employment and the Economy in December each year after the legal liability has been decided. The difference between the funding obligation target for Fortum and Fortum's actual share of the State Nuclear Waste Management Fund is paid in Q1 each year.

The funding obligation target, corresponding to the new legal liability amounts to EUR 996 million (2011: 941). Real estate mortgages and other securities given also cover unexpected events according to the Nuclear Energy Act.

[See also Note 39 Pledged assets and Note 42 Contingent liabilities.](#)

34.3 Borrowing from the Finnish State Nuclear Waste Management Fund

Finnish participants in the State Nuclear Waste Management Fund are allowed to borrow from the Fund according to certain rules. Fortum uses the right to borrow back and has pledged Kemijoki Oy shares as security for the loans. The loans are renewed yearly.

See also [Note 32 Interest-bearing liabilities and Note 39 Pledged assets](#).

34.4 Associated companies

Fortum has at year-end received updated cash flow information for its nuclear associated companies Teollisuuden Voima Oyj, OKG AB and Forsmarks Kraftgrupp AB. Based on the updated cost estimates, the effect in share of profits was EUR +10 million in 2012. In 2011, the effect in share of profits was EUR +17 million. The difference between 2012 and 2011 is mostly due to lower interest income in Swedish Nuclear Waste Fund. The State Nuclear Waste Management Fund in Finland is overfunded whereas the value of the Swedish Nuclear Waste Fund is estimated to be slightly below the value of provisions at year-end 2012.

Fortum has according to law given guarantees to the Finnish and Swedish nuclear Funds on behalf of the associated companies, to guarantee that sufficient funds exist to cover future expenses of decommissioning of the power plants and disposal of spent fuel.

Through the shareholding in TVO, Fortum uses the right to borrow from the Fund.

See also [Note 42 Contingent liabilities](#).

35 Other provisions

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EUR million	2012				2011			
	CSA provision	Environmental	Other	Total	CSA provision	Environmental	Other	Total
1 January	180	12	17	209	208	12	28	248
Provisions for the period	-	0	15	15	8	0	8	16
Provisions used	-23	0	-7	-30	-5	0	-9	-14
Provisions reversed	-	0	-2	-2	-42	-1	-10	-53
Unwinding of discount	15	0	0	15	16	0	0	16
Exchange rate differences	6	0	1	7	-5	1	0	-4
31 December	178	12	24	214	180	12	17	209
Of which current provisions	-	6	1	7	-	-	4	4
Of which non-current provisions	178	6	23	207	180	12	13	205

Fortum's extensive investment programme in Russia is subject to possible penalties that can be claimed if the new capacity is substantially delayed or agreed major terms of the capacity supply agreement (CSA) are not otherwise fulfilled. The provision for possible penalties amounts to EUR 178 million at year end 2012 (2011: 180). The effect on the provision from changes in the timing of commissioning of new power plants is assessed at each balance sheet date and provision is adjusted accordingly. The increase in the provision due to the discounting during 2012 amounted to EUR 15 million. This amount was accounted for in other financial expenses. Paid penalties during 2012 amounted to EUR 23 million.

Environmental provision relates to dismantling of buildings and structures on contaminated land. Main part of the provision is estimated to be used within ten years.

Restructuring provisions, included in other provisions, amounts to EUR 1 million (2011: 3).

Other provisions include also provisions for insurance payments, tax claims and provisions for onerous contracts. The other provisions are estimated to be used within two to five years.

36 Pension obligations

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The Group companies have various defined benefit and defined contribution pension plans in accordance with the local conditions and practices in the countries in which they operate. The concerned pensions are primarily retirement pensions, disability pensions and family pensions but contain also early retirement arrangements.

In Finland the most significant pension plan is the Finnish Statutory Employment Pension Scheme (TyEL) in which benefits are directly linked to employees' earnings. These pensions are funded in insurance companies and treated as defined contribution plans. The benefits provided under TyEL are old age pensions, disability pensions, unemployment pensions and survivors' pensions. In addition, certain Fortum employees in Finland have additional pension coverage through the company's own pension fund or through insurance companies. These defined benefit plans are fully funded. The Fortum Pension Fund is a closed fund providing old age pension, disability pension, survivor's pension and funeral grant. The additional pensions through insurance companies provide old age pension and funeral grant.

In Sweden the Group operates several defined benefit and defined contribution plans like the general ITP-pension plan and the PA-KL and PA-KFS plans that are eligible for employees within companies formerly owned by municipalities. The defined benefit plans are fully funded and have partly been financed through Fortum's own pension fund and partly through insurance premiums. The pension arrangements comprise normal retirement pension, complementary retirement pensions, survivors' pension and disability pension. The most significant pension plan is the ITP-plan for white-collar employees in permanent employment (or temporary employees after a certain waiting period), who fulfill the age conditions. To qualify for a full pension the employee must have a projected period of pensionable service, from the date of entry until retirement age, of at least 30 years.

The part of the ITP multiemployer pension plan that is secured by paying pension premiums to Alecta, in Fortum's case the collective family pension, is accounted for as a defined contribution plan due to that there is no consistent and reliable basis to allocate assets or liabilities to the participating entities within the ITP insurance. The reason for this is that it is not possible to determine from the terms of the plan to which extent a surplus or a deficit will affect future contributions.

The Norwegian companies are part of schemes that are common for municipalities in Norway. These are defined benefit pension plans and provide old age pensions, disability pension and survivor's pension, including pension benefits from the National Insurance Scheme (Folketrygden). The schemes are fully funded within the rules set out in the Norwegian insurance legislation.

Pension arrangements in Russia and Poland include payments made to the state pension fund. These arrangements are treated as defined contribution plans. In addition the Russian and Polish companies participate in certain defined benefit plans, defined by collective agreements, which are unfunded. The benefits provided under these arrangements include, in addition to pension payments, one-time benefits paid in case of employee mortality or disability as well as lump sum payments for anniversary and financial support to honored workers and pensioners.

In other countries the pension arrangements are done in accordance with the local legislation and practice, mostly being defined contribution plans.

A total of 2,542 (2011: 2,650) Fortum employees are included in defined benefit plans providing pension benefits. Pensions or related benefits were paid to a total of 4,303 (2011: 4,336) persons.

Amounts recognised in the income statement

EUR million	2012	2011
Current service cost	14	13
Interest cost	19	19
Expected return on plan assets	-21	-24
Settlements	1	0
Past service cost	0	0
Actuarial gains and losses	12	6
Curtailments	-1	2
Total included in employee benefits (defined benefit plans)	24	16

See defined benefits plans Note 14 Employee benefits

The actual return on plan assets in Finland and Sweden totalled EUR 35 million (2011: -6).

Amounts recognised in the balance sheet

EUR million	2012	2011
Present value of funded obligations	588	523
Fair value of plan assets	-467	-430
Deficit (+) / surplus (-)	121	93
Present value of unfunded obligations ¹⁾	9	4
Unrecognised past service cost	2	2
Unrecognised actuarial gains and losses	-159	-140
Net asset (-) / liability (+) in the balance sheet	-27	-41
Defined benefit asset included in the assets	54	60
Defined benefit obligations	27	19
Other long-term benefits ²⁾	-	7
Total past service obligations	27	26
Defined benefit obligations included in the non-current liabilities	27	19
Defined benefit assets included in the non-current assets	-54	-60
Net asset (-) / liability (+)	-27	-41
Experience adjustments arising on funded obligations; gain (-) / loss (+)	31	-9
Experience adjustments arising on plan assets; gain (+) / loss (-)	40	-27

¹⁾ The unfunded obligation relates to arrangements in Russia, Poland and Great Britain.

²⁾ Other long-term benefits mainly concern obligations in Polish entities. Have been reclassified to defined benefit arrangements in 2012.

Contributions expected to be paid during the year 2013 are EUR 13 million.

Movement in the present value of defined benefit obligations

EUR million	2012	2011
1 January	527	476
Exchange rate differences	11	1
Reclassification	7	-
Service cost	14	13
Interest cost	19	19
Past service cost	1	-
Effect of settlement	-6	-7
Actuarial gains (-) / losses (+) on obligations	44	43
Benefits paid	-18	-18
Curtailments	-2	-
31 December	597	527

Movement in the fair value of plan assets

EUR million	2012	2011
1 January	430	444
Exchange rate differences	8	1
Reclassification	2	-
Expected return of plan assets	21	24
Actuarial gains and losses	15	-27
Contributions by employer	8	6
Effect of settlement	-5	-
Benefits paid	-12	-18
31 December	467	430

Fair value of plan assets

EUR million	2012	2011
Equity instruments	158	156
Debt instruments	153	144
Property, of which the total EUR 74 million (2011: 72) occupied by the Group	75	72
Company's own ordinary shares	4	5
Other assets	77	53
Total	467	430

When the pension plan has been financed through an insurance company, a specification of the plan assets has not been available. In these cases the fair value of plan assets has been included in other assets.

Amounts recognised in the balance sheet by country 2012

EUR million	Finland	Sweden	Other countries	Total
Present value of funded obligations	289	261	38	588
Fair value of plan assets	-251	-188	-28	-467
Deficit (+) / surplus (-)	38	73	10	121
Present value of unfunded obligations	-	-	9	9
Unrecognised past service cost	-	-	2	2
Unrecognised actuarial gains and losses	-76	-79	-4	-159
Net asset (-) / liability (+) in the balance sheet	-38	-6	17	-27
Defined benefit asset included in the assets	43	10	1	54
Pension obligations in the balance sheet	5	4	18	27

Amounts recognised in the balance sheet by country 2011

EUR million	Finland	Sweden	Other countries	Total
Present value of funded obligations	256	231	36	523
Fair value of plan assets	-236	-174	-20	-430
Deficit (+) / surplus (-)	20	57	16	93
Present value of unfunded obligations	-	-	4	4
Unrecognised past service cost	-	-	2	2
Unrecognised actuarial gains and losses	-61	-68	-11	-140
Net asset (-) / liability (+) in the balance sheet	-41	-11	11	-41
Defined benefit asset included in the assets	47	13	0	60
Pension obligations in the balance sheet	6	2	11	19

Comparative pension information

EUR million	2012	2011	2010	2009	2008
Present value of defined benefit obligation	597	527	476	409	406
Fair value of plan assets	-467	-430	-444	-398	-343
Deficit (+) / surplus (-) in the plan	130	97	32	11	63
Experience adjustments on plan liabilities; gain (-) / loss (+)	31	-9	9	-6	20
Experience adjustments on plan assets; gain (+) / loss (-)	40	-27	13	22	-48

The principal actuarial assumptions used

	2012				2011			
	Finland	Sweden	Russia	Other countries	Finland	Sweden	Russia	Other countries
Discount rate, %	2.72	2.90	7.50	3.96	3.68	3.40	8.50	3.30
Expected return on plan assets, %	5.80	3.93	N/A	3.89	5.87	3.83	N/A	4.80
Future salary increases, %	2.20	3.50	7.50	3.54	2.60	3.50	7.50	4.00
Future pension increases, %	2.10	2.00	6.00	3.85	2.10	2.00	6.00	3.00
Rate of inflation, %	2.00	2.00	6.00	1.80	2.10	2.00	6.00	2.00

The discount rate in Finland is based on high quality European corporate bonds with maturity that best reflects the estimated term of the defined benefit pension plans. The discount rate in Sweden and Norway is based on yields on Swedish respectively Norwegian covered bonds with maturity that best reflects the estimated term of the defined benefit pension plans. The covered bonds in Sweden and Norway are considered high quality bonds as they are secured with assets. The discount rate in Russia is based on the yield of long-term government bonds which are consistent with the currency and the estimated term of the post-employment benefit obligations. The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected returns are based on long-term real rates of return experienced in the respective markets and reported by external asset manager.

The discount, inflation and salary growth rates used are the key assumptions used when calculating defined benefit obligations. Effects of 0.5 percentage point change in the rates to the defined benefit obligation on 31 December 2012, holding all other assumptions stable, are presented in the table below.

Sensitivity of defined benefit obligation to changes in assumptions

Change in the assumption	Impact to the pension obligation increase + / decrease -	
	Finland	Sweden
0.5 % increase in discount rate	-7.0%	-9.3%
0.5 % decrease in discount rate	7.8%	10.7%
0.5 % increase in inflation rate	7.7%	8.3%
0.5 % decrease in inflation rate	6.8%	-7.4%
0.5 % increase in salary growth rate	1.2%	4.0%
0.5 % decrease in salary growth rate	-1.1%	-3.4%

37 Other non-current liabilities

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EUR million	2012	2011
Connection fees	418	415
Other liabilities	54	50
Total	472	465

Connection fees to the electricity network in Finland that are paid before 2003 are refundable, if the customer would ever disconnect the initial connection. The connection fees to the electricity network amounted to EUR 306 million (2011: 307).

Refundable connection fees to the district heating network in Finland amounted to EUR 112 million (2011: 108).

38 Trade and other payables

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EUR million	2012	2011
Trade payables	558	443
Accrued expenses and deferred income		
Accrued personnel expenses	57	86
Accrued interest expenses	228	162
Other accrued expenses and deferred income	105	156
Other liabilities		
VAT-liability	47	85
Current tax liability	18	37
Energy taxes	25	41
Advances received	41	90
Other liabilities	228	165
Total	1,307	1,265

The management considers that the amount of trade and other payables approximates fair value.

39 Pledged-assets

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EUR million	2012	2011
On own behalf		
For debt		
Pledges	293	290
Real estate mortgages	137	137
For other commitments		
Real estate mortgages	124	148
On behalf of associated companies and joint ventures		
Pledges and real estate mortgages	3	3

39.1 Pledged assets for debt

Finnish participants in the State Nuclear Waste Management Fund are allowed to borrow from the fund. Fortum has pledged shares in Kemijoki Oy as a security. The value of the pledged shares is unchanged, EUR 269 million on 31 December 2012 (2011: 269).

Pledges also include bank deposits as trading collateral of EUR 4 million (2011: 2) for trading of electricity and CO₂ emission allowances in Nasdaq OMX Commodities Europe, in Intercontinental Exchange (ICE) and European Energy Exchange (EEX).

Fortum Tartu in Estonia (60% owned by Fortum) has given real estate mortgages for a value of EUR 96 million (2011: 96) as a security for an external loan. Real estate mortgages have also been given for loans from Fortum's pension fund for EUR 41 million (2011: 41).

[Regarding the relevant interest-bearing liabilities, see Note 32 Interest-bearing liabilities.](#)

39.2 Pledged assets for other commitments

Fortum has given real estate mortgages in power plants in Finland for a value of EUR 124 million (2011: 148) as a security to the Ministry of Employment and Economy for the uncovered part of the legal liability and unexpected events relating to costs for future decommissioning and disposal of spent fuel in the wholly owned Loviisa nuclear power plant. The size of the securities given is updated every year in June, based on the decisions regarding the legal liabilities and the funding target which takes place around year-end every year. Due to the yearly update, the amount of real estate mortgages given as a security decreased by EUR 24 million. Pledges given related to Inkoo and Naantali power plants.

[See also Note 34 Nuclear related assets and liabilities and note 42 Contingent liabilities.](#)

40 Operating leases

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40.1 Leases as lessor

The operating rental income recognised in income statement was EUR 8 million (2011: 4).

Future minimum lease payments receivable on operating leases

EUR million	2012	2011
Not later than 1 year	6	10
Later than 1 year and not later than 5 years	6	10
Later than 5 years	4	4
Total	16	24

40.2 Leases as lessee

Fortum leases office equipment and cars under various non-cancellable operating leases, some of which contain renewal options. The future costs for non-cancellable operating lease contracts are stated below. Lease rental expenses amounting to EUR 31 million (2011: 25) are included in the income statement in other expenses. Future minimum lease payments include land leases with long lease periods.

Future minimum lease payments on operating leases

EUR million	2012	2011
Not later than 1 year	32	32
Later than 1 year and not later than 5 years	73	68
Later than 5 years	176	142
Total	281	242

41 Capital commitments

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EUR million	2012	2011
Property, plant and equipment	1,168	940
Intangible assets	4	10
Total	1,172	950

Capital commitments are capital expenditure contracted for at the balance sheet date but not recognised in the financial statements. Capital commitments have increased compared to year-end 2011. Commitments have mainly increased relating to OAO Fortum's investment programme and dam safety investments in Sweden, as well as CHP investments in Joensuu in Finland, Stockholm in Sweden and Jelgava in Latvia. On the other hand capital commitments relating to Bio CHP investments in Järvenpää, Finland have decreased due to progressing of the investment.

[For more information regarding capital expenditure, see Note 23 Property, plant and equipment.](#)

42 Contingent liabilities

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EUR million	2012	2011
On own behalf		
Other contingent liabilities	67	68
On behalf of associated companies and joint ventures		
Guarantees	487	347
Other contingent liabilities	125	125

42.1 Guarantees on own behalf

Other contingent liabilities on own behalf contain various contingent liabilities for group companies, EUR 67 million in 2012 (2011: 68).

42.2 Guarantees on behalf of associated companies

Guarantees and other contingent liabilities on behalf of associated companies and joint ventures mainly consist of guarantees relating to Fortum's associated nuclear companies Teollisuuden Voima Oyj (TVO), Forsmarks Kraftgrupp AB (FKA) and OKG AB (OKG). The guarantees are given in proportion to Fortum's respective ownership in each of these companies.

According to law, nuclear companies operating in Finland and Sweden shall give securities to the Finnish State Nuclear Waste Management Fund and the Swedish Nuclear Waste Fund respectively, to guarantee that sufficient funds exist to cover future expenses of decommissioning of the power plant and disposal of spent fuel. In Finland, Fortum has given a guarantee on behalf of TVO to the Finnish State Nuclear Waste Management Fund to cover Fortum's part of TVO's uncovered part of the legal liability and for unexpected events. The amount of guarantees is updated every year in June based on the legal liability decided in December the previous year. Due to the yearly update, the amount of guarantees given decreased to EUR 39 million (2011: 44).

In Sweden, Fortum has given guarantees on behalf of FKA and OKG to the Swedish Nuclear Waste Fund to cover Fortum's part of FKA's and OKG's liability. The guarantees for 2012-2014 were decided in December 2011 by the Swedish government and they became effective from September 2012. The total amount of guarantees for FKA and OKG increased from SEK 2,574 million (EUR 289 million) at year-end 2011 to SEK 3,696 million (EUR 431 million) in December 2012.

Meri-Pori power plant in Finland is owned by Fortum 54.55% and TVO 45.45%. Based on the participation agreement Fortum has to give a guarantee to TVO against possible loss of asset or breach in contract of TVO's share of the asset, EUR 125 million (2011: 125).

Fortum's 100% owned subsidiary Fortum Heat and Gas Oy has a collective contingent liability with Neste Oil Oyj of the demerged Fortum Oil and Gas Oy's liabilities based on the Finnish Companies Act's (734/1978) Chapter 14a Paragraph 6.

43 Legal actions and official proceedings

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43.1 Group companies

The Swedish Energy Authority (EI), which regulates and supervises the distribution network tariffs in Sweden, has issued a decision concerning the allowed income frame for the years 2012-2015. EI has based its decision on a model with a transition rule stating that it takes 18 years to reach the allowed level of income according to the new model. The EI decision has been appealed to the County Administrative Court by more than 80 distribution companies, including Fortum Distribution AB. The basis for Fortum Distribution AB's appeal is that the model is not compatible with the existing legislation and that EI has applied an incorrect method for the calculation of Weighted Average Cost of Capital (WACC).

In Finland, the Energy market authority has issued methodology decisions for the years 2012-2015. The decisions were appealed by more than 70 distribution companies. Main points of the appeal related to the changes in WACC-calculation and increased quality sanctions. Market Court gave its decision on 21 December 2012. It ordered the Energy market authority to reconsider and amend said methodology decisions as regards the calculation of the efficiency incentive in order to limit the financial impact of large

outages. Apart from said component, the Market Court dismissed the appeals. Fortum Espoo Distribution Oy and Fortum Sähkösiirto Oy have not appealed the Market Court decision.

Fortum received income tax assessments in Sweden for the year 2009 in December 2011. The appeal process is ongoing and based on legal analysis, no provision has been accounted for in the financial statements.

Fortum Sweden, Fortum Nordic AB and Fortum 1 AB have received income tax assessments for the year 2010 in December 2012 from the Swedish tax authorities. According to the tax authorities, Fortum would have to pay additional income taxes for the reallocation of the loans between the Swedish subsidiaries in 2004-2005 and for financing of the acquisition of TGC 10 (current OAO Fortum) in 2008. The claims are based on the change in tax regulation as of 2009. Fortum considers the claims unjustifiable and has appealed the decisions. No provision has been accounted for in the financial statements. If the decision by the tax authority remains final despite the appeals process, the impact on the net profit for the period would be approximately SEK 444 million (EUR 52 million). Years 2009 and 2010 assessments are totally SEK 869 million (EUR 101 million).

Fortum has 2012 received an income tax assessment in Belgium for the year 2008. Tax authorities disagree the tax treatment of Fortum EIF NV. Fortum finds the tax authorities interpretation not to be based on the local regulation. No provision has been accounted for in the financial statements. If the decision by the tax authorities remains final despite the appeal process, the impact on the net profit for the period would be approximately EUR 36 million. The tax is already paid. If the appeal is approved, Fortum will receive a 7% interest on the amount.

Fortum has on-going tax audits in Finland, Belgium and some other countries.

In addition to the litigations described above, some Group companies are involved in disputes incidental to their business. In management's opinion the outcome of such disputes will not have material effect on the Group's financial position.

43.2 Associated companies

In Finland Fortum is participating in the country's fifth nuclear power plant unit, Olkiluoto 3, through the shareholding in Teollisuuden Voima Oyj (TVO) with an approximately 25% share representing some 400 MW in capacity. The civil construction works of the Olkiluoto 3 plant unit have been mainly completed, and the major components of the reactor plant have been installed. The installation works and plant automation system engineering of Olkiluoto 3 plant unit have not progressed according to the schedules of AREVA-Siemens Consortium, who is constructing the plant unit as a fixed-price turnkey project. Based on the information submitted by the Supplier, TVO estimates that the plant unit will not be ready for regular electricity production in 2014. During the reporting period TVO submitted a claim and defense in the International Chamber of Commerce (ICC) arbitration proceedings concerning the delay and the ensuing costs incurred at the Olkiluoto 3 project. The quantification estimate of TVO's costs and losses is approximately EUR 1.8 billion, which includes TVO's current actual claim and estimated part. The arbitration proceedings may continue for several years and TVO's claimed amounts will be updated. The proceedings were initiated in December 2008 by the OL3 supplier, AREVA-Siemens. The supplier's latest monetary claim including indirect items and interest is approximately EUR 1.9 billion. TVO has considered and found the claim by the supplier to be without merit.

During the second quarter 2012 TVO received an International Chamber of Commerce arbitration tribunal decision concerning a few partial payments previously made, to a blocked account, to be released to the Olkiluoto 3 plant supplier. The decision takes no position on the delay of the plant unit and the cost resulting from the delay.

44 Related party transactions

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44.1 The Finnish State and companies owned by the Finnish State

At the end of 2012 the Finnish State owned 50.76% of the company. No changes have occurred during year 2012.

[See The Fortum share and shareholders section of the Operating and financial review for further information on Fortum shareholders.](#)

All transactions between Fortum and other companies owned by the Finnish State are on arms length basis. In the ordinary course of business Fortum engages in transactions on commercial terms with associated companies and other related parties, which are on same terms as they would be for third parties, except for some associates as discussed later in this note.

44.2 Board of Directors and Fortum Management Team

The key management personnel of the Fortum Group are the members of Fortum Management Team and the Board of Directors. Fortum has not been involved in any material transactions with members of the Board of Directors or Fortum Management Team. No loans exist to any member of the Board of Directors or Fortum Management Team at 31 December 2012.

[See Note 14 Employee benefits for further information on the Board of Directors and Fortum Management Team remuneration and shareholdings.](#)

44.3 Associated companies and joint ventures

Fortum owns shareholdings in associated companies and joint ventures which in turn own hydro and nuclear power plants. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership or other agreements. Each owner is liable for an equivalent portion of costs regardless of output. The associated companies are not profit making, since the owners purchase electricity at production cost including interest costs and production taxes, which generally is lower than market price.

[For further information on transactions and balances with associated companies and joint ventures, see Note 24 Participations in associated companies and joint ventures.](#)

44.4 Pension fund

The Fortum pension funds in Finland and Sweden are stand-alone legal entities which manage pension assets related to the part of the pension coverage in Sweden and Finland. The assets include Fortum shares representing 0.03% (2011: 0.03%) of the company's outstanding shares. Real estate and premises owned by the Pension funds have been leased to Fortum. In 2012 the total amount paid by Fortum in contributions to the pension funds was EUR 0 million (2011: 0). Real estate mortgages have also been given for loans from Fortum's pension fund for EUR 41 million (2011: 41).

45 Events after the balance sheet date

Fortum announced 31 January 2013 that the company has decided to assess the strategic position of its electricity distribution business. In accordance with its strategy, Fortum seeks growth in low-carbon power generation, energy-efficient combined heat and power (CHP) production and customer offerings. The assessment has no impact on Fortum's electricity distribution customers and excludes the company's electricity retail business. Fortum expects to conclude the assessment during 2013.

46 Subsidiaries by segment on 31 December 2012

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- = Power
- = Heat
- ▲ = Distribution
- = Electricity Sales
- = Russia
- ▼ = Other

- 1) Founded during the year
- 2) Shares held by the parent company
- 3) Control through contractual arrangements

Company name	Domicile	Segment	Group holding, %
AW-Energy Oy ^{2), 3)}	Finland	▼	13.6
Fortum AL Oy ^{1), 2)}	Finland	▼	100.0
Fortum Asiakaspalvelu Oy ²⁾	Finland	▲ ○	100.0
Fortum Assets Oy	Finland	▼	100.0
Fortum BCS Oy	Finland	□	100.0
Fortum C&H Oy ¹⁾	Finland	▼	100.0
Fortum Espoo Distribution Oy ²⁾	Finland	▲	100.0
Fortum Heat and Gas Oy ²⁾	Finland	■ ▼	100.0
Fortum Hyötytuotanto Oy	Finland	●	100.0
Fortum Markets Oy ²⁾	Finland	○	100.0
Fortum Norm Oy ^{1), 2)}	Finland	▼	100.0
Fortum Nuclear Services Oy	Finland	●	100.0
Fortum Portfolio Services Oy	Finland	○	100.0
Fortum Power and Heat Oy ²⁾	Finland	● ■ □ ○ ▲ ▼	100.0
Fortum Sähkönsiirto Oy ²⁾	Finland	▲	100.0
Hexivo Oy	Finland	●	100.0
Kiinteistö Oy Espoon Energiatalo	Finland	▼	100.0
Koillis-Pohjan Energiantuotanto Oy	Finland	●	100.0
KPPV-Sijoitus Oy	Finland	▲	100.0
Lounais-Suomen Lämpö Oy	Finland	▲	100.0
Oy Pauken Ab	Finland	▼	100.0
Oy Tersil Ab	Finland	▲	100.0
Oy Tertrade Ab	Finland	▲	100.0
Tunturituuli Oy	Finland	●	55.4
Varsinais-Suomen Sähkö Oy	Finland	▲	100.0

Fortum Project Finance N.V. ²⁾	Belgium	▼	100.0
Fortum Energi A/S	Denmark	○	100.0
AS Anne Soojus	Estonia	■	60.0
AS Fortum Tartu	Estonia	■	60.0
AS Tartu Joujaam	Estonia	■	60.0
AS Tartu Keskkatlamaja	Estonia	■	60.0
Fortum CFS Eesti OU	Estonia	▼	100.0
Fortum Eesti AS	Estonia	■	100.0
Fortum France S.N.C	France	●	100.0
Fortum Service Deutschland GmbH	Germany	●	100.0
Fortum Direct Ltd	Great Britain	●	100.0
Fortum Energy Ltd	Great Britain	●	100.0
Fortum Insurance Ltd	Great Britain	▼	100.0
Fortum O&M(UK) Limited	Great Britain	●	100.0
Grangemouth CHP Limited	Great Britain	●	100.0
IVO Energy Limited	Great Britain	●	100.0
Fortum India Private Limited ^{1), 2)}	India	▼	100.0
Fortum C&P ¹⁾	Ireland	▼	100.0
Fortum Finance Ireland Limited ^{1), 2)}	Ireland	▼	100.0
Fortum Jelgava, SIA	Latvia	■	100.0
Fortum Latvija, SIA	Latvia	■	100.0
UAB Fortum Ekosiluma	Lithuania	■	100.0
UAB Fortum Heat Lietuva	Lithuania	■	100.0
UAB Fortum Klaipeda	Lithuania	■	95.0
UAB Joniskio energija	Lithuania	■	66.0
UAB Svencioniu energija	Lithuania	■	50.0
Fortum Baltic Investments SNC	Luxemburg	■	100.0
Fortum Investment SARL ^{1), 2)}	Luxemburg	▼	100.0
Fortum L.A.M SNC.	Luxemburg	■	100.0
Fortum Luxembourg SARL ¹⁾	Luxemburg	▼	100.0
Fortum Meter Lease Norway SNC	Luxemburg	▲	100.0
Fortum Meter Lease SNC	Luxemburg	▲	100.0
Fortum RER S.A. ¹⁾	Luxemburg	▼	100.0
Fortum Russia CHP Lease SNC	Luxemburg	□	100.0
Fortum Sendi Prima Sdn Bhd	Malaysia	●	100.0
Fortum Distribution AS	Norway	▲ ○	100.0
Fortum Fjernvarme AS	Norway	■	100.0
Fortum Förvaltning AS	Norway	●	100.0
Fortum Holding Norway AS	Norway	■ ▲ ○ ▼	100.0
Fortum Leasing KS	Norway	■	100.0
Fortum Markets AS	Norway	○	100.0
Fortum Bytom SA	Poland	■	97.8
Fortum Power and Heat Polska Sp.z.o.o	Poland	■ ▼ ●	100.0
Fortum Zabrze SA	Poland	■	97.0
Rejonowa Spółka Ciepłownicza Sp. z o.o.	Poland	■	97.8
Chelyabinsk Energoremont	Russia	□	97.5
Fortum Invest	Russia	□	100.0
LLC Fortum Energy OOO Fortum Energija	Russia	●	100.0
OAO Fortum	Russia	□	97.5
Urals Heat Network	Russia	□	97.5
AB Fortum Värme Holding samägt med Stockholms stad	Sweden	■	50.1
AB Fortum Värme samägt med Stockholms stad	Sweden	■	50.1
Akallaverket Aktiebolag	Sweden	■	37.6

Blybergs Kraftaktiebolag	Sweden	●	66.7
Brista 2 Aktiebolag	Sweden	■	42.6
Brista 2 Kommanditbolag	Sweden	■	42.6
Brista Spårterminal AB	Sweden	■	50.1
Brännälven Kraft AB	Sweden	●	67.0
Bullerforsens Kraft Aktiebolag	Sweden	●	88.0
Fortum 1 AB	Sweden	□	100.0
Fortum AMCO AB	Sweden	▼	100.0
Fortum Dalälvens Kraft AB	Sweden	●	100.0
Fortum Distribution AB	Sweden	▲	100.0
Fortum Fastigheter AB	Sweden	▼	100.0
Fortum Generation AB	Sweden	●	100.0
Fortum Indalskraft AB	Sweden	●	100.0
Fortum Ljunga Kraft AB	Sweden	●	100.0
Fortum Ljusnans Kraft AB	Sweden	●	100.0
Fortum Markets AB	Sweden	○	100.0
Fortum Nordic AB ²⁾	Sweden	▼	100.0
Fortum Power and Heat AB	Sweden	■ ○ ▼ ▲	100.0
Fortum Produktionsnät AB	Sweden	●	100.0
Fortum Sweden AB ²⁾	Sweden	▼	100.0
Fortum Vind Norr AB	Sweden	●	100.0
Fortum Vindvärme AB ¹⁾	Sweden	■	50.1
Fortum Värme Invest AB ¹⁾	Sweden	■	50.1
Fortum Zeta AB	Sweden	▼	100.0
Fortum Älvkraft i Värmland AB	Sweden	●	100.0
Laforsen Produktionsnät Aktiebolag	Sweden	▲	80.0
Mellansvensk Kraftgrupp Aktiebolag	Sweden	●	86.9
Oreälvens Kraftaktiebolag	Sweden	●	65.0
Ryssa Energi AB	Sweden	○	100.0
Sigtuna-Väsby Fastighets AB	Sweden	■	50.1
Stockholm Gas AB	Sweden	■	50.1
Streamgate Black AB	Sweden	●	100.0
Uddeholm Kraft Aktiebolag	Sweden	●	100.0
Värmlandskraft-OKG-delägarna Aktiebolag	Sweden	●	73.3
FB Generation Services B.V.	The Netherlands	●	75.0
Fortum AC B.V.	The Netherlands	▼	100.0
Fortum DC B.V.	The Netherlands	▼	100.0
Fortum Finance II B.V.	The Netherlands	▼	100.0
Fortum Holding B.V. ²⁾	The Netherlands	● ▼ ■	100.0
Fortum Power Holding B.V.	The Netherlands	●	100.0
Fortum Russia B.V.	The Netherlands	□	100.0
Fortum Russia Holding B.V.	The Netherlands	▼	100.0
Fortum SAR B.V.	The Netherlands	▼	100.0
Fortum Wave Power B.V.	The Netherlands	●	100.0

Parent company financial statements, Finnish GAAP (FAS)

Income statement

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EUR million	Note	2012	2011
Sales	2	34	77
Other income	3	8	36
Employee costs	4	-38	-36
Depreciation, amortisation and write-downs	7	-7	-8
Other expenses		-67	-67
Operating profit		-70	2
Financial income and expenses	5	409	874
Profit after financial items		339	876
Group contributions ¹⁾		574	542
Profit before income tax		913	1,418
Income tax expense	6	-84	-101
Profit for the period		829	1,317

¹⁾ Taxable profits transferred from Finnish subsidiaries.

Balance sheet

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EUR million	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Non-current assets			
Intangible assets	7	16	15
Property, plant and equipment	7	10	11
Investments in group companies	7	16,450	15,645
Interest-bearing receivables from group companies	7	1,561	1,777
Investments in associated companies	7	-	0
Interest-bearing receivables from associated companies	7	1	1
Other non-current assets	7	1	4
Deferred tax assets		5	5
Total non-current assets		18,044	17,458
Current assets			
Other current receivables from group companies	8	582	552
Other current receivables from associated companies	8	0	0
Other current receivables	8	39	62
Cash and cash equivalents	9	714	460
Total current assets		1,335	1,074
Total assets		19,379	18,532

EUR million	Note	31 Dec 2012	31 Dec 2011
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	10		
Share capital		3,046	3,046
Share premium		2,822	2,822
Retained earnings		3,733	3,304
Profit for the period		829	1,317
Total shareholders' equity		10,430	10,489
Provisions for liabilities and charges		-	0
LIABILITIES			
Non-current liabilities			
External interest-bearing liabilities	11	6,863	5,952
Interest-bearing liabilities to group companies	11	552	814
Interest-bearing liabilities to associated companies	11	234	223
Other non-current liabilities		5	5
Total non-current liabilities		7,654	6,994
Current liabilities			
External interest-bearing liabilities	11	958	761
Trade and other payables to group companies	12	95	46
Trade and other payables to associated companies	12	4	4
Trade and other payables	12	238	238
Total current liabilities		1,295	1,049
Total liabilities		8,949	8,043
Total equity and liabilities		19,379	18,532

Cash flow statement

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EUR million	2012	2011
Cash flow from operating activities		
Profit for the period	829	1,317
Adjustments:		
Income tax expense	84	101
Group contributions	-574	-542
Finance costs - net	-409	-874
Depreciations, amortisation and write-downs	7	8
Operating profit before depreciations	-63	10
Non-cash flow items and divesting activities	0	-3
Interest and other financial income	64	87
Interest and other financial expenses paid	-191	-225
Dividend income	683	1,088
Group contribution received	542	812
Realised foreign exchange gains and losses	52	-151
Income taxes paid	-61	-167
Funds from operations	1,026	1,451
Other short-term receivables increase (-) / decrease (+)	2	-1
Other short-term payables increase (+) / decrease (-)	35	-35
Change in working capital	37	-36
Net cash from operating activities	1,063	1,415
Cash flow from investing activities		
Capital expenditures	-8	-9
Acquisition of shares and capital contributions in subsidiaries	-912	-50
Acquisition of other shares	0	-1
Proceeds from sales of fixed assets	0	0
Proceeds from sales of shares in associates	0	-
Change in interest-bearing receivables and other non-current assets	230	184
Net cash used in investing activities	-690	124
Cash flow before financing activities	373	1,539
Cash flow from financing activities		
Proceeds from long-term liabilities	1,351	813
Payment of long-term liabilities	-508	-268
Change in cashpool liabilities	-253	-547
Change in short-term liabilities	179	-305
Dividends paid	-888	-888
Net cash used in financing activities	-119	-1,195
Net increase (+) / decrease (-) in cash and cash equivalents	254	344
Cash and cash equivalents at the beginning of the period	460	116
Cash and cash equivalents at the end of the period	714	460

Notes to the parent company financial statements

1 Accounting policies and principles

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The financial statements of Fortum Oyj are prepared in accordance with Finnish Accounting Standards (FAS).

1.1 Sales

Sales include sales revenue from actual operations and exchange rate differences on trade receivables, less discounts and indirect taxes such as value added tax.

1.2 Other income

Other income includes gains on the sales of property, plant and equipment and shareholdings, as well as all other operating income not related to the sales of products or services, such as rents.

1.3 Foreign currency items and derivative instruments

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the financial net in the income statement.

Fortum Oyj enters into derivative contracts mainly for hedging foreign exchange and interest rate exposures.

Derivatives used to hedge balance sheet items e.g. bank accounts, loans or receivables are valued employing the exchange rate quoted on the balance sheet date, and gains or losses are recognised in the income statement. The interest element on forward contracts is accrued for the period.

Option premiums are treated as advances paid or received until the option matures, and any losses on options entered into other than for hedging purposes are entered as an expense in the income statement.

Interest income or expense for derivatives used to hedge the interest rate risk exposure is accrued over the period to maturity and is recognised as an adjustment to the interest expense of the liabilities.

1.4 Income taxes

Income taxes presented in the income statement consist of accrued taxes for the financial year and tax adjustments for prior years.

1.5 Property, plant and equipment and depreciation

The balance sheet value of property, plant and equipment consists of historical costs less depreciation and other deductions. Property, plant and equipment are depreciated using straight-line depreciation based on the expected useful life of the asset.

The depreciation is based on the following expected useful lives:

Buildings and structures	15-40 years
Machinery and equipment	3-15 years
Other intangible assets	5-10 years

1.6 Pension expenses

Statutory pension obligations are covered through a compulsory pension insurance policy or Group's own pension fund. Payments to Group's pension fund are recorded in the income statement in amounts determined by the pension fund according to the actuarial assumptions pursuant to the Finnish Employees' Pension Act.

1.7 Long-term incentive schemes

Costs related to the Fortum long-term incentive plans are accrued over the plan period and the related liability is booked to the balance sheet.

1.8 Provisions

Foreseeable future expenses and losses that have no corresponding revenue to which Fortum is committed or obliged to settle, and whose monetary value can be reasonably assessed, are entered as expenses in the income statement and included as provisions in the balance sheet.

2 Sales by market area

[Download as Excel](#)

EUR million	2012	2011
Finland	20	61
Other countries	14	16
Total	34	77

3 Other income

[Download as Excel](#)

EUR million	2012	2011
Gain on sales of shareholdings	0	-
Rental and other income	8	36
Total	8	36

4 Employee costs

[Download as Excel](#)

EUR million	2012	2011
Personnel expenses		
Wages, salaries and remunerations	29	29
Indirect employee costs		
Pension costs	6	5
Other indirect employee costs	2	1
Other personnel expenses	1	1
Total	38	36
Salaries and remunerations		
President and CEO	2	2
Board of Directors	0	0
Supervisory Board	-	0
Total	2	2

Supervisory Board has been dissolved in April 2011.

For the President and CEO the retirement age is 63. The pension obligations are covered either through insurance companies or through the Fortum Pension Fund.

[See also Note 14 Employee benefits and](#)

[Note 36 Pension obligations in the Consolidated financial statements.](#)

	2012	2011
Average number of employees	334	302

5 Financial income and expenses

[Download as Excel](#)

EUR million	2012	2011
Dividend income from group companies	683	1,088
Dividend income from associated companies and other companies	-	0
Interest and other financial income from group companies	60	76
Write-downs of participations in group companies	-110	-50
Interest and other financial income	2	4
Exchange rate differences	-4	10
Interest and other financial expenses to group companies	-6	-45
Interest and other financial expenses	-216	-209
Total	409	874
Total interest income and expenses		
Interest income	62	80
Interest expenses	-217	-249
Interest net	-155	-169

Write-downs of participations in group companies are related to shares in Fortum Heat and Gas Oy. Write-downs are a consequence of received dividends.

6 Income tax expense

[Download as Excel](#)

EUR million	2012	2011
Taxes on regular business operations	-57	-40
Taxes on group contributions	141	141
Total	84	101
Current taxes for the period	84	91
Current taxes for prior periods	0	12
Changes in deferred tax	0	-2
Total	84	101

7 Non-current assets

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Intangible assets

EUR million	Intangible assets total
Cost 1 January 2012	42
Additions	6
Disposals	-1
Cost 31 December 2012	47
Accumulated depreciation 1 January 2012	27
Disposals	-1
Depreciation for the period	5
Accumulated depreciation 31 December 2012	31
Carrying amount 31 December 2012	16
Carrying amount 31 December 2011	15

Property, plant and equipment

EUR million	Buildings and structures	Machinery and equipment	Advances paid and construction in progress	Total
Cost 1 January 2012	1	31	5	37
Additions and transfers between categories	-	3	-1	2
Disposals	0	-1	-	-1
Cost 31 December 2012	1	33	4	38
Accumulated depreciation 1 January 2012	0	26	-	26
Disposals	0	0	-	0
Depreciation for the period	0	2	-	2
Accumulated depreciation 31 December 2012	0	28	-	28
Carrying amount 31 December 2012	1	5	4	10
Carrying amount 31 December 2011	1	5	5	11

Investments

EUR million	Shares in Group companies	Receiv- ables from Group companies	Shares in associ- ated companies	Receiv- ables from associated companies	Other non- current assets	Total
1 January 2012	16,415	1,777	0	1	4	18,197
Additions ¹⁾	9,829	-	-	-	0	9,829
Disposals ²⁾	-8,914	-216	0	0	-3	-9,133
31 December 2012	17,330	1,561	-	1	1	18,893
Accumulated depreciation						
1 January 2012	-770	-	-	-	-	-770
Impairment charges ³⁾	-110	-	-	-	-	-110
Accumulated depreciation						
31 December 2012 ²⁾	-880	-	-	-	-	-880
Carrying amount						
31 December 2012	16,450	1,561	-	1	1	18,013

¹⁾ Additions regarding shares comprise acquisitions of shares and capital contributions and reclassification between other non-current assets and shares in Group companies.

²⁾ Disposals regarding shares comprise divestments and repayments of capital.

³⁾ Write-downs of participations in group companies are related to shares in Fortum Heat and Gas Oy. Write-downs are a consequence of received dividends.

8 Other current receivables

[Download as Excel](#)

EUR million	2012	2011
Other current receivables from group companies		
Trade receivables	5	8
Other receivables	574	542
Accrued income and prepaid expenses	3	2
Total	582	552
Other current receivables from associated companies		
Trade receivables	0	0
Other current receivables		
Trade receivables	0	0
Other receivables	1	0
Accrued income and prepaid expenses	38	62
Total	39	62

9 Cash and cash equivalents

[Download as Excel](#)

EUR million	2012	2011
Cash at bank and in hand	714	114
Bank deposits	-	346
Cash and cash equivalents	714	460

10 Changes in shareholders' equity

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EUR million	Share capital	Share premium	Retained earnings	Total
Total equity 31 December 2011	3,046	2,822	4,621	10,489
Cash dividend	-	-	-888	-888
Profit for the period	-	-	829	829
Total equity 31 December 2012	3,046	2,822	4,562	10,430
Total equity 31 December 2010	3,046	2,822	4,192	10,060
Cash dividend	-	-	-888	-888
Profit for the period	-	-	1,317	1,317
Total equity 31 December 2011	3,046	2,822	4,621	10,489

EUR million	2012	2011
Distributable funds 31 December	4,562	4,621

11 Interest-bearing liabilities

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External interest-bearing liabilities

EUR million	2012	2011
Bonds	5,205	4,346
Loans from financial institutions	747	741
Other long-term interest-bearing debt	911	865
Total long-term interest-bearing debt	6,863	5,952
Current portion of long-term bonds	499	393
Current portion of loans from financial institutions	25	112
Commercial papers	228	122
Other short-term interest-bearing debt	206	134
Total short-term interest-bearing debt	958	761
Total external interest-bearing debt	7,821	6,713

Maturity of external interest-bearing liabilities

EUR million	2012
2013	958
2014	1,171
2015	1,060
2016	837
2017	570
2018 and later	3,225
Total	7,821

External interest-bearing liabilities due after five years

EUR million	2012	2011
Bonds	2,228	1,302
Loans from financial institutions	287	449
Other long-term liabilities	710	671
Total	3,225	2,422

Other interest-bearing liabilities due after five years

EUR million	2012	2011
Interest-bearing liabilities to group companies	9	17
Interest-bearing liabilities to associated companies	234	223
Total	243	240

12 Trade and other payables

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EUR million	2012	2011
Trade and other payables to group companies		
Trade payable	39	2
Other liabilities	56	44
Accruals and deferred income	0	0
Total	95	46
Trade and other payables to associated companies		
Accruals and deferred income	4	4
Total	4	4
Trade and other payables		
Trade payables	9	10
Other liabilities	6	7
Accruals and deferred income	223	221
Total	238	238

13 Contingent liabilities

[Download as Excel](#)

EUR million	2012	2011
On own behalf		
Other contingent liabilities	5	5
On behalf of group companies		
Guarantees	527	663
On behalf of associated companies		
Guarantees	431	303
Contingent liabilities total	963	971

Operating leases

EUR million	2012	2011
Lease payments		
Not later than 1 year	3	1
Later than 1 year and not later than 5 years	7	1
Total	10	2

Derivatives

EUR million	2012			2011		
	Contract or notional value	Fair value	Not recognised as an income	Contract or notional value	Fair value	Not recognised as an income
Forward rate agreements	116	0	0	196	0	0
Interest rate swaps	6,268	201	169	4,737	140	107
Forward foreign exchange contracts ¹⁾	19,909	-54	1	17,276	-63	7
Interest rate and currency swaps	544	-8	0	247	1	-1

¹⁾ Includes also future positions.

14 Related party transactions

See Note 44 Related party transactions in the Consolidated financial statements.

Proposal for the distribution of earnings

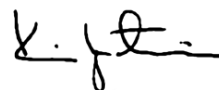
Parent company's distributable equity as of 31 December 2012 amounted to EUR 4,561,649,150.11. After the end of the financial period there have been no material changes in the financial position of the Company.

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a dividend of EUR 1.00 per share for 2012, totalling EUR 888,367,045.00 based on the number of registered shares as of 30 January 2013.

Espoo, 30 January 2013



Sari Baldauf



Kim Ignatius



Mino Akhtarzand



Heinz-Werner Binzel



Ilona Ervasti-Vaintola



Joshua Larson



Christian Ramm-Schmidt



Tapio Kuula

President and CEO

Auditor's report

To the Annual General Meeting of Fortum Oyj

We have audited the accounting records, the financial statements, the Operating and Financial Review, and the administration of Fortum Oyj for the financial period 1.1.-31.12.2012. The financial statements comprise of the consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, as well as the parent company's income statement, balance sheet, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the Operating and Financial Review that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the Operating and Financial Review in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the Operating and Financial Review based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the Operating and Financial Review are free from material misstatement, and whether the members of the Board of Directors of the parent company and the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the Operating and Financial Review. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and Operating and Financial Review that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and Operating and Financial Review.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the Operating and Financial Review

In our opinion, the financial statements and the Operating and Financial Review give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the

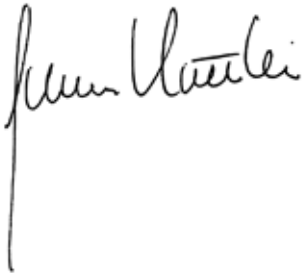
preparation of the financial statements and the Operating and Financial Review in Finland. The information in the Operating and Financial Review is consistent with the information in the financial statements.

Other opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company and the President and CEO should be discharged from liability for the financial period audited by us.

Espoo, 30 January 2013

Deloitte & Touche Oy
Authorized Public Audit Firm

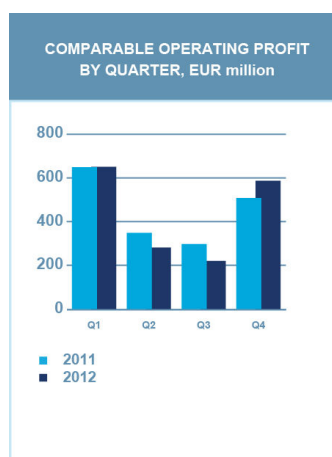


Jukka Vattulainen
Authorized Public Accountant

Quarterly financial information

Selected data based on quarterly consolidated income statement

EUR million	Q1/ 2011	Q2/ 2011	Q3/ 2011	Q4/ 2011	2011	Q1/ 2012	Q2/ 2012	Q3/ 2012	Q4/ 2012	2012
Sales	2,034	1,316	1,144	1,667	6,161	1,901	1,284	1,140	1,834	6,159
Comparable EBITDA	798	481	444	651	2,374	809	444	388	762	2,403
Comparable operating profit	649	348	297	508	1,802	651	281	220	587	1,739
Operating profit	900	609	314	579	2,402	736	283	223	619	1,861
Share of profit/loss of associates and joint ventures	59	15	-2	19	91	-7	26	7	-5	21
Finance costs - net	-55	-72	-72	-66	-265	-76	-73	-82	-76	-307
Profit before income tax	904	552	240	532	2,228	653	236	148	538	1,575
Income tax expense	-158	-74	-46	-88	-366	-119	-46	-30	123	-72
Profit for the period	746	478	194	444	1,862	534	190	118	661	1,503
Profit for the period, non-controlling interests	-68	-6	4	-23	-93	-39	-4	7	-58	-94
Profit for the period, owners of the parent	678	472	198	421	1,769	495	186	125	603	1,409
Earnings per share, basic, EUR	0.76	0.53	0.23	0.47	1.99	0.56	0.21	0.14	0.68	1.59
Earnings per share, diluted, EUR	0.76	0.53	0.23	0.47	1.99	0.56	0.21	0.14	0.68	1.59



Quarterly sales by segments

EUR million	Q1/ 2011	Q2/ 2011	Q3/ 2011	Q4/ 2011	2011	Q1/ 2012	Q2/ 2012	Q3/ 2012	Q4/ 2012	2012
Power	693	574	560	654	2,481	655	535	506	719	2,415
Heat	725	322	212	478	1,737	625	321	205	477	1,628
Russia	295	195	156	274	920	310	198	203	319	1,030
Distribution	311	215	203	244	973	308	223	225	314	1,070
Electricity Sales	373	183	139	205	900	247	135	119	221	722
Other	30	19	27	32	108	44	29	23	41	137
Netting of Nord Pool										
Spot transactions ¹⁾	-366	-150	-99	-134	-749	-188	-88	-66	-161	-503
Eliminations	-27	-42	-54	-86	-209	-100	-69	-75	-96	-340
Total	2,034	1,316	1,144	1,667	6,161	1,901	1,284	1,140	1,834	6,159

¹⁾ Sales and purchases with Nord Pool Spot are netted on Group level on an hourly basis and posted either as revenue or cost depending on if Fortum is a net seller or net buyer during any particular hour.

Quarterly comparable operating profit by segments

EUR million	Q1/ 2011	Q2/ 2011	Q3/ 2011	Q4/ 2011	2011	Q1/ 2012	Q2/ 2012	Q3/ 2012	Q4/ 2012	2012
Power	325	257	268	351	1,201	341	222	201	380	1,144
Heat	171	25	-14	96	278	161	23	-11	93	266
Russia	34	21	-16	35	74	48	4	-12	28	68
Distribution	124	60	62	49	295	110	49	57	101	317
Electricity Sales	11	10	4	2	27	9	11	9	9	38
Other	-16	-25	-7	-25	-73	-18	-28	-24	-24	-94
Comparable operating profit	649	348	297	508	1,802	651	281	220	587	1,739
Non-recurring items	82	193	0	9	284	110	11	1	33	155
Other items affecting comparability	169	68	17	62	316	-25	-9	2	-1	-33
Operating profit	900	609	314	579	2,402	736	283	223	619	1,861

The first and last quarters of the year are usually the strongest quarters for power and heat businesses.

Quarterly information from 2005 to 2012 is available on Fortum's website [www.fortum.com/investors/financial information](http://www.fortum.com/investors/financial%20information).

Corporate governance

Well-defined and transparent corporate governance provides a structure for responsible, value-oriented performance and supervisory functions of the company. It is an imperative that works for the benefit of Fortum's shareholders, financial markets, business partners, employees and the public.

The Board of Directors' and the President and CEO's responsibility for the administration and management of the company is regulated in the Finnish Companies Act, which is supplemented by the Finnish Corporate Governance Code. In the following, you will find Fortum's Corporate Governance Statement, as recommended in the Corporate Governance Code and information on management remuneration, followed by the biographical presentations.

Corporate Governance Statement

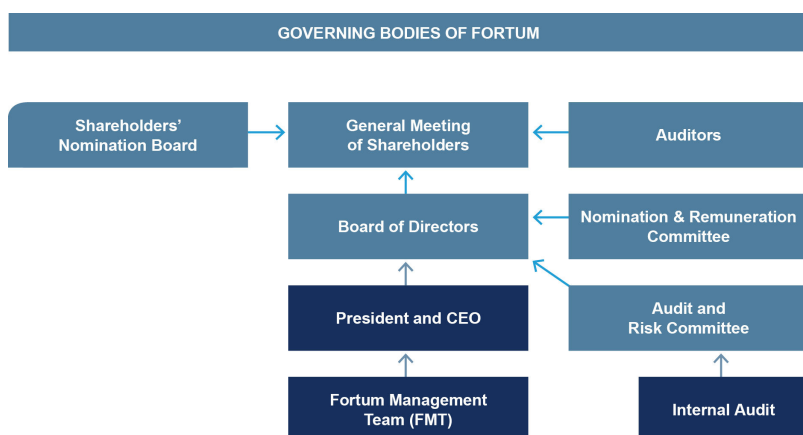
Corporate governance at Fortum is based on the laws of Finland, the company's Articles of Association and the Finnish Corporate Governance Code 2010. This Corporate Governance Statement has been prepared pursuant to Recommendation 54 of the Code and Chapter 2, Section 6 of the Securities Markets Act. The Corporate Governance Statement is issued separately from the company's Operating and financial review report.

The company complies with the Finnish Corporate Governance Code. In addition, Fortum complies with the rules of NASDAQ OMX Helsinki Ltd, where it is listed, and the rules and regulations of the Finnish Financial Supervisory Authority. Fortum's headquarters is located in Espoo, Finland.

Fortum prepares consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Securities Markets Act as well as the appropriate Financial Supervision Authority's standards and NASDAQ OMX Helsinki Ltd's rules. The company's Operating and financial review report and parent company financial statements are prepared in accordance with the Finnish Accounting Act and the opinions and guidelines of the Finnish Accounting Board. The auditor's report covers the Operating and financial review report, consolidated financial statements and the parent company financial statements.

Organisation and governing bodies of the group

The decision-making bodies managing and overseeing the group's administration and operations are the Annual General Meeting of Shareholders, the Board of Directors with its two committees and the President and Chief Executive Officer (CEO) assisted by the Fortum Management Team. The Board of Directors supervises the performance of the company, its management and organisation. The Board of Directors and the Fortum Management Team are separate bodies, and no person serves as a member of more than one of them.



Day-to-day operational responsibility at the group level rests with the President and CEO assisted by the Fortum Management Team, and at division level with each division head assisted by a management team.

In addition, Fortum's Board of Directors has invited representatives of Fortum's stakeholder groups to an informal Advisory Council for the company in order to facilitate dialogue and exchange of views between Fortum and its stakeholders. The Council's aim is to advance Fortum's businesses by facilitating dialogue and exchange of views between Fortum and its stakeholders. The Advisory Council consists of 13 representatives of Fortum's stakeholder groups and three employee representatives.

General Meeting of Shareholders

The right of shareholders to make decisions over company matters is exercised at an appropriately convened General Meeting of Shareholders by those shareholders present, or by their authorised representatives. In accordance with the Articles of Association and Finnish Corporate Governance Code, a notice to convene the General Meeting of Shareholders is issued by the Board of Directors. The notice is delivered no more than three months and no less than three weeks before the General Meeting of Shareholders by publishing the notice in two newspapers chosen by the Board of Directors. However, the notice shall be delivered at least nine days before the record date of the General Meeting of Shareholders, as referred to in the Section 2, Sub-section 2 Chapter 4, of the Companies Act.

The Annual General Meeting is held once a year, at the latest in June. An Extraordinary General Meeting of Shareholders shall be held whenever the Board of Directors finds cause for such a meeting or when provisions of the law rule that such a meeting must be held.

The duties of the Annual General Meeting include:

- Adopt the parent company financial statements and the consolidated financial statements
- Decide on the treatment of the distributable funds
- Elect the members of the Board of Directors
- Decide on the discharge from liability for the Board of Directors and the President and CEO
- Decide on the remuneration of the Board of Directors and the remuneration for the auditor
- Elect the auditor

Shareholders' Nomination Board

By decision of Fortum's Annual General Meeting 2012, a Shareholders' Nomination Board was appointed to prepare proposals concerning Board members and their remuneration for the following Annual General Meeting. The Nomination Board consists of the representatives of the three main shareholders and, in addition, the chairman of the Board of Directors who serves as an expert member.

The three shareholders whose shares represent the largest number of the votes of all shares in the company on the 1st day of November preceding the Annual General Meeting will have the right to appoint the members representing the shareholders. Should a shareholder not wish to use its right to nominate, this right will be passed on to the next biggest shareholder. The largest shareholders will be determined on the basis of the ownership information registered in the book-entry system. In case an owner is required under the Securities Markets Act to report certain changes in ownership (when flagging by shareholder is required), for example when the ownership is distributed among various funds, the ownership will be counted as one holding if the owner so requests by notifying the Board of Directors in writing no later than on 29 October.

The Nomination Board will be convened by the Chairman of the Board of Directors, and the Nomination Board will choose a Chairman among its own members. The Chairman of the Board of Directors serves as an expert member. The Nomination Board shall give its proposal to the Board of Directors at the latest by 1 February preceding the Annual General Meeting.

In November 2012, the following persons were appointed to Fortum Shareholders' Nomination Board: Jarmo Väisänen, Senior Financial Counsellor, Prime Minister's Office, Ownership Steering Department; Harri Sailas, CEO, Ilmarinen Mutual Pension Insurance Company and Mikko Koivusalo, Investments Director, Varma Mutual Pension Insurance Company. The Chairman of Fortum's Board of Directors, Sari Baldauf, serves as the Board's expert member.

In its meeting on 30 January 2013 the Shareholders' Nomination Board decided to propose to the Annual General Meeting, which will be held 9 April 2013, that the following persons be re-elected to the Board of Directors: Sari Baldauf as Chairman, Christian Ramm-Schmidt as Deputy Chairman, and as members Mino Akhtarzand, Heinz-Werner Binzel, Ilona Ervasti-Vaintola, Kim Ignatius and Joshua Larson.

The Board of Directors

The Board of Directors is responsible for the administration of the Group and for ensuring that the business complies with relevant laws and regulations, including the Finnish Companies Act, Fortum's Articles of Association and any instructions given by the General Meeting of Shareholders. The Board of Directors comprises five to eight members who are elected at the Annual General Meeting for a one-year term of office, which expires at the end of the first Annual General Meeting following the election. More than half of the members must be present to constitute a quorum. A person who has reached the age of 68 cannot be elected to the Board of Directors. In 2012, the Board of Directors comprised seven members, out of whom three, including the Chairman, are female.

In 2012, the Board of Directors met nine times. In addition to steering and supervising the Group's operational and financial development, the main items considered during the year were Fortum's strategy, annual business plan, performance and sustainability target setting and assessment, efficiency improvement programme, risk policy and financial reporting as well as crisis management. Main items also included nuclear power, major investments and divestments, electricity distribution and supply, Russian operations as well as research and development activities. The Board also dealt with issues relating to sustainable business development and compliance management development, including the implementation of the updated Code of Conduct, management performance, remuneration and succession planning as well as talent management development.

The members of the Board of Directors are all independent of the company and its significant shareholders. The President and CEO, the Chief Financial Officer (CFO) and the General Counsel (being the secretary to the Board) attend the Board meetings. Other Fortum Management Team members attend as required to provide information to the Board or upon invitation by the Board.

The Chairman of the Board, together with the President and CEO, prepares the items for discussion and to be decided upon at the Board of Directors' meetings. The Board of Directors has approved a working order to govern its work.

The Board of Directors conducts an annual self-assessment in order to further develop the work of the Board. The assessment process analyses the efficiency of the work, the size and composition of the Board, the preparation of the agenda, and the level and openness of discussions, as well as the members' ability to contribute to an independent judgement. The results of the self-assessment impact the Board of Directors agenda and future focus areas.

Fortum's Board of Directors 2012

Name	Born	Education	Occupation	Presence in the Board meetings	Presence in the Board Committee meetings
Chairman Ms. Sari Baldauf	1955	MSc (Econ.)	Non-executive director	9/9	Nomination and Remuneration Committee, 3/3
Deputy Chairman Mr. Christian Ramm-Schmidt	1946	BSc (Econ.)	Senior Partner of Merasco Capital Ltd. Non-executive director	9/9	Audit and Risk Committee, 5/5
Ms. Minoo Akhtarzand	1956	Civil Engineer, Electrical engineering	Governor in the County of Jönköping Non-executive director	9/9	Nomination and Remuneration Committee, 3/3
Mr. Heinz-Werner Binzel	1954	Economics and electrical engineering degree	Independent consultant Non-executive director	7/9	Audit and Risk Committee, 3/5
Ms. Ilona Ervasti-Vaintola	1951	LL.M, Trained on the bench	Non-executive director	9/9	Nomination and Remuneration Committee, 3/3
Mr. Kim Ignatius*	1956	BSc (Econ)	Sanoma Corporation, CFO Non-executive director	7/7	Audit and Risk Committee, 4/4
Mr. Joshua Larson	1966	Master of International Affairs, Bachelor in Russian language	Private investor and consultant Non-executive director	9/9	Audit and Risk Committee, 5/5

Member of Fortum's Board of Directors until 11 April 2012

Mr. Esko Aho	1954	MSc (Pol. Sc.)	Executive Vice President, Corporate Relations and Responsibility, Nokia Corporation Non-executive director	1/2	Nomination and Remuneration Committee, 0/1
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*) New member as of 11 April 2012.

The Board of Directors' working order

THE BOARD OF DIRECTORS' WORKING ORDER

The main tasks of the Board of Directors:

- Strategic development and steering of the company's business and fields of activity
- Ensuring that the business complies with the relevant rules and regulations and the company's Articles of Association
- Defining the dividend policy
- Ensuring that the accounting and financial administration are arranged appropriately
- Appointing the top management
- Reviewing the central risks and instructing the President and CEO concerning the risks
- Confirming the annual business plan
- Setting performance targets for the company and the management
- Approving interim reports, consolidated financial statements, Operating and financial review and parent company financial statements
- Taking care of the duties of the company's Board of Directors specified in the Companies Act and in the Articles of Association
- Deciding on major investments, divestments and business arrangements
- Electing members to the Board Committees

- Reporting on the remuneration of the company management at the Annual General Meeting, as appropriate

Annual Self-Assessment:

- The Board of Directors conducts an annual self-assessment

Procedures of Board meetings:

- The Board convenes according to a previously agreed schedule to discuss specified themes and other issues whenever considered necessary
- The Chairman decides on the agenda based on proposals by the other members of the Board, the President and CEO, and the secretary to the Board
- The Chairman shall convene a meeting to deal with a specific item, if requested by a member of the Board or the President and CEO
- The Board deals with the reports of the Board committees and the President and CEO
- Material shall be delivered to the members five days before meetings

The Board Committees

The Board of Directors appoints an Audit and Risk Committee and a Nomination and Remuneration Committee, both with at least three members. The members of these committees are all members of the Board of Directors. Members are appointed for a one-year term of office, which expires at the end of the first Annual General Meeting following the election. All the members of the Board of Directors have the right to participate in the committee meetings. The secretary to the Board of Directors acts as the secretary to the committees. The Board has approved written charters for the committees.

The Audit and Risk Committee

The Audit and Risk Committee assists the Board of Directors in fulfilling its supervisory responsibilities in accordance with the tasks specified for audit committees in the Finnish Corporate Governance Code.

The Audit and Risk Committee annually reviews its charter, approves the internal audit charter and the internal audit plan and carries out a self-assessment of its work. Furthermore, the Committee meets the external auditors regularly to discuss the audit plan, audit reports and findings.

The Audit and Risk Committee reports on its work to the Board of Directors regularly after each meeting.

After the Annual General Meeting in April 2012, the Board elected among itself Kim Ignatius as the Chairman and Christian Ramm-Schmidt, Joshua Larson and Heinz-Werner Binzel as members to the Audit and Risk Committee. Christian Ramm-Schmidt acted as the Chairman until the Annual General Meeting 2012.

The Committee met five times in 2012. Also regularly participating in the Committee's meetings were external auditors, Chief Financial Officer (CFO), Head of Internal Audit, Corporate Controller, General Counsel as the secretary to the Committee and other parties invited by the Committee.

The main items during the year included reviewing the interim reports, the financial statements, external audit reports and activities, internal audit reports, risk management reports and policies, the Corporate Governance Statement as well as monitoring of certain important projects and issues, such as taxation, treasury operations, power trading and hedging and preparing a recommendation for the election of the external auditor.

The tasks of Audit and Risk Committee include:

- Monitoring the reporting process of financial statements
- Supervising the financial reporting process
- Monitoring the efficiency of the company's internal control, internal audit and risk management systems
- Reviewing the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the company's Corporate Governance Statement
- Monitoring the statutory audit of the parent company financial statements and consolidated financial statements
- Evaluating the independence of the statutory auditor or audit firm, particularly the non-audit services provided to the company to be audited
- Preparing through the Board a proposal for resolution on the election of the auditor for the shareholders' consideration at the Annual General Meeting
- Reviewing the Corporate Governance Statement
- Monitoring the financial position of the company
- Approving the operating instructions for internal audit
- Reviewing the plans and reports of the internal audit function
- Being in contact with the statutory auditor and reviewing the reports that the auditor prepares for the Committee

The Nomination and Remuneration Committee

After the Annual General Meeting in April 2012, the Board elected among itself Sari Baldauf as the Chairman and Mino Akhtarzand and Ilona Ervasti-Vaintola as members to the Nomination and Remuneration Committee. The Committee met three times during 2012. Other regular participants at the Committee meetings were the President and CEO, Senior Vice President, Corporate Human Resources and General Counsel as the secretary to the Committee.

The Nomination and Remuneration Committee reports on its work to the Board of Directors regularly after each meeting.

The main items during the year included the top management performance evaluations and compensation, including incentive programme matters and performance target-setting for the management. The main items also included the updated guidelines for the remuneration in state-owned companies, management succession planning, competence requirements and talent management development.

The tasks of Nomination and Remuneration Committee include:

- Discussing, assessing and giving proposals on the Group's, and its management's pay structures and bonus and incentive systems
- Monitoring the functioning of the bonus systems to ensure that the management's bonus systems will advance the achievement of the company's objectives and are based on personal performance
- Evaluating the performance and the remuneration of the President and CEO and executives reporting directly to the President and CEO
- Preparing nomination and remuneration issues and making proposals to the Board concerning the President and CEO and the management directly reporting to the President and CEO
- Assisting the Board in reporting on remuneration at the Annual General Meeting, as necessary

President and CEO

The role of the President and CEO is to manage the Group's business and administration in accordance with the Finnish Companies Act and related legislation and the instructions from the Board of Directors. MSc (Eng), MSc (Econ) Tapio Kuula, (born 1957) has served as the President and CEO since May 2009.

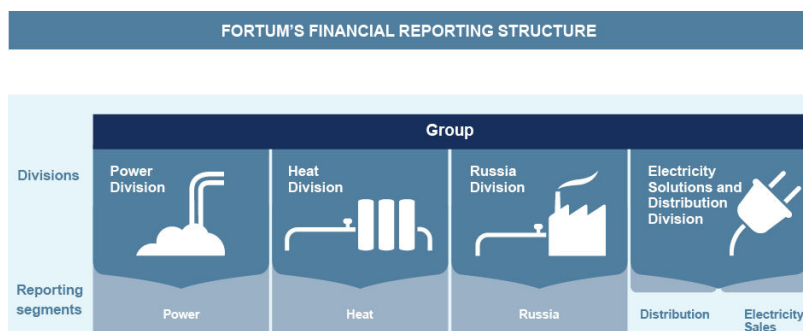
The President and CEO is supported by [the Fortum Management Team](#). The performance of the President and CEO is evaluated annually by the Board of Directors. The evaluation is based on objective criteria that include the performance of the company and the achievement of goals set for the President and CEO by the Board's Nomination and Remuneration Committee.

Fortum Management Team and operational organisation

[The Fortum Management Team](#) consists of eight members, including the President and CEO to whom the members of the Management Team report. One (two until 1 February 2012) member of the Fortum Management Team is female. The General Counsel acts as the secretary to the Management Team. The Management Team meets on a monthly basis. Additional meetings are held dealing with strategy and business planning, performance reviews and people issues such as management reviews.

The Fortum Management Team sets the strategic and sustainability targets, prepares the Group's business plans, follows up the results, plans and decides on investments, mergers, acquisitions and divestments within their authorisation. Each member of the Management Team is responsible for the day-to-day operations and the implementation of operational decisions in their respective organisations.

Fortum has four divisions: Power, Heat, Russia as well as Electricity Solutions and Distribution. Power Division consists of Fortum's power generation, power trading and power capacity development as well as expert services for power producers. Heat Division consists of combined heat and power generation, district heating and cooling activities and business-to-business heating solutions. Russia Division consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's 25% holding in TGC-1. Electricity Solutions and Distribution Division is responsible for Fortum's electricity sales and distribution activities and consists of two business areas: Distribution and Electricity Sales. The staff functions are Corporate Finance, Corporate Communications and Corporate Human Resources. Furthermore, Corporate Relations reports to the President and CEO and Corporate R&D and Innovation to the Executive Vice President responsible for Heat business.



Compliance management and Code of Conduct

Fortum's Code of Conduct defines the general principles on how to treat others, how to engage in business and how to safeguard corporate assets. The Code of Conduct is rooted in the shared corporate values: Accountability, Creativity, Respect and Honesty which form the ethical basis for all work at Fortum. Fortum's updated Code of Conduct was implemented in the spring of 2012 (originally launched in 2007) and is published in ten languages. The Code of Conduct has been approved by the Board of Directors. The implementation of the updated Code of Conduct with an e-learning tool was one of the key compliance activities affecting all employees at Fortum during 2012.

Prevention of corruption is one of the Code of Conduct's focus areas. In connection with the Code of Conduct update, the revised anti-bribery, conflict of interest and safeguarding corporate assets instructions were approved by the Fortum Management Team.

Compliance risks including corruption are managed as part of Fortum's risk management and control procedures in all Fortum's operating countries. In connection with the updated Code of Conduct, Fortum has reviewed its procedures to ensure the prevention, oversight, reporting and enforcement based on the requirements prescribed in international legislation. The review of compliance risks assessment is periodic and documented, with the Fortum Management Team having oversight of the process. A systematic compliance risk assessment is included in business plans, and follow-up is part of the business performance review. Line management reports regularly on compliance activities to the Fortum Management Team.

If non-compliance with the Code of Conduct occurs, Fortum has internal procedures to deal with the incident professionally, in accordance with applicable laws and with respect to the rights and integrity of the persons and parties involved.

The Code of Conduct and compliance topics and instructions are communicated through internal and external communication channels. The communication is made applying the tone of the top management principle.

Internal Audit

Fortum's Corporate Internal Audit is responsible for assessing and assuring the adequacy and effectiveness of internal controls in the company. Furthermore, it evaluates the effectiveness and efficiency of the business processes, the adequacy of risk management, compliance with laws, regulations and internal rules and instructions.

The Standards for the Professional Practice of Internal Audit form the basis for the work of Internal Audit.

Corporate Internal Audit is independent of the divisions and other units at Fortum. It reports to the Board of Directors' Audit and Risk Committee and administratively to the CFO. The purpose, authority and responsibility of Corporate Internal Audit are formally defined in its charter. The charter and the annual audit plan are approved by the Audit and Risk Committee.

External audit

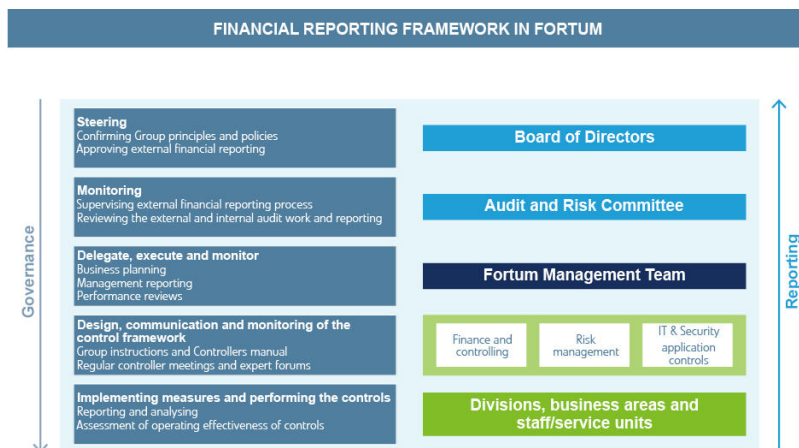
The company has one auditor, which shall be an audit firm certified by the Central Chamber of Commerce. The auditor is elected by the Annual General Meeting for a term of office that expires at the end of the first Annual General Meeting following the election.

Fortum's Annual General Meeting on 11 April 2012 elected Authorised Public Accountant Deloitte & Touche Oy as auditor, with Authorised Public Accountant Jukka Vattulainen having the principal responsibility. Deloitte & Touche Oy is also providing limited external assurance for Fortum's Sustainability report 2012.

Internal control and risk management systems in relation to financial reporting

The internal control and risk management systems relating to financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and to ensure compliance with applicable laws and regulations.

Fortum's Board of Directors approves the Group Risk Policy, that sets the Group's objective, principles and division of responsibilities for risk management activities and also for the financial reporting process. The financial reporting process is embedded in the internal control framework, and the process level internal control structure has been created by using a risk-based approach. Fortum's internal control framework includes the main elements from the framework introduced by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).



Control environment

Fortum's internal control framework supports the execution of the strategy and ensures regulatory compliance and reliability of the financial reporting. Fortum Code of Conduct, approved by the Board of Directors, is based on Fortum's shared values and it describes the principles for business conduct. The internal control framework consists of group-level policies and processes as well as business and support process-level controls.

The Audit and Risk Committee, appointed by the Board of Directors, oversees the financial reporting process and monitors the efficiency of the internal controls and risk management within the Group. Corporate Risk Management headed by the Chief Risk Officer is responsible for reporting risk exposures and maintaining the company's risk management framework.

Corporate Accounting and Control headed by the Corporate Controller is responsible for the overall control structure of the financial performance management process. The control process is based on Group policies, instructions and guidelines relating to financial reporting. Controllers Manual contains financial reporting instructions. This manual is regularly reviewed and updated. Core Finance Process Owner supports the finance organisation in ensuring a uniform way of working and monitoring the performance of the processes within the Finance function.

Fortum's organisation is decentralised and a substantial degree of authority and responsibility is delegated to the divisions in form of control responsibilities. Some areas like commodity market risk control is more centralised.

Risk assessment

Risks related to financial reporting are identified and analysed annually as part of the Fortum risk management process. Risks are reported in connection with the planning process and the follow-up of actions and improvements is integrated to operational management. The control risk assessment has been the basis for creating the process-level internal control framework and the same applies to the control points to prevent errors in the financial reporting process. There are cross-divisional teams by process area updating this framework regularly. This assessment includes risks related to fraud and irregularities, as well as to risks of loss or misappropriation of assets. The results of the control risk assessment and the process level controls are reported to the Audit and Risk Committee.

Control activities

Control activities are applied in the business processes and, from a financial reporting perspective, they ensure that potential errors or deviations are prevented, discovered and corrected. In financial reporting, the Controllers Manual sets the standards.

The Corporate Accounting and Control unit defines the design of the control points, and internal controls covering the end-to-end financial reporting process. Responsibilities are assigned for the controls and also for ensuring their operating effectiveness. Fortum's processes include controls regarding the initiation, approval, recording and accounting of financial transactions. Standardised way of working is also ensured by Fortum's financial shared service center, which performs controls for the recognition, measurement and disclosure of financial information. The financial shared service center is ISO 9001:2008 certified since December 2011.

All divisions have their own finance function ensuring that relevant analyses of the business performance are done such as volumes, revenues, costs, working capital, asset base and investments. These analysis are reviewed in different levels of the Group and ultimately by the Board of Directors.

Information and communication

The Controllers Manual includes Fortum Accounting manual, Investment manual and reporting instructions and other policies relating to the financial reporting. It is stored on the company's intranet site and is accessible to all involved in the financial reporting process. Monthly Core Controllers' meetings, headed by the Corporate Controller, are steering the development projects within Finance and receiving updates from different expert forums within Finance. Regular Accounting Network Forum meetings are used to inform the finance community about upcoming changes in IFRS, new accounting policies and other changes.

Follow-up

Financial results are followed up in the monthly reporting and reviewed monthly by the Fortum Management Team. Quarterly Performance Review meetings with the Fortum Management Team and division management are embedded in the Fortum Performance Management process. The financial performance is ultimately reviewed by the Audit and Risk Committee and the Board of Directors.

As part of the Fortum internal control framework, all divisions are assessing the effectiveness of the controls they are responsible for. Division- and corporate-level controller teams are responsible for assessing the financial reporting process and the Corporate Risk Management reviews these control assessments regularly and reports to the Audit and Risk Committee on annual basis. Internal control design and operating effectiveness are also assessed by Corporate Internal Audit. The audits are conducted according to the audit plan adopted by the Audit and Risk Committee. Audit results, including corrective actions and status, are regularly reported to the Audit and Risk Committee.



Remuneration

The Finnish Corporate Governance Code 2010 requires that Fortum issues a remuneration statement regarding the salaries and other remuneration paid by the company. Securities Market Association published 2011 guidelines to support the Code implementation. Furthermore, in August 2012, the Cabinet Committee on Economic Policy, representing the State owner, issued new guidelines on remuneration and pension benefits of management in companies with State ownership. Fortum takes into account both the Code and the guidelines in its remuneration.

Remuneration at Fortum is directed by the Group's remuneration principles and Fortum's general remuneration and benefits practices. When determining remuneration, the company's financial performance and external market data, particularly the remuneration for similar positions among peer companies, are taken into consideration. The Board of Directors approves the remuneration principles at the Group level and decides on the bonus targets and the remuneration of senior management. Remuneration of the Board of Directors is decided by the Annual General Meeting of Fortum.

Fortum offers a competitive compensation package for senior executives and other management. The aim is to attract, commit and retain key resources in all countries where Fortum operates. The package offers employees a competitive base salary. In addition to a salary, other relevant benefits, challenging short-term incentives and long-term incentive schemes are also offered.

Short-term incentives

Fortum's short-term incentive scheme, i.e. bonus system, supports the realisation of the Group's financial performance targets, sustainability targets, values and structural changes. The system ensures that the performance targets of individual employees align with the targets of the division and the Group. All Fortum employees, with the exception of certain personnel groups in Poland and Russia, are covered by the bonus system.

The Board of Directors decides on the bonus criteria for senior management (the President and CEO and other members of the Fortum Management Team). The amount of each senior executive's bonus is dependent on the Group's financial performance and on their own success in reaching personal targets. The performance bonus criteria also include indicators related to sustainability targets. The maximum bonus for senior management is 40% of the executive's annual salary including fringe benefits.

The bonuses of the division heads, who are all members of the Fortum Management team, are determined on the basis of the division's performance and the Group's financial performance. During the annual performance discussion held at the beginning of the year, the division head and his/her superior, the President and CEO, agree on the criteria used to assess the personal performance of the executive.

The Board of Directors assesses the performance of the President and CEO on an annual basis.

Long-term incentives

The purpose of Fortum's long-term incentive system, i.e. share bonus system, is to support the achievement of the Group's long-term targets by committing key individuals. The Board of Directors chooses the Fortum management members entitled to participate in the share bonus system. The Board of Directors can also exclude individual participants from the system. Participation in the system precludes the individual from being a member in the Fortum Personnel Fund.

Fortum's share bonus system is divided into six-year share plans, within which participants have the opportunity to earn company shares. A new plan commences yearly, if the Board of Directors so decides.

Each share plan begins with a three-calendar-year period, during which participants may earn share rights if the earnings criteria set by the Board of Directors are fulfilled. After the earning period has ended and the relevant taxes and other employment-related expenses have been deducted from the gross value of the earned share rights, participants are paid the net balance of the earned rights in the form of shares. The earning period is followed by a subsequent lock-up period, during which participants cannot transfer or dispose of the shares. If the value of the shares decrease or increase during the lock-up period, the potential loss or gain is carried by the participants. The maximum value of shares (before taxation) to be delivered to a participant after the earning period cannot exceed the participant's one-year salary.

Fortum's current long-term incentive system fulfils the guidelines of State-owned companies and the Corporate Governance Code 2010 for listed companies.

SHARE BONUS SYSTEMS

Plans	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2007-2012	1	2	3	4	5	6					
2008-2012		1	2	3	4	5					
2009-2013			1	2	3	4	5				
2010-2015				1	2	3	4	5	6		
2011-2016					1	2	3	4	5	6	
2012-2017						1	2	3	4	5	6

year	Earning period
year	Lock-up period
	Share delivery

PCA Corporate Finance, an independent Finnish financial advisor, has been used in matters related to remuneration.

[Read more about the incentive plans in the Financial statements, Note 14](#)

Compensation for the President and CEO and the Fortum Management Team

The table below includes the short-term compensation paid to the President and CEO and the Fortum Management Team (FMT) during 2012 and 2011. The bonuses paid to FMT, including the President and CEO, amounted to EUR 993,131 (2011: 1,087,190), which corresponds to 0.26% (2011: 0.29%) of the total remuneration paid by the Fortum Group.

Compensation for the President and CEO and the Fortum Management Team

EUR	Salaries and fringe benefits 2012	Salaries and fringe benefits 2011	Performance bonuses 2012 ³⁾	Performance bonuses 2011 ³⁾	Total 2012	Total 2011
President and CEO ¹⁾	979,824	952,323	280,659	337,696	1,260,483	1,290,019
Other Management Team members ^{1) 2)}	2,803,324	2,799,609	712,472	749,494	3,515,796	3,549,103

¹⁾ Additionally, the President and CEO had a gross income of EUR 662,510 from share delivery of share plan 2009-2013 during spring 2012. The corresponding aggregated figure for the other members of the Fortum Management Team was EUR 1,433,424 (for share plans 2006-2011 and 2009-2013). The shares from share plan 2009-2013 cannot be transferred or sold before the end of the two-year lock-up period.

²⁾ A recruitment bonus of EUR 33,334 has been paid to CFO Markus Rauramo. Same amount will be paid also in 2013 and 2014.

³⁾ Performance bonus payments are based on previous year's targets and achieved results.

Shares delivered to the management

The table shows the number of shares delivered to the President and CEO and other Fortum Management Team members under the long-term incentive plans. In February 2013, there was delivery of two share plans: the 2007-2012 plan and the 2010-2015 plan. Shares delivered under the 2010-2015 plan are subject to a three-year lock-up period under which they cannot be sold or transferred to a third party.

According to the Cabinet Committee's Economic Policy, the total taxable gross value of the benefit arising from the shares delivered to a participant cannot exceed the participant's one year salary.

Name	2013	2012
FMT Members		
Tapio Kuula	35,152	17,171
Helena Aatinen (member from 1 November 2012)	519	N/A
Alexander Chuvaev ¹⁾	35,783	18,749
Mikael Frisk	10,079	4,576
Timo Karttinen	9,563	5,213
Per Langer	8,550	3,966
Markus Rauramo (member from 1 September 2012)	756	N/A
Matti Ruotsala	12,395	7,283

¹⁾ Share rights will be paid in cash instead of shares after the three-year lock-up period due to local legislation.

Remuneration and terms of employment of President and CEO Tapio Kuula

Salary and fringe benefits	Base salary EUR 77,845 /month. Additionally free car allowance and mobile phone allowance as fringe benefits.
Short-term incentive system (bonus)	The bonus can be earned annually based on the criteria approved by the Board of Directors. The maximum level is 40% of the annual salary including fringe benefits. Annual salary = 12 times the salary paid in December of the year in question.
Long-term incentive system (share bonus)	According to Fortum management's current share bonus system. The maximum value of shares (before taxation) cannot exceed the annual salary of the President and CEO.
Pension	Retirement age is 63. The President and CEO's supplementary pension is a defined contribution pension plan, and the annual contribution is 25% of the annual salary. The annual salary consists of the base salary, fringe benefits and bonus. If the President and CEO's contract is terminated before retirement age, he/she is entitled to retain the funds that have accrued in the pension fund.
Termination of contract	The notice period for both parties is six months. If the company terminates the contract, the President and CEO is entitled to the salary of the notice period and to severance pay equal to 18 months' salary.

Pensions

Fortum's Finnish executives participate in the Finnish TyEL pension system, which provides for a retirement benefit based on years of service and earnings and in accordance with the prescribed statutory system. Under the Finnish pension system, earnings are defined as base pay, annual bonuses and taxable fringe benefits, but gains realised from the share bonus system are not included in that definition. Finnish pension legislation offers a flexible retirement from age 63 to age 68 without full-pension restrictions.

Fortum's executives outside Finland participate in pension systems based on collective agreements and market practises in their local countries.

Retirement age for Fortum's President and CEO is 63 and for other members of the Fortum Management Team 60-63. For the President and CEO and for some other executives, the maximum pension can be 60% of the salary, with the pension insured by an insurance company, and for some executives the maximum is 66% of the salary, with the pension insured and paid by Fortum's Pension Fund. The Fortum Pension Fund was closed in 1991.

[Read more about pension systems used in Fortum in the Financial statements, Note 36.](#)

Remuneration of Board of Directors

Every member of the Board of Directors receives a fixed monthly fee and a meeting fee. The meeting fee is also paid for committee meetings and is paid in double to a member who lives outside Finland in Europe and triple to a member who lives outside Europe. The members are entitled to travel expense compensation in accordance with the company's travel policy.

Board members are not paid a salary by Fortum and they are not given the opportunity to participate in Fortum's bonus or share bonus schemes, nor does Fortum have a pension plan that they can opt to take part in. The compensation of the Board members is not tied to the sustainability performance of the Group.

The Annual General Meeting on 11 April 2012 confirmed the following compensation for the members of the Board of Directors:

Compensation for Board of Directors service

EUR/year/meeting	2012	2011
Chairman	75,000	66,000
Deputy Chairman	57,000	49,200
Members	40,000	35,400
Meeting fee	600	600

Total compensation for Board of Directors

	Board service in 2012	Total compen- sation in 2012, EUR *)	Board service in 2011	Total compen- sation in 2011, EUR *)
Board Members at 31 December 2012				
Sari Baldauf, Chairman	1 Jan - 31 Dec	80,353	1 Jan - 31 Dec	70,261
Christian Ramm-Schmidt, Deputy Chairman	1 Jan - 31 Dec	64,479	1 Jan - 31 Dec	54,800
Minoo Akhtarzand	1 Jan - 31 Dec	54,349	31 March - 31 Dec	34,478
Heinz-Werner Binzel	1 Jan - 31 Dec	53,149	31 March - 31 Dec	37,478
Ilona Ervasti-Vaintola	1 Jan - 31 Dec	46,549	1 Jan - 31 Dec	43,800
Kim Ignatius	11 Apr - 31 Dec	48,100	N/A	N/A
Joshua Larson	1 Jan - 31 Dec	67,549	1 Jan - 31 Dec	56,400
Former Board Members				
Esko Aho	1 Jan - 11 Apr	13,000	1 Jan - 31 Dec	43,800
Birgitta Johansson-Hedberg	N/A	N/A	1 Jan - 31 March	11,250
Matti Lehti, Former Chairman	N/A	N/A	1 Jan - 31 March	19,500

*) includes fixed monthly fees and meeting fees

Meeting attendances are presented in the Corporate Governance statement.

Board of Directors



Sari
Baldauf



Christian
Ramm-Schmidt



Mino
Akhtarzand



Heinz-Werner
Binzel



Ilona
Ervasti-Vaintola



Kim
Ignatius



Joshua
Larson

Sari Baldauf

Chairman, born 1955, MSc, Business Administration
Chairman of the Nomination and Remuneration Committee

Main occupation:

- Non-executive Director

Primary work experience:

- Nokia Corporation, several senior executive positions. Member of the Group Executive Board

Key positions of trust:

- Member of the Board, F-Secure Corporation, Daimler AG, Akzo Nobel N.V., Deutsche Telekom AG and Finnish Business and Policy Forum EVA
- Member of the Board, Finland's Children and Youth Foundation, Tukikummit Foundation, John Nurminen Foundation and Technology Industries of Finland Centennial Foundation
- Chairman of Savonlinna Opera Festival
- Deputy Chairman, Sanoma Corporation (2003–2009)
- Member of the Board, Capman Corporation (2008–2011)
- Member of the Board, YIT Corporation (2006–2008)
- Member of the Board, Hewlett-Packard Company (2006–2012)

- Independent member of Fortum's Board of Directors since 2009.



Sari Baldauf,
Chairman

Christian Ramm-Schmidt

Deputy Chairman, born 1946, BSc (Econ)
Member of the Audit and Risk Committee

Main occupation:

- Senior Partner of Merasco Capital Ltd.

Primary work experience:

- President of Baltic Beverages Holding Ab (BBH)
- Chairman of the Board of Baltika Breweries, Russia
- President of Fazer Biscuits Ltd., Fazer Chocolates Ltd., Fazer Confectionery Group Ltd.
- Director, ISS ServiSystems Oy
- Director, Rank Xerox Oy

Key positions of trust:

- Member of the Board of Boardman Oy and Reima Oy
- Independent member of Fortum's Board of Directors since 2006.



Christian Ramm-Schmidt, Deputy Chairman

Minoo Akhtarzand

Born 1956, MSc, Electrical engineering
Member of the Nomination and Remuneration Committee

Main occupation:

- Governor in the County of Jönköping

Primary work experience:

- Director-General, Swedish National Rail Administration
- Director, Regional Labour Agency
- Several senior executive positions, Vattenfall AB
- Positions in Stockholm Energi

Key positions of trust:

- Chairman, The National Society for Road Safety in the County of Jönköping
- Member of the Board, The Swedish Export Credit Agency
- Member of the Board, Sveriges Radio (2007-2010), Vattenfall Bränsle AB (2004-2006), Vattenfall Vattenkraft AB (2003-2006), Vattenfall Business service AB (2003-2006) and Teracom AB (Telecommunication and IT) (2001-2007)
- Deputy Chairman, EIM (European Infrastructure Managers) (2009-2010) and Södertörn university (1997-2003)
- Chairman of the Board, Västerbergslagens Energi AB (2000-2004)
- Independent member of Fortum's Board of Directors since 2011.



Minoo Akhtarzand

Heinz-Werner Binzel

Born 1954, Economics and electrical engineering degree
Member of the Audit and Risk Committee

Main occupation:

- Independent consultant

Primary work experience:

- Board member for procurement and sale of electricity, gas, and water, RWE Energy AG
- Board member as CFO and from 2002 onwards as CEO, RWE SOLUTIONS AG
- Several senior executive positions in Germany and the USA, NUKEM GMBH

Key positions of trust:

- Member of Supervisory board, Chairman of Audit Committee, TÜV Rheinland Holding AG
- Chairman of Supervisory board, RWE Solutions AG (2003-2006)

- Independent member of Fortum's Board of Directors since 2011.



Heinz-Werner Binzel

Ilona Ervasti-Vaintola

Born 1951, LL.M., Trained on the bench
Member of the Nomination and Remuneration Committee

Main occupation:

- Non-executive Director

Primary work experience:

- Group Chief Counsel, Member of the Group Executive Committee, Sampo plc (2001-2011)
- Chief Counsel and member of the Board, Mandatum Bank plc (1998-2001)
- Director, Partner, Mandatum & Co Ltd (1992-1998)
- Head of Financial Law Department, Legal counsel, Union Bank of Finland Ltd (1982-1992)

Key positions of trust:

- Deputy Chairman of the Board, Securities Market Association
- Member of the Board, Finnish Literature Society (2005-2011)
- Member of the Board, Fiskars Corporation (2004-2010)
- Member of the Board, OMX Nordic Exchanges Group Ltd (2003-2008) and Stockholmsbörsen AB (2003-2007)
- Member (2002-2005) and Chairman, Legal Committee of the Central Chamber of Commerce of Finland (2005-2010)

- Member of Fortum's Board of Directors since 2008, independent since 1 November 2011.



Ilona Ervasti-Vaintola

Kim Ignatius

Born 1956, BSc (Econ), Helsinki School of Economics and Business Administration
Chairman of the Audit and Risk Committee

Main occupation:

- Sanoma Corporation, CFO

Primary work experience:

- TeliaSonera AB, Executive Vice President and CFO, 2003-2008
- Sonera Oyj, Executive Vice President and CFO, 2000-2002
- Tamro Oyj, Group CFO, 1997-2000

Key positions of trust:

- Member of the Board, Chairman of the Audit Committee, Millicom International Cellular S.A.
- Independent member of Fortum's Board of Directors since 2012.



Kim Ignatius

Joshua Larson

Born 1966, Master of International Affairs, Bachelor in Russian language
Member of the Audit and Risk Committee

Main occupation:

- Private investor and consultant

Primary work experience:

- CEO and Senior Managing Director, IFC Alemar
- Managing Director, The Carlyle Group, Moscow
- Executive Director, Head of Russian Operations, Morgan Stanley, Moscow
- Executive Director, Co-Head of Russian Business, Goldman Sachs International, London and Moscow

Key positions of trust:

- Member of the Board of Directors of Kora Group (2006-2007), Bank Alemar, IFC Alemar and Alemar Asset Management (2006-2008), OAO Apteka Holdings (2004-2006), and OAO Cherkizovo Agro-Industrial Complex (2002-2004)
- Independent member of Fortum's Board of Directors since 2010.



Joshua Larson

Group management



Tapio Kuula



Helena Aatinen



Aleksander Chuvaev



Mikael Frisk



Timo Karttinen



Per Langer



Markus Rauramo



Matti Ruotsala

Member of the Management Team until 31 October 2012, left the position on her own request.

Anne Brunila

Member of the Management Team until 31 August 2012. Has retired 2 February 2013.

Juha Laaksonen

Tapio Kuula

President and CEO since 2009
Born 1957, MSc (Eng), MSc (Econ)
Member of the Management Team since 1997
Employed by Fortum since 1996

Previous positions:

- Fortum Corporation, Senior Vice President, 2005
- Fortum Power and Heat Oy, President, 2000
- Power and Heat Sector, Fortum Oyj, President 2000
- Fortum Power and Heat Oy, Executive Vice President, 1999
- Imatran Voima Oy, Executive Vice President, Member of the Board, Member of the Management Team, 1997

Key positions of trust:

- Varma Mutual Pension Insurance Company, Chairman of the Supervisory Board
- Lappeenranta University of Technology, Member of the Board
- East Office of Finnish Industries Oy, Chairman of the Board
- Northern Dimension Business Council, Co-chairman



Tapio Kuula, President
and CEO since 2009

Helena Aatinen

Senior Vice President, Corporate Communications since 2012
Born 1959, MSc (Econ)
Member of the Management Team since 1 November 2012
Employed by Fortum since 2011

Previous positions:

- Fortum Corporation, Vice President, Corporate Communications, 2011
- Finnish Forest Industries Federation, Communications Director, 2005
- Metso Corporation, Senior Vice President, Corporate Communications, 2002
- Metso Corporation, several positions in Communications function, 1997



Helena Aatinen,
Senior Vice President,
Corporate
Communications since
2012

Aleksander Chuvaev

Executive Vice President, Russia Division; General Director of OAO Fortum,
Country responsible for Russia since 2009

Employed by Fortum since 2009

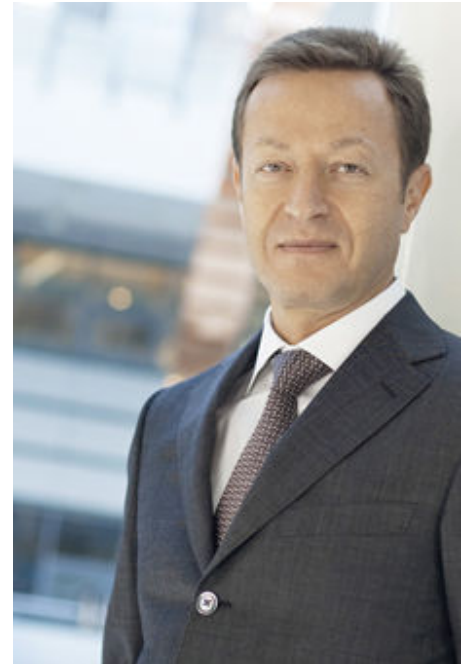
Born 1960, MSc (Eng)

Member of the Management Team since 2009

Employed by Fortum since 2009

Previous positions:

- GE Oil & Gas, Regional Executive Director, Russia and CIS, 2009
- SUEK, Investment Development Director, Russia 2008
- JSC Power Machines, Managing Director, Russia, 2006-2008
- GE Oil & Gas, Regional General Manager, Russia, 2006
- JSC OMZ, Chief Operations Officer, Russia, 2005
- GE, various positions in the USA and Canada, 1999
- Solar Turbines Europe S.A., various positions in Europe and the USA, 1991



Aleksander Chuvaev,
Executive Vice
President, Russia
Division; General
Director of OAO; since
2009

Mikael Frisk

Senior Vice President, Corporate Human Resources, since 2001; responsible for Corporate HR, IT and Business Process Management

Born 1961, MSc (Econ)

Member of the Management Team since 2001

Employed by Fortum since 2001

Previous positions:

- Nokia Mobile Phones, Vice President, HR Global Functions, 1998
- Nokia-Maillfer, Vice President, HR, Lausanne, Switzerland, 1993
- Nokia NCM Division, HR Development Manager, 1992
- Oy Huber Ab, HR Development Manager, 1990

Key positions of trust:

- Staffpoint Oy, Member of the Board



Mikael Frisk, Senior
Vice President,
Corporate Human
Resources, since 2001

Timo Karttinen

Executive Vice President, Electricity Solutions and Distribution Division; Country responsible for Finland and Norway since 2009

Born 1965, MSc (Eng)

Member of the Management Team since 2004

Employed by Fortum since 1991

Previous positions:

- Fortum Corporation, Senior Vice President, Corporate Development, 2004
- Fortum Power and Heat Oy, Business Unit Head, Portfolio Management and Trading, 2000
- Fortum Power and Heat Oy, Vice President, Electricity Procurement and Trading, 1999
- Imatran Voima Oy, Vice President, Electricity Procurement, 1997

Key positions of trust:

- Gasum Oy, Member of the Supervisory Board
- Confederation of Finnish Industries, Member of the Trade Policy Committee and Energy Committee



Timo Karttinen,
Executive Vice
President, Electricity
Solutions and
Distribution Division;
Country responsible
for Finland and
Norway since 2009

Per Langer

Executive Vice President, Heat Division; Country responsible for Sweden, Poland and the Baltics since 2009

Responsible for Corporate Research & Development since 2011

Born 1969, MSc (Econ)

Member of the Management Team since 2009

Employed by Fortum since 1999

Previous positions:

- Fortum Power and Heat Oy, President of Heat, 2007
- Fortum Power and Heat Oy, President of Portfolio Management and Trading, 2004
- Fortum Oyj, managerial positions, 1999
- Gullspång Kraft, managerial positions, 1997

Key positions of trust:

- Fortum Sweden AB, Chairman of the Board
- AS Fortum Tartu, Supervisory Board Chairman
- AB Fortum Värme Holding samägt med Stockholm Stad, Member of the Board
- Fortum Heat Polska, Member of the Board
- EFA AB, Deputy Chairman
- Svensk Energi, Member of the Board



Per Langer, Executive Vice President, Heat Division; Country responsible for Sweden, Poland and the Baltics since 2009

Markus Rauramo

Chief Financial Officer since 1 September 2012
Born 1968, MSc (Econ and Pol. Hist.)
Member of the Management Team since 1 September 2012
Employed by Fortum since 2012

Previous positions:

- Stora Enso Oyj, Helsinki, CFO and Member of the GET 2008-2012
- Stora Enso International, London, SVP Group Treasurer 2004-2008
- Stora Enso Oyj, Helsinki, VP Strategy and Investments 2001-2004
- Stora Enso Financial Services, Brussels, VP Head of Funding 1999-2001
- Enso Oyj, Helsinki, several financial tasks 1993-1999

Key positions of trust:

- Wärtsilä Oyj Abp, Member of the Board
- Varma, Mutual Pension Insurance Company, Member of the Supervisory Board
- Oy Proselectum AB, Member of the Board



Markus Rauramo,
Chief Financial Officer
and member of the
Management team
since 1 September
2012

Matti Ruotsala

Executive Vice President, Power Division since 2009
Born 1956, MSc (Eng)
Member of the Management Team since 2009
Employed by Fortum since 2007

Previous positions:

- Fortum Power and Heat Oy, President of Generation, 2007
- Valtra Ltd, Managing Director, 2005
- AGCO Corporation, Vice President, 2005
- Konecranes Plc, Chief Operating Officer (COO) and Deputy CEO, 2001
- Konecranes Plc and Kone Corporation, several senior and managerial positions, 1982

Key positions of trust:

- Kemijoki Oy, Chairman of the Board
- PKC Group Oyj, Chairman of the Board
- Teollisuuden Voima Oyj, Chairman of the Board
- Componenta Oyj, Member of the Board
- Halton Group Ltd, Member of the Board



Matti Ruotsala,
Executive Vice
President, Power
Division since 2009

Anne Brunila

Executive Vice President, Corporate Relations and Strategy, 2009–2012

Born 1957, DSc (Econ)

Member of the Management Team 2009–2012 ¹⁾

Employed by Fortum since 2009

Previous positions:

- Finnish Forest Industries Federation, President and CEO, 2006
- Ministry of Finance, several positions, 2002
- The Bank of Finland, Advisor to the Board, 2002
- European Commission, Advisor, 2000
- The Bank of Finland, several positions, 1992

Key positions of trust:

- KONE Oyj, Member of the Board
- Sampo Plc, Member of the Board
- Aalto University Foundation, Member of the Board
- The Research Institute of Finnish Economy ETLA, Member of the Board
- Finnish Business and Policy Forum, EVA, Member of the Board
- World Business Council of Sustainable Development, Council member
- Finnish Energy Industries, Member of the Board

¹⁾ Member of the Management Team until 31 October 2012, left the position on her own request.

Juha Laaksonen

Executive Vice President and Chief Financial Officer 2000–2012 ²⁾

Born 1952, BSc (Econ)

Member of the Management Team 2000–2012

Employed by Fortum since 1979

Previous positions:

- Fortum Corporation, Corporate Vice President, M&A, 2000
- Fortum Oil & Gas Oy, Executive Vice President, Finance & Planning, 1999
- Neste Oyj, CFO 1998
- Neste Oy, Corporate Controller 1979

Key positions of trust:

- Sato Oyj, Chairman of the Board
- Kemira Oyj, Member of the Board
- Kemijoki Oy, Member of the Supervisory Board
- The Fortum Art Foundation, Chairman of the Board
- The Association of Finnish Fine Arts Foundations, Deputy Chairman of the Board

²⁾ Member of the Management Team until 31 August 2012. Has retired 2 February 2013.

Investor information

Fortum's Financials 2012 includes the audited consolidated financial statement of the Fortum Group, review of the operations during the year and corporate governance statement of the company. In addition to the Financials, Fortum publishes Sustainability report 2012 on the same internet site in the end of March 2013 with the theme "Adding Value". The report follows the Global Reporting Initiative's (GRI) G3.1 Guidelines.

AGM

The [Annual General Meeting](#) of Fortum Corporation will be held on Tuesday, 9 April 2013, starting at 14:00 EET at Finlandia Hall, address: Mannerheimintie 13 e, Helsinki, Finland. The reception of shareholders who have registered for the meeting will commence at 13:00 EET.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a dividend of EUR 1.00 per share for 2012, totalling EUR 888 million based on the number of registered shares as of 30 January 2013. The possible dividend-related dates planned for 2013 are:

- the ex-dividend date 10 April 2013,
- the record date for dividend payment 12 April 2013 and
- the dividend payment date 19 April 2013.

Financial information in 2013

Fortum publishes three interim reports in 2013: Q1 on 25 April, Q2 on 19 July, and Q3 on 23 October

The reports are published at approximately 9:00 EET in Finnish and English, and are available on Fortum's website at <http://www.fortum.com/investors>

Fortum's management hosts regular press conferences, targeted at analysts and the media. A webcast of these conferences is available online at www.fortum.com. Management also gives interviews on a one-on-one and group basis. Fortum observes a silent period of 30 days prior to publishing its results.



Fortum share basics

Listed on NASDAQ OMX Helsinki

Trading ticker: FUM1V

Number of shares, 31 January 2013: 888,367,045.

Sector: Utilities

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02150 Espoo

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