

Annual Report ²⁰¹³



Next generation
energy company



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Fortum's Annual Report 2013

Fortum is an energy company highly committed to sustainability. Catering to the versatile needs of our customers, we generate, distribute and sell electricity and heat and offer related expert services.

Annual Review



In 2013, we implemented our strategy by creating energy that improves life for present and future generations. Five new production facilities were inaugurated in Northern Europe and two in Russia. Our efficiency programme increasing flexibility and securing competitiveness progressed as planned. The assessment of our electricity distribution business was completed, and we announced that the Finnish networks will be sold.



CEO's review

In 2013, the economic recession in Europe and uncertainty over how long it would persist influenced energy prices and demand. The downturn also slowed economic growth in Russia.

In the recent years, the inflow of heavily subsidised renewable energy with grid priority has changed the operating environment in Europe significantly. Market-driven energy production is struggling with weakened profitability, reducing the ability of companies to invest. Furthermore, the rapid growth in distributed production poses big challenges for market functionality and security of supply.

Wholesale prices decreased as consumer prices rose

The rapid entry of shale gas into the US market has increased the use of gas, improved the country's energy self-sufficiency and reduced the consumption of coal. In the meanwhile, Europe has received a steady stream of more economically priced coal and its use has increased. This trend, coupled with the rock-bottom prices of emission allowances and more expensive gas has eroded the profitability of energy produced with natural gas in Europe. Brand-new gas-fired power plants have been shut down due to unprofitability. Despite the lower wholesale prices, subsidies to renewable

energy have significantly hiked the consumers' electricity bills.

Compared to coal-fired power generation, natural gas-based power has a much lower environmental impact. Power from natural gas is also necessary for balancing the fluctuation of renewable energy production in areas where hydropower is unavailable. In fact, discussions on the introduction of capacity payments to support traditional energy production have taken place in several European countries during the year. All the while, governments are already spending considerable sums on subsidising energy production.

Making carbon dioxide emission reductions the energy policy's main goal

Debate on the direction of Europe's energy and climate policy remained lively throughout 2013. An increasingly topical issue was how to maintain Europe's competitiveness amidst rising consumer prices.

“ An increasingly topical issue in the debate on the direction of Europe's energy and climate policy was how to maintain competitiveness amidst rising consumer prices.

At the beginning of 2014, the European Commission published its proposal on Europe's climate and energy policy for 2020 to 2030. The proposal placed a sharper focus on reducing greenhouse gas emissions, recommending a target of a 40 per cent reduction in line with the commonly agreed targets set by the EU for 2050.

The Commission also proposed getting rid of the binding, national renewable energy targets and setting a binding, EU-level target to increase the share of renewable energy to 27 per cent. While this is a step in the right direction, it still overlaps with the carbon

dioxide emissions reduction target. Overlapping targets and steering mechanisms increase the energy and climate policy price tag and, ultimately, the consumers' electricity bill.

A positive development in the Commission's proposal was a market stability reserve mechanism for emissions trading. The mechanism may be useful in addressing the central weakness of the emissions trading scheme, which is its inability to cope with strong fluctuations in demand or oversupply. Advance agreement on the arrangements controlling the scheme will reduce political risk and improve the predictability required for energy sector investments.

For Europe to remain competitive, it is essential that efforts to create an integrated electricity market continue. Shifting the energy policy's focus from national interests to common energy production solutions that leverage the region's strengths will eventually provide the most sustainable and cost-effective results for consumers, industry and the climate. In an integrated European electricity market the use of production capacity will be optimised and investment signals market-driven.

Increased speed and flexibility in 2013

Despite a challenging operating environment, 2013 was a satisfactory year for Fortum. Although our comparable operating profit decreased, the operative cash flow was very strong, and we continued to implement our investment projects in Europe and Russia with determination.

In 2012, we set a goal for Fortum's efficiency programme, which was to improve the company's speed and flexibility by strengthening cash flow by at least one billion euros in total by the end of 2014. The programme has progressed as planned, lightening our cost structure throughout our operating areas. Furthermore, we have divested non-core assets and improved our working capital efficiency.

Towards emissions-free energy production in line with the strategy

Regardless of the economic recession, steps must be taken to mitigate climate change. The latest report by the Intergovernmental

Panel on Climate Change (IPCC) sent a strong scientific message to decision-makers: Emissions must be clearly reduced before 2020 and must be cut in half by 2050. The transition to a Solar Economy where energy production is based on renewable energy sources may be gradual, but it is inevitable.

The cornerstones of Fortum's strategy are our strong expertise in CO₂-free hydro and nuclear power production, our efficient combined heat and power (CHP) production, and know-how in operating in the energy markets. Alongside electricity production based on renewable energy sources, our strength, the energy-efficient CHP production, flexibly responds to fluctuating demand.

In 2013, we inaugurated five new production facilities in Europe. New waste-fired CHP plants were inaugurated in Klaipeda, Lithuania, and Brista, Sweden, and new biomass-fuelled CHP plants in Jelgava, Latvia, and Järvenpää, Finland. Additionally, bio-oil production using pyrolysis technology commenced at Fortum's Joensuu CHP plant. This unique technology may offer significant future business potential, for example, in the area of traffic fuels. In fact, the Joensuu project is the first of its kind in the world and was recognised for innovation at the Global District Energy Climate Awards in autumn 2013.

“ The transition to a Solar Economy where energy production is based on renewable energy sources may be gradual, but it is inevitable.

In addition to increasing CHP capacity, we also continued our annual hydropower refurbishments and strengthened the prerequisites for nuclear power production particularly at our co-owned power plants in Sweden. Fortum's fully-owned Loviisa nuclear power plant in Finland had once again a good production year. The plant's load factor of 92.5% was excellent by international standards. We have also established our position in growth markets through our expert services business during the year.

Fortum's Russian investment programme progressed to the final large units

In Russia, our investment programme is progressing, and in 2013 two new power plant units were commissioned in Nyagan, in Western Siberia. Out of the programme's eight production units, the three last, large ones are under construction. Our new gas-fired power plants in Russia are very energy-efficient.

The weakened industrial and economic growth indicators reported in Russia at the end of the year indicate that not even this market area is immune to the uncertainty in the global economy. The Russian government decided to postpone and reduce the previously planned annual gas price increases in its domestic markets. As a result, the new and efficient plants will not have as significant a competitive advantage as previously estimated. Due to this development and the weakened exchange rate for the rouble, it will be more challenging to achieve an operating profit level (EBIT) of EUR 500 million run rate in 2015. However, we will not abandon this target. Instead, we will strive to actively develop our operations and find ways to reach it.

Russia will be an important growth area for Fortum in the upcoming years. The reform of the Russian wholesale market has proceeded completely according to plan, and we expect the same consistent progress in the reform of the heating sector as it gets underway. Russia has the potential to significantly increase the efficiency of its heat production, a fact that offers interesting prospects for Fortum's heat business and CHP expertise.

Next generation solutions

Along with emissions-free hydro and nuclear power and resource-efficient CHP production, we are developing the use of waste and biomass-based fuels as well as researching opportunities in solar and wave power. These are all building blocks of the future energy system based on the sun's energy.

In India, we invested in a 5-megawatt solar power plant in order to gain experience in solar energy technologies and to enhance our understanding of the country's electricity market. If the operating requisites develop positively, I believe that in regions that are favourable for production, unsubsidised solar

energy will be able to compete with other energy sources even within this decade.

We are also continuously developing new tools and services to help our business and private customers monitor and lower their energy consumption. A smart grid and products that complement it, such as Fortum Fiksu, play an increasingly important role in the interaction between the energy producer and the consumer. We are also developing open, two-way solutions that enable customers to sell the surplus electricity or heat they produce to Fortum.

“ In 2013, we inaugurated five new production facilities in Europe.

Our concerted efforts to cater to the evolving needs of our customer are also reflected in our annual stakeholder satisfaction survey results. For several consecutive years, customers have indicated their increasing satisfaction with Fortum and in 2013, the survey results improved again. At the same time, the number of customers we serve has increased. At the end of 2013, Fortum had more retail customers in the Nordic countries than ever before.

Electricity distribution business in Finland to be divested

In December 2013, we completed the assessment of future alternatives for our electricity distribution business. After a thorough analysis, we concluded that divesting the electricity distribution business is the best alternative for Fortum’s shareholders and for the business itself. The decision gives Fortum the opportunity to focus on efficient and low-carbon electricity and heat production as well as on its activities in the integrating energy markets. It also provides the company with strategic freedom and increases shareholder value. I firmly believe that it is also a good solution from the perspective of our distribution customers and society at large because it will enable the development of the network business purely from its own standpoint.

Accordingly, we signed an agreement to sell the electricity distribution business in Finland to Suomi Power Networks Oy in December. Its shareholders are a consortium of the Finnish pension funds Keva and LocalTapiola Pension and the international infrastructure investors First State Investments and Borealis Infrastructure. We expect to finalise the sale during the first quarter of 2014.

The decision has no effect on our electricity retail customers to whom will continue to offer smart products and services that improve the efficiency of their energy consumption and decrease their costs. Our new products, like solar panels and heating solutions that take advantage of the power market’s lowest hourly prices, have been well received by customers. I am very pleased with the continuous improvement in customer satisfaction in all our divisions. Fortum’s reputation among other key groups also continued to strengthen.

Sustainability as an integral part of strategy

Sustainability is a key success factor for Fortum, and we are committed to the principles of the UN Global Compact. We adopted new sustainability indicators at the beginning of 2013 and have met the customer satisfaction and reputation targets we set for them. However, because of the heavy storms at the end of the year, we did not reach our target with regard to the security of supply for electricity. The average outage time per customer was 220 minutes during the entire year.

We will persist in our efforts to achieve our environmental targets. Fortum gained significant recognition for its work towards emissions-free energy production and climate change mitigation in autumn 2013 when the Carbon Disclosure Project (CDP), which represents institutional investors, ranked us as the best company in the Nordic Climate Leadership Index with a maximum score of one hundred points.

The occupational safety of Fortum’s own personnel further improved in 2013 and the number of injuries resulting in absences reached an all-time low. On the other hand, there is room for improvement in the development of the occupational safety culture of our contractors. In 2013, an

accident resulted in the death of a contractor employee at our construction site in Russia and in February 2014, an accident took the life of a contractor employee working on our distribution network in Sweden. I would like to express my sincere condolences to the families and colleagues of the victims. Our goal is to avoid all serious accidents. For this reason, improving occupational safety must become integral to the daily routines of every Fortum employee.

Ready to seize opportunities in the changing energy markets

In difficult times it is good to be at the helm of a company that can boldly shape its own future. We will continue our efficiency programme as planned, enhance our flexibility, and decisively and systematically build new business opportunities. Only a company on stable financial footing such as Fortum can leverage the opportunities presented by the rapidly changing sector. We will carefully manage our current business and build the future in line with our strategy.

“ In difficult times it is good to be at the helm of a company that can boldly shape its own future.

To conclude, I extend my sincerest gratitude to Fortum’s personnel in all our operating countries for the work they have done towards achieving our shared goals in the past year. I also wish to acknowledge Sari Baldauf, our Chairman of the Board, who for a period of months assumed a greater responsibility in advancing Fortum’s interests while I was on sick leave. I also thank our CFO Markus Rauramo, who successfully served as my deputy. And, finally, I would like to thank our customers and our broadening shareholder roster for your trust. We will continue to work to increase the company’s value also in 2014.

Tapio Kuula



Operations and market areas



Finland

4,528 MW	Power generation, capacity
1,915 MW	Heat production, capacity
642,000	Distribution, customers
16%	Share of retail customers
2,477	Employees 31 Dec 2013
100%	ISO 14001 certified ¹⁾
70%	OHSAS 18001 certified ²⁾
43%	ISO 9001 certified ³⁾
3.5 Mt	CO ₂ emissions

Sweden

5,856 MW	Power generation, capacity
3,626 MW	Heat production, capacity
903,000	Distribution, customers
12%	Share of retail customers
1,939	Employees 31 Dec 2013
100%	ISO 14001 certified ¹⁾
64%	OHSAS 18001 certified ²⁾
36%	ISO 9001 certified ³⁾
0.9 Mt	CO ₂ emissions

Russia

4,250 MW	Power generation, capacity
13,466 MW	Heat production, capacity
-	Distribution, customers
-	Share of retail customers
4,162	Employees 31 Dec 2013
100%	ISO 14001 certified ¹⁾
100%	OHSAS 18001 certified ²⁾
2%	ISO 9001 certified ³⁾
15.3 Mt	CO ₂ emissions

Poland

258 MW	Power generation, capacity
1,310 MW	Heat production, capacity
-	Distribution, customers
-	Share of retail customers
636	Employees 31 Dec 2013
100%	ISO 14001 certified ¹⁾
100%	OHSAS 18001 certified ²⁾
100%	ISO 9001 certified ³⁾
0.9 Mt	CO ₂ emissions

Lithuania

18 MW	Power generation, capacity
95 MW	Heat production, capacity
-	Distribution, customers
-	Share of retail customers
103	Employees 31 Dec 2013
100%	ISO 14001 certified ¹⁾
100%	OHSAS 18001 certified ²⁾
100%	ISO 9001 certified ³⁾
0.05 Mt	CO ₂ emissions

Latvia

26 MW	Power generation, capacity
236 MW	Heat production, capacity
-	Distribution, customers
-	Share of retail customers
86	Employees 31 Dec 2013
95%	ISO 14001 certified ¹⁾
95%	OHSAS 18001 certified ²⁾
95%	ISO 9001 certified ³⁾
0.05 Mt	CO ₂ emissions

Norway

-	Power generation, capacity
210 MW	Heat production, capacity
103,000	Distribution, customers
4%	Share of retail customers
141	Employees 31 Dec 2013
100%	ISO 14001 certified ¹⁾
0%	OHSAS 18001 certified ²⁾
100%	ISO 9001 certified ³⁾
0.005 Mt	CO ₂ emissions

Great Britain

140 MW	Power generation, capacity
250 MW	Heat production, capacity
-	Distribution, customers
-	Share of retail customers
50	Employees 31 Dec 2013
100%	ISO 14001 certified ¹⁾
100%	OHSAS 18001 certified ²⁾
100%	ISO 9001 certified ³⁾
0.6 Mt	CO ₂ emissions

Estonia

48 MW	Power generation, capacity
551 MW	Heat production, capacity
-	Distribution, customers
-	Share of retail customers
210	Employees 31 Dec 2013
100%	ISO 14001 certified ¹⁾
100%	OHSAS 18001 certified ²⁾
100%	ISO 9001 certified ³⁾
0.1 Mt	CO ₂ emissions

India

5 MW	Power generation, capacity
-	Heat production, capacity
-	Distribution, customers
-	Share of retail customers
22	Employees 31 Dec 2013
0%	ISO 14001 certified ¹⁾
0%	OHSAS 18001 certified ²⁾
0%	ISO 9001 certified ³⁾
0 Mt	CO ₂ emissions

¹⁾ ISO 14001 is a standard for environmental management systems

²⁾ OHSAS 18001 is a standard for occupational health and safety management systems

³⁾ ISO 9001 is a standard for quality management systems

Group business structure

(on 31 December 2013)

Division	Power	Heat	Russia	Electricity Solutions and Distribution (ESD)
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Business	The Division consists of Fortum's power generation, power trading and power capacity development as well as expert services for power and heat producers.	The 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.	The Division consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's over 25% holding in TGC-1.	The Division is responsible for Fortum's electricity sales and distribution activities. The division consists of two business areas: Distribution and Electricity Sales.
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Reporting segment	Power	Heat	Russia	Distribution	Electricity Sales
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Geographic presence, production and distribution assets and/or customer base	Production in Finland, Sweden and Great Britain. Expert services worldwide. In Finland and Sweden full or co-ownership in 159 hydropower plants, one co-owned and two fully-owned condensing power plants and ownership in three wind power companies. Two fully-owned nuclear reactors and eight co-owned nuclear power plant units. One CHP plant in Great Britain.	Finland, Sweden, Norway, Poland, Lithuania, Latvia, Estonia, India 18 CHP plants and hundreds of heat boilers. A solar power plant in India. Heat supply to one million homes in the Nordic and Baltic countries and Poland.	Russia Eight CHP plants, one condensing power plant and several heat boilers. ~500 km trunk networks as well as heat supply to two million residents. Includes >25% share (giving blocking minority) in TGC-1 in north-western Russia.	Finland, Sweden and Norway 160,000 km of distribution lines, 53,500 substations, three operation centres, and 1.6 million customers and meters.	Finland, Sweden and Norway 1.2 million customers.
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Market position	Third largest power producer in the Nordic countries, among the 15	Leading heat supplier in the Nordic and Baltic countries and Poland.	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 a leading seller of eco-labelled and
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Reporting segment	Power	Heat	Russia	Distribution	Electricity Sales
	largest in Europe and Russia.				CO ₂ -free electricity in the Nordic countries.
Production capacity	Power 9,475 MW Heat 250 MW	Power 1,398 MW Heat 7,943 MW	Power 4,250 MW Heat 13,466 MW	-	-
Volumes	Total power generation 44.7 TWh/a Nordic power generation 43.7 TWh/a	Power sales 4.8 TWh/a Heat sales 19.0 TWh/a	Power sales 25.6 TWh/a Heat sales 24.1 TWh/a	Distribution network 26.1 TWh/a Regional network 16.3 TWh/a	Electricity sales 13.6 TWh/a
Sales	EUR 2,248 million	EUR 1,565 million	EUR 1,119 million	EUR 1,075 million	EUR 744 million
Share of Fortum's sales	33%	23%	16%	16%	11%
Comparable operating profit	EUR 858 million	EUR 273 million	EUR 156 million	EUR 331 million	EUR 48 million
Comparable EBITDA	EUR 1,003 million	EUR 489 million	EUR 258 million	EUR 550 million	EUR 50 million
Net assets	EUR 6,329 million	EUR 4,283 million	EUR 3,846 million	EUR 3,770 million	EUR 39 million
Comparable return on net assets	13.8%	6.8%	5.2%	8.8%	137.9%
Capital expenditures	EUR 178 million	EUR 397 million	EUR 435 million	EUR 260 million	EUR 1 million
Employees	1,709	2,102	4,162	852	496
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 emission allowances important - Maintenance and asset lifetime management practices and costs - Investments into 	<ul style="list-style-type: none"> - Steady growth through investments; newly commissioned CHP plants bring earnings - Fuel and CO₂ emissions allowance prices and 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 	<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 	<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 	<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

Reporting segment	Power	Heat	Russia	Distribution	Electricity Sales
	new or existing generation	<ul style="list-style-type: none"> 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"> - 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 as well as heat demand and tariffs in the short term - Maintenance and asset lifetime management practices and costs 	<ul style="list-style-type: none"> - Grid availability and service level; liability to compensate for distribution interruptions - Maintenance and asset lifetime management practices and costs 	
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 flexible multi-fuel CHP production 	<ul style="list-style-type: none"> - Liberalised and privatised power and heat 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 through 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 through 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

Highlights of the year

Most significant events of 2013:

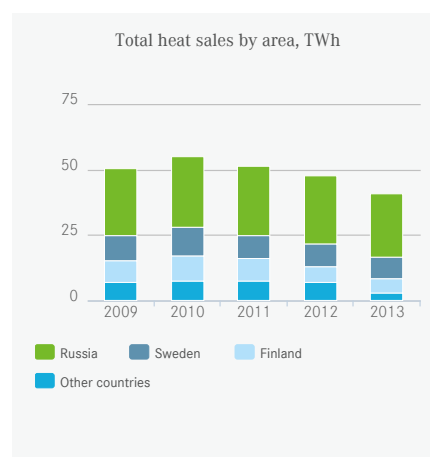
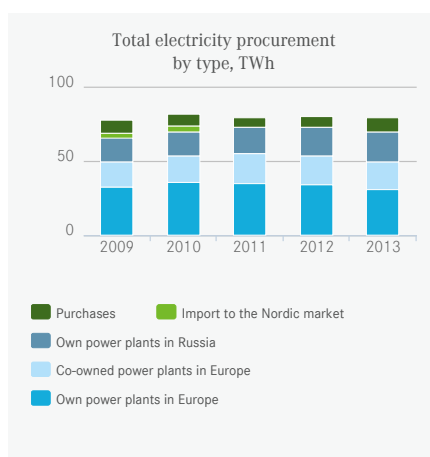
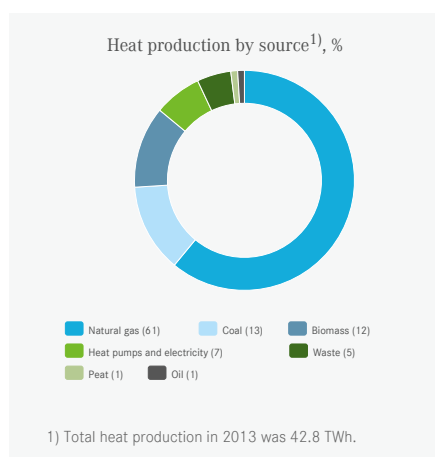
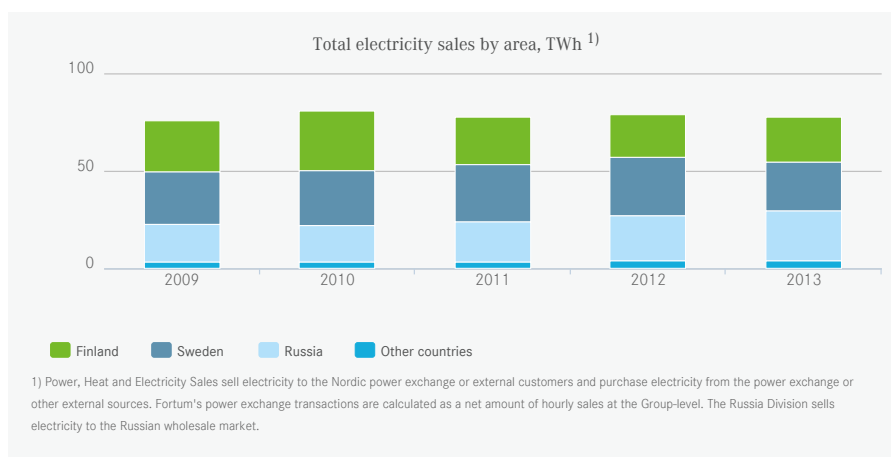
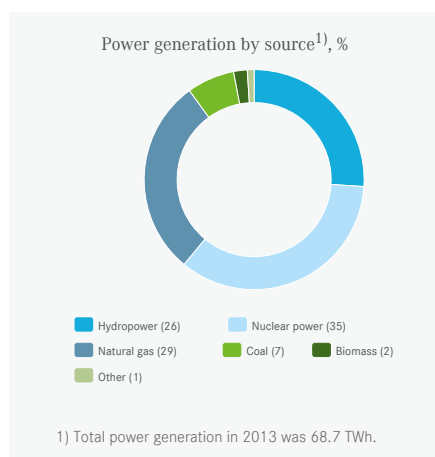
<p>JANUARY</p> <p>31st - Construction of a bio-CHP plant started in Sweden We started the construction of the world's biggest bio-CHP plant in Stockholm's Värtan in Sweden.</p>	<p>31st - Assessment of electricity distribution business started We started the assessment of the future alternatives of our electricity distribution business. The company's electricity retail business was excluded from the assessment.</p>
<p>FEBRUARY</p> <p>22nd - Customers' first choice in the Urals Customers chose Fortum as the best energy company in the Urals and West Siberia in the annual Golden Kilowatt competition.</p>	
<p>MARCH</p>	<p>25th - CEO started sick leave President and CEO Tapio Kuula started sick leave. CFO Markus Rauramo assumed responsibility for his duties. Kuula returned to work in November.</p>
<p>APRIL</p> <p>1st - Nyagan 1 into operation We started commercial operation of Nyagan power plant's unit 1 in Russia.</p> <p>9th - Annual General Meeting In conjunction with our Annual General Meeting, we updated our dividend policy. The objective of the new dividend policy is to increase transparency and provide better support for our long-term strategy and business operations.</p>	<p>17th - New air cooling towers to Loviisa power plant We announced that Loviisa nuclear power plant's safety will be enhanced with new air cooling towers. We have been studying this new cooling system that is independent of seawater for several years.</p>
<p>MAY</p> 	<p>15th - New waste-to-energy plant in Lithuania The Presidents of Lithuania and Finland inaugurated our new waste-to-energy combined heat and power (CHP) plant in the city of Klaipeda, Lithuania.</p>

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">JUNE</p>	<p>11th - Solar power from India We launched solar power production in India by acquiring a 5-MW photovoltaic solar power plant in the state of Rajasthan, north-western India.</p> <p>14th - Järvenpää bio-fuelled plant in Finland inaugurated We inaugurated a new biofuel-fired combined heat and power (CHP) plant in Järvenpää, Finland. The plant uses forest residues and forest industry by-products, like sawdust and bark.</p>	<p>26th - A broader heating network in Estonia We acquired district heat operations in the city of Tartu in Estonia from the Estonian district heat company Eraküte. The acquired district heating network accounts for approximately 20% of the whole Tartu network.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">JULY</p>		
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">AUGUST</p>	<p>13th - Production at Inkoo power plant in Finland will end We announced the decision to discontinue electricity production at the Inkoo coal-fired power plant in Finland. Production operations will end in February 2014, after which the three units will be mothballed.</p> <p>30th - Kaarina Ståhlberg to Fortum Management Team Kaarina Ståhlberg was appointed General Counsel and new member of the Management Team.</p>	<p>11th - New bio-CHP-plant inaugurated in Latvia The President of Latvia and Finland inaugurated our new combined heat and power (CHP) plant in the Latvian city of Jelgava. The plant is the first large-scale bio CHP plant in Latvia.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">SEPTEMBER</p>	<p>5th - Expert services for nuclear power development projects We signed a collaboration agreement with the Russian State Atomic Energy Corporation ROSATOM and Rolls-Royce in the area of nuclear power development. The collaboration will jointly investigate the feasibility of ROSATOM's VVER-type reactors for the UK.</p>	<p>19th - Wavepower development progressing We signed a development agreement with DCNS and AW-Energy in wave power research and development. As part of the agreement, a joint 1.5-MW wave power demonstration project will be started in Bretagne, France.</p> <p>24th - Inauguration of Nyagan's power plant in Russia Our new gas-fired thermal power plant Nyagan GRES was inaugurated in Western Siberia by the Presidents of Russia and Finland. The Nyagan power plant represents the most significant part of our investment programme in Russia.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">OCTOBER</p>	<p>4th - Smart meters installed in Finland We completed the installing of new smart meters in Finland. Altogether 610,000 meters were installed in our electricity distribution areas.</p> <p>8th - At the top of the Nordic climate index CDP (Carbon Disclosure Project) ranked Fortum as the best company in the Nordic climate index. The index assesses companies' climate performance.</p>	<p>24th - Nitrogen oxides reduction systems to Poland We announced the agreement to supply nitrogen oxides reduction systems to coal-fired power plants owned by EDF Group in Krakow and Wroclaw, Poland, where the combustion technology of power plant boilers will be upgraded.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">NOVEMBER</p>	<p>29th - Waste-to-energy plant inaugurated in Sweden We inaugurated a new combined heat and power (CHP) plant in Sigtuna, Stockholm. Brista 2 will produce energy from sorted municipal and industrial waste.</p>	<p>29th - Bio-oil production started in Joensuu, Finland We started bio-oil production in the new pyrolysis plant integrated with our Joensuu combined heat and power (CHP) plant. The plant is the first of its kind in the world.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">DECEMBER</p>	<p>12th - Assessment of electricity distribution business completed - distribution business in Finland to be sold We concluded the assessment of the future alternatives of the electricity distribution business. We announced that we will sell our electricity distribution business in Finland to Suomi Power Networks.</p>	<p>2nd - Nyagan 2 into operation Commercial production at Nyagan power plant's unit 2 started in Russia.</p> <p>Implementation of the efficiency programme continues During the year, our efficiency programme activities included, e.g., divesting power plants and shares in energy companies as well as outsourcing operations.</p>

2013 in figures

Sales and production

The operating year was characterised by low hydro production volumes and good nuclear availability.



Fortum's power production by energy source in 2011-2013

TWh	2013	2012	2011
Hydro power	18.0	25.2	21.0
Nuclear power	23.7	23.4	24.9
Natural gas	20.0	19.4	18.5
Coal	4.5	3.3	5.8
Biomass	1.6	1.3	1.7
Peat	0.1	0.1	0.2
Other	0.8	0.3	0.6
Total	68.7	73.1	72.7

Fortum's power generation capacity, 31 Dec 2013

MW	Finland	Sweden	Russia	Poland	Other	Total
Hydropower	1,500	3,090				4,590
Nuclear power	1,460	1,816				3,276
Combined heat and power	438	610	4,250	258	232	5,788
Condensing power	1,127	309				1,436
Other	3	30			5	38
Total	4,528	5,855	4,250	258	237	15,128

Fortum's heat production capacity, 31 Dec 2013

MW	Finland	Sweden	Russia	Poland	Other	Total
Heat	1,915	3,626	13,466	1,310	1,342	21,659

Financial summary

The following table presents key figures of our operations. More data on Fortum's financial performance is available in the [Financials section](#) of the Annual Report.

Key financial figures

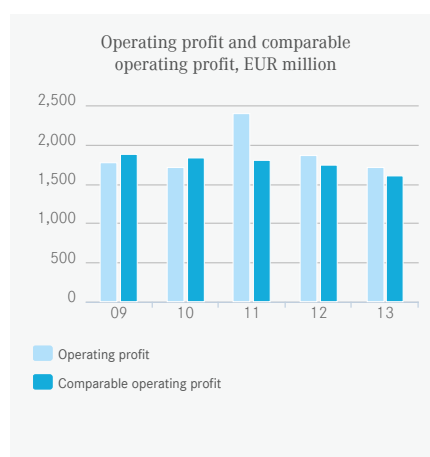
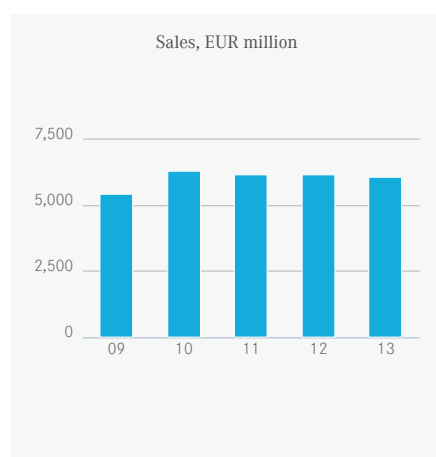
EUR million or as indicated	2013	2012	2011	2010
Sales	6,056	6,159	6,161	6,296
EBITDA	2,452	2,538	3,008	2,271
Comparable EBITDA	2,299	2,416	2,374	2,396
Operating profit	1,712	1,874	2,402	1,708
Comparable operating profit	1,607	1,752	1,802	1,833
Profit for the period, owners of the parent	1,204	1,416	1,769	1,300
Capital employed	19,780	19,420	17,931	16,124
Interest-bearing net debt	7,849	7,814	7,023	6,826
Net debt/EBITDA	3.2	3.1	2.3	3.0
Comparable net debt/EBITDA	3.4	3.2	3.0	2.8
Return on capital employed, %	9.2	10.2	14.8	11.6
Return on shareholders' equity, %	12.0	14.6	19.7	15.7
Capital expenditure	1,284	1,558	1,408	1,222
Gross investments in shares	15	16	74	27
Net cash from operating activities	1,836	1,382	1,613	1,437
Emissions subject to EU's ETS, million tonnes CO ₂	6.0	4.8	8.0	9.7
Free emission allocation, million tonnes CO ₂	3.0*	5.4	6.8	5.6

* Pending approval of the European Commission

Share key figures

EUR or as indicated	2013	2012	2011	2010
Earnings per share	1.36	1.59	1.99	1.46
Cash flow per share	2.07	1.56	1.82	1.62
Equity per share	11.28	11.30	10.84	9.24
Dividend per share ¹⁾	1.10	1.00	1.00	1.00
Payout ratio, %	80.9	62.9	50.3	68.5
Dividend yield, %	6.6	7.1	6.1	4.4

¹⁾ Board of Directors' proposal for the Annual General Meeting on 8 April 2014.



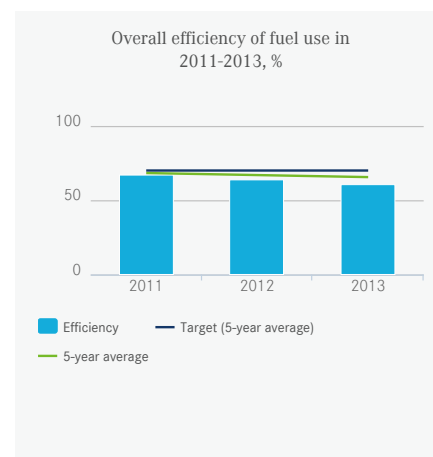
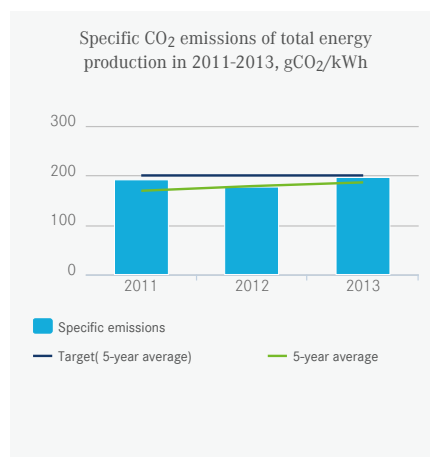
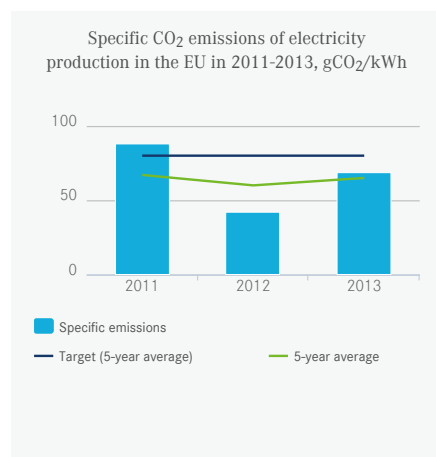
Environmental summary

All indicators measuring Fortum's environmental responsibility will be available in the GRI section of Fortum's Sustainability Report 2013. It will be published the end of March 2014.

	2013*	2012	2011
Carbon dioxide emissions, million tonnes	21.4	20.7	23.5
Sulphur dioxide emissions, tonnes	22,200	19,800	24,900
Nitrogen oxide emissions, tonnes	32,200	29,400	36,000
Particle emissions, tonnes	20,800	16,000	16,600
ISO 14001 certified operations (% of sales)	100	95	95
Specific CO ₂ emissions of power generation, g/kWh	202	171	192
5-year average in the EU, g/kWh	70	60	67
Specific CO ₂ emissions of total energy production, g/kWh	196	177	192
5-year average, g/kWh	186	179	169
Overall efficiency of fuel use, %	61	64	67
5-year average, %	66	67	68
Share of CO ₂ -free energy in power generation, %	63	68	65
Share of renewable energy in power generation, %	29	36	31
Share of renewable energy in heat production, %	21	20	16
Primary energy consumption, TWh	146	149	157
Utilisation rate of gypsum, %	99	42	89

Utilisation rate of ash, %	48	51	52
Environmental non-compliances	14	12	20
Water withdrawal, million m ³	2,541	3,679	3,853
of which cooling water, million m ³	2,241	3,582	3,746
Thermal load on waterways, TWh	19	17	21

* Figures pending assurance



Social summary

All indicators measuring Fortum's social responsibility will be available in the GRI section of Fortum's Sustainability Report 2013. It will be published at the end of March 2014.

	2013*	2012	2011
Average number of employees	10,246	10,600	11,010
Number of employees, 31 December	9,886	10,371	10,780
of whom permanently employed	9,515	9,899	10,379
Departure turnover, %	9.7	12.0	13.7
Female employees, %	28	28	29
Females in management, %	31	35	34
Health care expenditure, EUR/person ¹⁾	580	580	560
Number of sickdays	56,316	74,188	69,654 ²⁾
Sickness absence rate, %	2.5	3.1	-
Lost workday injury frequency (LWIF), Fortum personnel ³⁾	1.1	1.5	1.6
Lost workday injury frequency (LWIF), contractors ³⁾	4.8	3.8	3.2
Fatalities	1	1	1
OHSAS 18001 certified operations (% of sales)	73	70	60

* Figures pending assurance

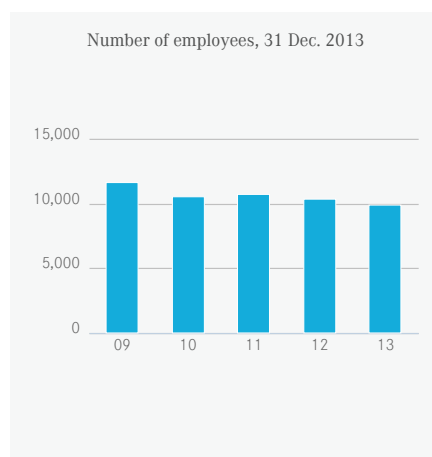
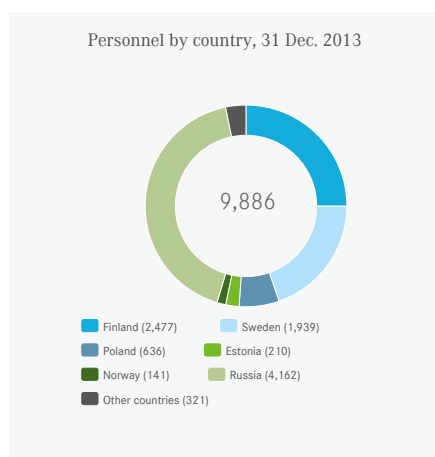
1) In Finland

2) Includes Finland, Sweden, Poland and Russia

3) Injuries resulting in an absence of at least one day per million working hours

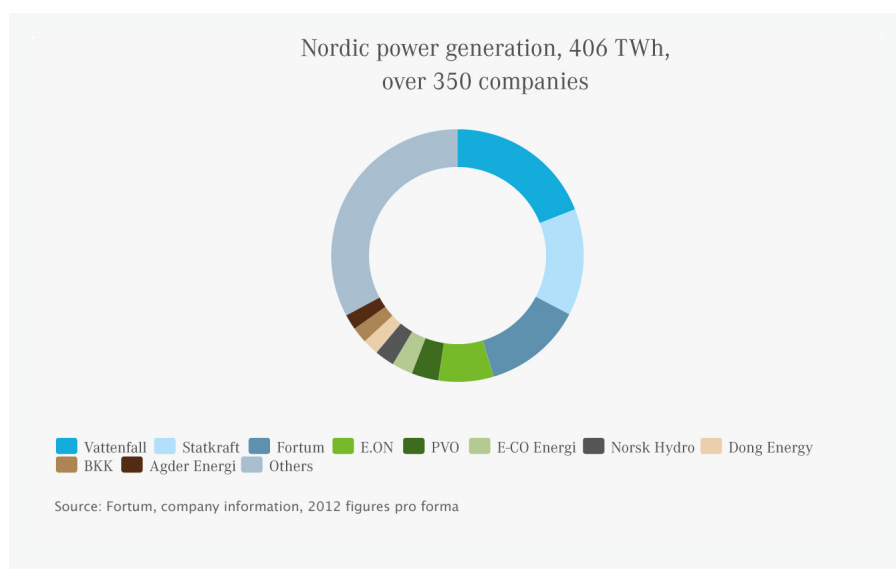
Fortum's personnel statistics from 2013, by country of operation

	Finland	Sweden	Russia	Poland	Other countries
Personnel at year-end	2,477	1,939	4,162	636	672
male	1,796	1,357	3,030	497	465
female	681	582	1,132	139	207
Personnel, average	2,616	1,993	4,245	660	732
Personnel expenses, 1,000 euros	207,427	177,085	87,905	14,881	41,702
Personnel expenses per person, 1,000 euros	79.3	88.9	20.7	22.5	57.0

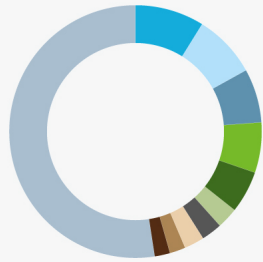


Market position

Fortum is the 3rd largest power generator in the Nordic countries, and among the leading heat producers globally. Fortum's carbon exposure is among the lowest in Europe.



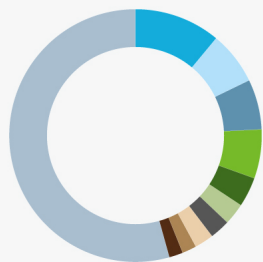
Nordic electricity retail, 15 million customers,
~350 companies



Vattenfall Fortum Hafslund Dong Energy E.ON Statkraft Helsingin Energia SEAS-NVE
Bixia Göteborg Energi, Din El Others

Source: Fortum, company information, 2012 figures pro forma

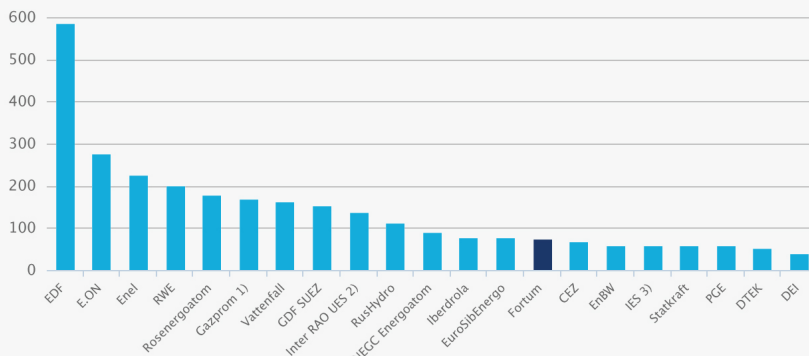
Nordic electricity distribution, 15 million customers,
~500 companies



Fortum E.ON Dong Energy Vattenfall Hafslund Elenia SEAS-NVE Helsingin Energia
Göteborg Energi Syd Energi Others

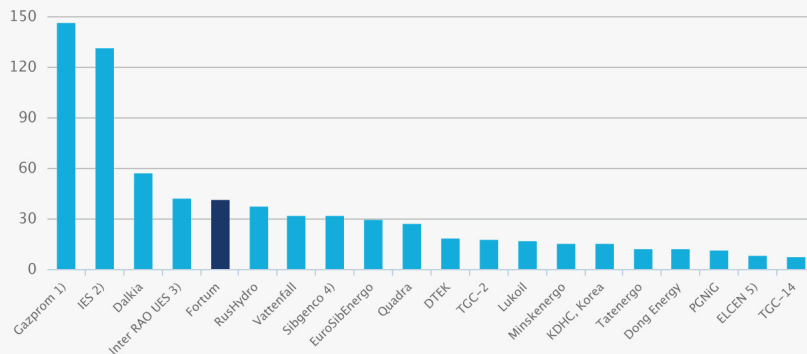
Source: Fortum, company information, 2012 figures pro forma

Power generation, TWh
Largest generators in Europe and Russia



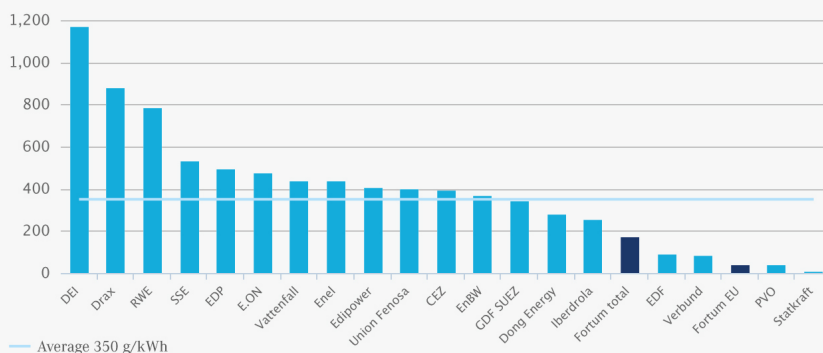
1) incl. MOEK, 2) incl. Bashkirenergo, 3) incl. TGC-5, TGC-6, TGC-7, TGC-9,
Source: Fortum, company information, 2012 figures pro forma

Heat production, TWh
Largest producers globally



1) incl. MOEK, 2) incl. TGC-5, TGC-6, TGC-7, TGC-9, 3) incl. Bashkirenergo, 4) incl. TGC-12, TGC-13, 5) 2011
Source: Fortum, company information, 2012 figures pro forma. Heat production of Beijing DH not available.

Specific CO₂ emissions of major utilities in Europe
g CO₂/kWh electricity, 2012



Source: PWC & Enerpresse, November 2013, Climate Change and Electricity, Fortum
Note: All figures, except Fortum total, include only European generation.



Strategy overview

Fortum's purpose is to create energy that improves life for present and future generations. We provide sustainable solutions for society and deliver excellent value to our shareholders.

The core of our strategy is our strong expertise in CO₂-free hydro and nuclear power and in efficient combined heat and power (CHP) production. Our strengths also include our solid experience in operating in the energy markets.

Sustainability is an integral part of Fortum's strategy. Business operations and

responsibility are tightly linked, underlining the role of sustainable solutions as a competitive advantage. In its operations, Fortum gives balanced consideration to economic, social and environmental responsibility.

Fortum's values – accountability, creativity, respect and honesty – form the foundation

for all our activities. Fortum wants to be a forerunner in developing the future energy system - the Solar Economy.

Fortum's mission, strategy and values

Mission

Fortum's purpose is to create energy that improves life for present and future generations. We provide sustainable solutions for society and deliver excellent value to our shareholders.

Strategy

Build on the strong Nordic core

Create solid earnings growth in Russia

Build a platform for future growth

Strong competence in CO₂-free hydro and nuclear, efficient CHP production and energy markets

Values



Accountability



Creativity



Respect



Honesty

Future energy system - Solar Economy

Fortum believes that the future energy system will be based on emissions-free and inexhaustible energy sources and on overall efficiency of the energy system.

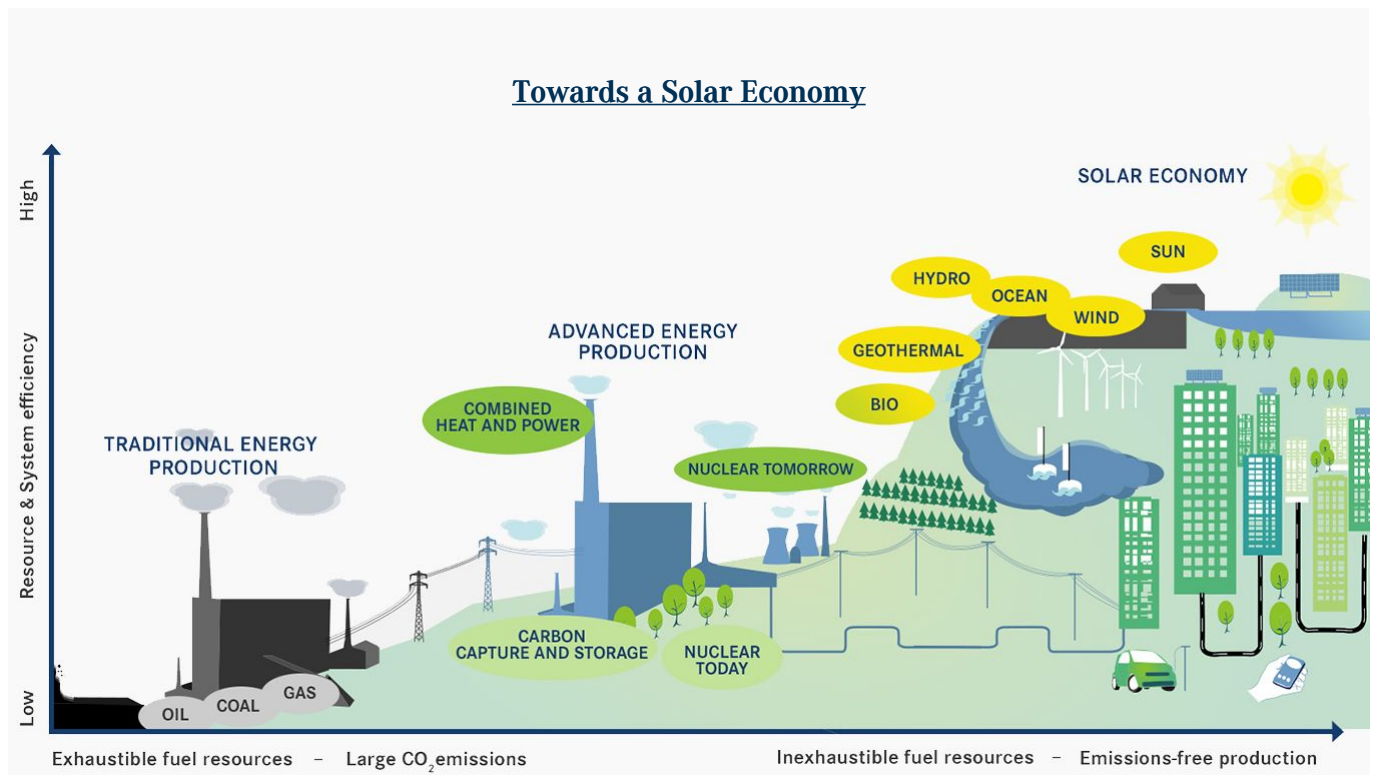
The transition towards Solar Economy brings changes to the way energy is produced and consumed.

In conventional energy production, the combustion of fuels, like coal and gas, provides the main source of energy. Coal, in particular, burdens the environment and has poor total efficiency. With the rapid growth in the global demand for energy and in the consumption of electricity, mitigating climate change is becoming an increasingly important issue. Energy systems and the use

of limited natural resources must be made more efficient.

Solar Economy provides solutions to the challenges of climate change and resource scarcity. In Solar Economy, energy from the sun is used either directly as solar electricity and heat or indirectly as hydro, ocean, wind and bioenergy. On the journey towards Solar Economy, traditional production forms will be further developed and used alongside solar-based production.

In Solar Economy, the energy system is more dynamic and smarter, enabling both centralised and distributed electricity production. Active participation by electricity users brings elasticity to demand, which improves the efficiency of the system.



A gradual transition to Solar Economy

Changes in the energy system are slow to implement. Transitioning from the current energy system to a Solar Economy requires technology advancements as well as changes in the energy markets, the political environment, and society's infrastructure and

consumption habits - changes that happen over the course of several decades. Development of the operating environment is necessary for the investments required for a change in the energy system, while the length of the transition period and the cost are dependent on political decisions, society's priorities and technology advancements in production forms.

Fortum wants to promote both short- and long-term development of the energy system simultaneously. However, the current emission-free energy sources are not yet able to fulfil the energy demand of today's rapidly developing society. That is why in the short term we are continuing to widely utilise also traditional energy forms, albeit with the goal to do so even more efficiently.

Core areas of the strategy

The core of our strategy is our strong expertise in CO₂-free hydro and nuclear power and in efficient combined heat and power production. Our strengths also include solid experience operating in the energy markets. Our business focus areas will continue to be developed through these competencies.

Build on the strong Nordic core

Hydro and nuclear power have a significant role in Fortum's production portfolio. Both are CO₂-free production forms and competitive with regard to variable costs. In 2013, about 85% of Fortum's European electricity production was based on hydro and nuclear power located in the Nordic countries.

Hydro power is particularly valuable in the integrating European energy market, where it can be used to balance out consumption peaks and the production fluctuations of growing wind and solar power.

Combined heat and power (CHP) production has a central role in our business throughout the Baltic region. Electricity produced in conjunction with district heat enables the use of bio- and waste fuels, and it is a more energy-efficient way to use traditional fossil fuels.

In 2013, Fortum assessed the future alternatives of its electricity distribution business. After thorough consideration, the company has concluded that divesting the electricity distribution business is the best solution for the business and its customers,

Fortum's shareholders and the company's other businesses. Focusing on electricity and heat production and sales, is estimated to improve Fortum's long-term value creation. Fortum has electricity distribution business in Finland, Sweden and Norway. The assessment has no impact on Fortum's electricity retail customers. Fortum will continue to develop its electricity sales business as an integral part of the company's strategy and will continue offering innovative products and services to its approximately 1.2 million electricity retail customers in the Nordic countries also in the future.

Create solid earnings growth in Russia

Russia is the fourth biggest consumer of electricity globally and the growth of its electricity demand is outpacing that of the EU's. Fortum's investment programme is bringing new energy-efficient production units on stream; these are expected to significantly increase the share of sales and profits that Fortum earns from its Russian operations and will diversify Fortum's production portfolio geographically. Completing the investment programme is a key priority for us.

Fortum's production in Russia consists mainly of combined heat and power production. For the time being, the heating market in Russia is completely regulated and does not work effectively nor encourage the necessary investments in the sector. However, heating reform is being drafted in Russia. If realised, it would offer significant possibilities of value creation for Fortum.

Build a platform for future growth

Alongside our current business operations, we are pursuing precisely targeted new growth and developing future energy solutions. We are developing the solar power business through centralised large-scale production, commercial applications and distributed household applications.

Additionally, our research and development activities support the advancement towards a carbon dioxide-free future by promoting the adoption of new technologies, which could offer significant business opportunities in the future. Examples include wave power, new CHP concepts, and new solutions for customers.

Strategy realisation in 2013

Build on the strong Nordic core	<ul style="list-style-type: none"> • Assessing the future alternatives of the electricity distribution business and decision to sell the distribution business in Finland • Securing profitability and cash flow through optimised electricity trading and production with high availability • Continuing ongoing hydropower refurbishments in Finland and Sweden • Outsourcing hydro power operation and maintenance in Finland • Renewing the co-ownership agreement on Fortum Värme with the City of Stockholm • Starting construction of a new bio-CHP plant in Stockholm, Sweden • Inaugurating new waste-to-energy CHP plants in Brista, Sweden, and Klaipeda, Lithuania • Inaugurating new bio-CHP plants in Jelgava, Latvia, and Järvenpää, Finland • Extending the district heating network in Tartu, Estonia, through an acquisition • Enhancing the safety of Fortum's Loviisa nuclear power plant with new air-cooling towers • Deciding to discontinue electricity production at the Inkoo coal-fired power plant in Finland in 2014 • Continuing good progress with the efficiency programme and divesting several minority shareholdings and small units throughout the Nordic countries
Create solid earnings growth in Russia	<ul style="list-style-type: none"> • Focus on completing the investment programme • Commissioning the Nyagan 1 and Nyagan 2 power plant units in Russia
Build a platform for future growth	<ul style="list-style-type: none"> • Launching solar power production in India through an acquisition of a solar power plant • Taking into use an integrated bio-oil plant at Joensuu CHP, Finland, and signing a supply contract for bio-oil with a local energy company • Signing a collaboration agreement to provide nuclear expertise in the UK • Preparing for the hydro power concessions tender process in France • Participating in an industry-wide 1.5 MW wave power development initiative in Bretagne, France

R&D supporting business

The purpose of our Research and Development (R&D) is to improve Fortum's competitiveness and to create a basis for new profitable business.

R&D activities help Fortum to enable a sustainable, carbon dioxide-free future.

The main areas of R&D activities are:

- The advanced technologies included in Fortum's existing energy system. In this

field, nuclear power is our most important research area. In addition, we are developing integrated combined heat and power systems, i.e. CHP+ plants.

- New technologies and solutions supporting development of the energy system towards the future Solar

Economy. Targets of development in this area include solar and wave power as well as innovative customer solutions.

Fortum's total R&D expenditure in 2013 was EUR 49 million (2012: 41), which corresponded to 0.8% of sales (2012: 0.7%).



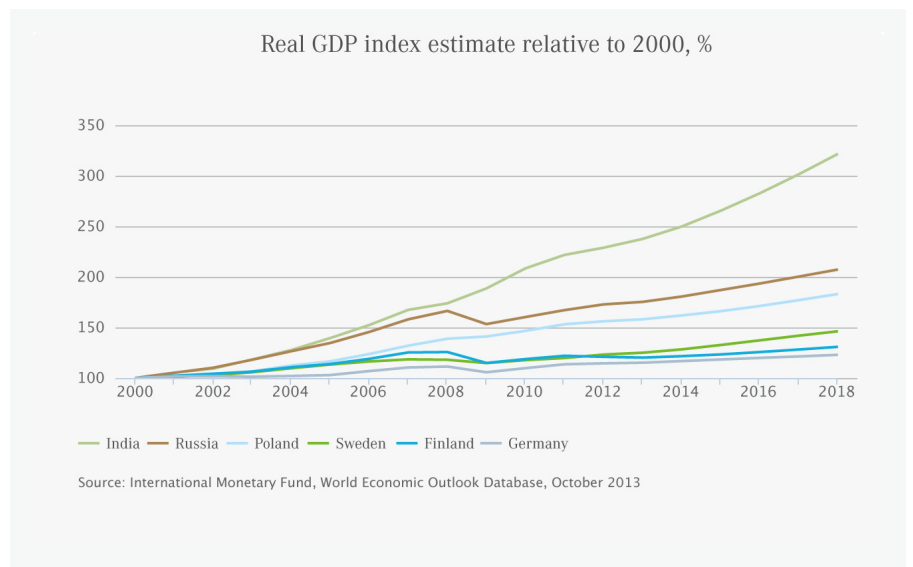
Market development in recent years has pushed Europe’s electricity sector into turmoil. Since 2010, the players in the sector have lost an average of about one fifth of their market value, and the companies focusing solely on power generation have lost even more.

Driving the change has been the weakened industrial demand for electricity caused by the economic downturn, the strong increase in subsidised renewable energy that has replaced market-driven production, and the increased uncertainty and inconsistency in energy policy regulation both at the national and EU level. The market price of electricity has decreased, and energy companies are struggling to manage the debt burdens stemming from capital-intensive investments. And the influx of shale gas into the market has weakened the competitive position of European industry, particularly compared to that of the United States.

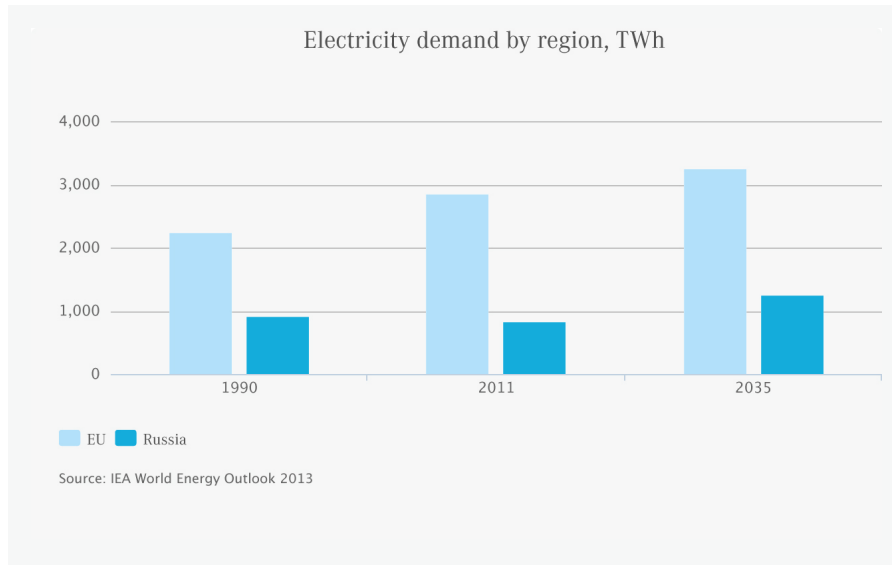
The turmoil continued in the energy sector in 2013, and the state of the European economy did not ease the situation for companies in the sector. Economic growth estimates were further lowered, which in turn has reflected on electricity demand estimates in Europe and in Russia. The growth outlook in the sector is generally flat and, for example, Fortum’s estimate on annual growth of electricity consumption in the Nordic countries has hovered around the 0.5% level for a long time.

“ The turmoil continued in the energy sector in 2013, and the state of the European economy didn’t ease the situation for companies in the sector.

At the same time, the increase of electricity production from subsidised renewable energy



sources was strong in Europe in 2013, in line with policy targets set for renewable energy. Overall, energy market development moved towards national and more regulated solutions rather than European and market-driven solutions. Against this background, it was not a surprise that the structural reform of the emissions trading scheme and renewable energy support schemes were actively debated. The Commission gave its proposal on reforming the emissions trading scheme in January 2014, but the related decisions will be deferred to the term of the new Commission and Parliament. At the same time, the Commission is in a process to revise the State aid guidelines for energy and the environment advocating more market-oriented and harmonised subsidies for renewable energy sources in order to improve their efficiency and save cost.



European market development

Electricity production from renewable energy sources increased strongly in 2013. The development is in line with EU climate and energy policy targets. Most of these production forms, however, rely on subsidies and require regulating power capacity to balance production fluctuations and to secure energy supply in situations when e.g. wind or solar energy is not available.

Subsidy mechanisms that were designed on a national basis and, in some cases, are oversized, have proved to be counterproductive to the functioning of European electricity market and emissions trading. In addition to a growing tax burden, they have led to an increase in the end-users' energy bill – even though the wholesale market price of electricity has decreased. Meanwhile, the competitiveness of market-driven, unsubsidised production has weakened, and very few, if any, investments decisions based on the wholesale market price are being made.

The situation has sparked a discussion on the need to reassess renewable energy support schemes and to develop the EU electricity market model so that it better rewards flexible power and reserve power through capacity mechanisms. Renewable generation energy costs for member states are expected to rise to a total of 330 billion euros by 2020; this is an economic burden for member states and the entire EU, and it weakens competitiveness.

In November 2013, the European Commission published the first extensive guidance that aims to help member states to choose support mechanisms that are least detrimental to the functioning and development of the EU energy market. The guidelines focus on renewable energy support schemes and capacity mechanisms and on the possibilities to utilise elasticity of demand. Building on these non-binding guidelines, the European Commission will adopt legally binding EU's guidelines for State aid for the energy sector in 2014.

“ The situation has sparked a discussion on the need to reassess renewable energy support schemes and to develop the EU electricity market model.

Balanced development of the EU energy market requires renewable energy support schemes and capacity mechanisms to be megawatt-neutral, i.e. they must give equal treatment to the different production forms and to production capacities of varying ages. As the need for flexible energy production grows, it is essential to change the current market model so that flexibility of energy

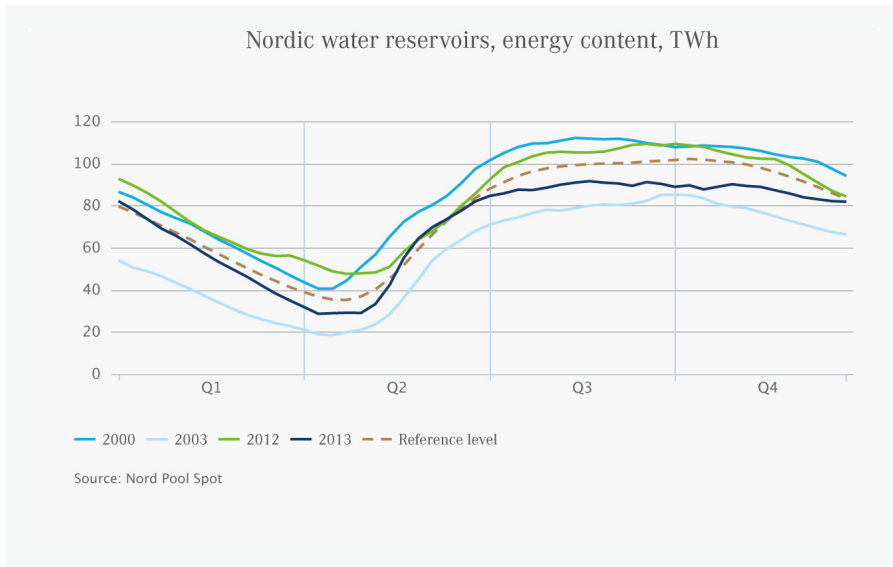
production would also be better rewarded than it is today.

“ **Balanced development of the EU energy market requires renewable energy support schemes and capacity mechanisms to be megawatt-neutral.**

Price development of electricity and emission allowances

While market development has not been totally satisfactory at the EU level, the situation in the Nordic countries is better. The Nordic wholesale market has developed further, and in June 2013 Latvia became the last Baltic country to join the Nord Pool power exchange. Because of the exceptionally good hydrological situation in 2012, area price differences between Finland and Sweden were big. In 2013 the prices became more aligned.

The average system spot price of electricity in 2013 was 38.1 (31.2) euros per megawatt-hour. The average area price in Finland was 41.2 (36.6) euros per megawatt-hour and in



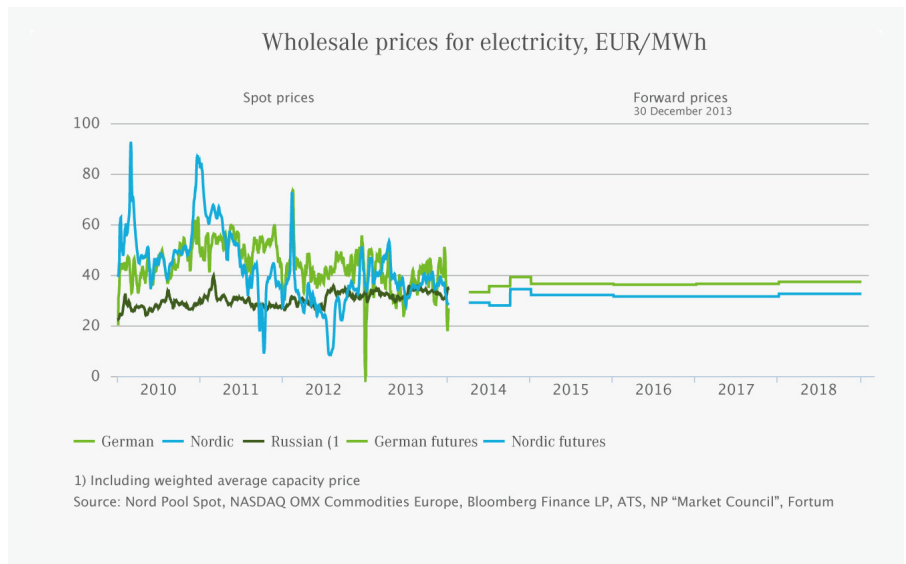
Sweden (SE3) 39.4 (32.3) euros per megawatt-hour. In Germany, the average spot price was 37.8 (42.6) euros per megawatt-hour.

In January-December 2013, CO₂ emission allowances traded at a price of 2.8-6.7 euros per tonne.

Heat market development

The implementation of the Energy Efficiency Directive (EED) continued in 2013. According to the directive, district heating and combined heat and power production can offer solutions to reach the energy-efficiency targets set for EU member states.

District heating has been included in the national energy strategies in the Nordic and Baltic countries and in Poland. Heat-related legislation is currently (end of January 2014)



under governmental consideration in Poland (proposal on renewable energy act) and in Estonia (amendments to heat legislation). In

Latvia and Lithuania, similar legislative amendments are expected to be introduced in the near future.

Renewable energy forms

Renewable energy refers to energy produced from renewable energy sources from ongoing natural processes. With the exception of geothermal and tidal energy, renewable energy sources get their energy from the sun. Renewable energy, excluding bioenergy, generates zero carbon dioxide emissions, and that is why it plays a key role in mitigating climate change. Under today's rules, the use of bioenergy is considered climate neutral.

The European Union defines wind and solar power, aerothermal and geother-

mal energy, hydro power, biomass, and gas and biogas generated at landfills and wastewater treatment plants as renewable energy.

The Renewable Energy Sources (RES) Directive of the European Parliament and of the Council on promoting the use of energy from renewable sources defines the sustainability criteria for biofuels and other bioliquids. The Commission has for several years considered the need of having similar sustainability criteria also for solid biomass with an aim to ensure the sustainability

of all biomasses used for energy in the EU as well as promote the development of a functioning biomass market. It has nevertheless decided not to make such a proposal so far.

Renewable energy must be promoted in a market-driven manner

The target of current EU legislation is to increase the share of renewable energy to 20% of energy consumption by 2020. The EU's binding target has been divided into member state-specific targets.

In January 2014, the Commission presented EU climate and energy targets for 2030. The Commission is proposing a binding CO₂ reduction target of 40% accompanied by a binding EU-level target of 27% for renewable energy instead of national targets. Achieving the current nationally binding renewable energy targets has required significant financial

support for renewable energy forms in most countries. Member states have been able to decide on their own subsidy schemes, and therefore the national subsidies differ significantly from one another. This has led to a subsidy race and investments that are not cost effective.

The tax burden is also increasing, both on production and consumption of energy. Several countries put the tax burden on non-emitting technologies like hydro and nuclear. Such taxes are in direct conflict with the generally accepted energy and climate policy targets and increase the

uncertainty in the energy sector.

The European energy industry believes there should be a shift from the different types of national renewable energy subsidies, which are not cost-effective for society, to a market-driven scheme where the use of renewable energy is promoted through climate targets and an efficiently functioning carbon market. For sectors remaining outside the emissions trading, targets for renewable energy might be needed also in the future.

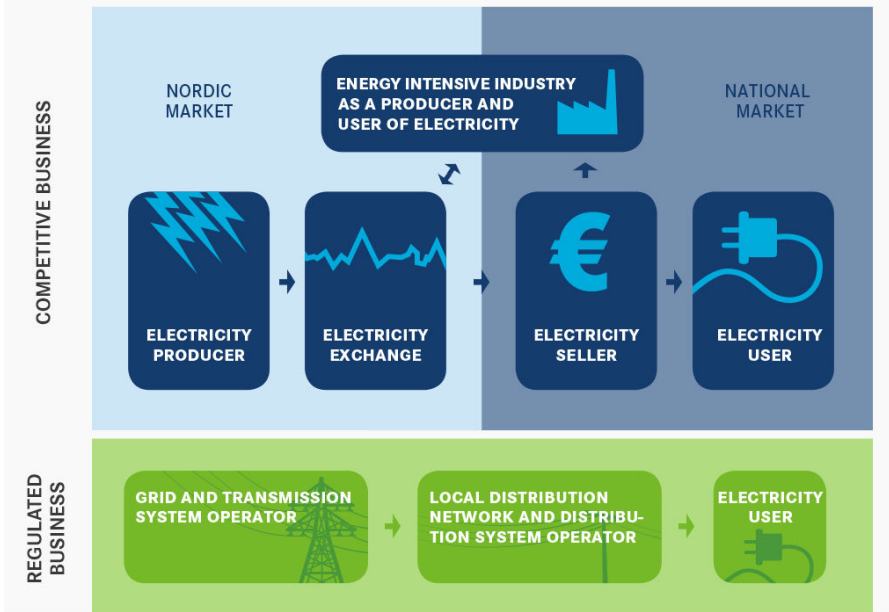
Europe needs major investments in production plants and transmission infrastructure

European energy production plants are aging. Despite regional overproduction of renewable energy, significant investments must be made in low-carbon production over the next decade in Europe in order to achieve the tightened legislative requirements and the EU emissions targets for 2050. It is estimated that investments of about 5-7 trillion, i.e. 5,000-7,000 billion euros, in electricity generation capacity are needed in Europe by 2050. Implementing the investments requires a supporting market model and reasonable return potential from wholesale markets.

Europe's energy infrastructure development has not kept pace with increasing renewable

energy production. The permit processes required to build transnational power lines have become the most significant bottleneck. In 2013, the EU adopted a new energy infrastructure regulation that was linked to a special financing instrument. This is expected to advance the construction of priority transmission networks by accelerating permit processes and offering additional funding.

Nordic electricity market structure



Nordic electricity markets

In the electricity markets, electricity production and sales are competitive businesses, while transmission and distribution are regulated.

The Nordic countries were the first in the world to establish a regional, multinational electricity wholesale market. About three quarters of the electricity produced in the Nordic countries is traded on the Nordic electricity exchange (Nord Pool Spot) and on the financial derivatives market (NASDAQ OMX Commodities Europe). The producers use the rest of the electricity themselves or sell it directly to

big industrial customers.

There are about 350 players in the Nordic electricity market. The balance of supply and demand, the price of fuel and emission allowances, and the hydrological situation affect the wholesale price. Buyers and sellers alike can hedge their electricity wholesale and purchase prices with derivative contracts. Electricity transmission and distribution companies operate as regional monopolies because it is not cost-efficient to build multiple electricity networks in one area. Authorities monitor electricity transmis-

sion and distribution, its costs and the operations of the companies engaged in this business. The transmission and distribution companies must treat all electricity producers and buyers equally, regardless of the producer or buyer of the electricity they are transmitting.

Electricity retailers buy their electricity mainly from the wholesale market and sell it to households and companies. The retail price consists of three components: the wholesale price of electricity; transmission and distribution; and taxes and other fees.

Distributed heat business

Heating and cooling are local business operations and subject to local legislation and regulation. The heating markets differ significantly from electricity markets because they are decentralised. Heat cannot be transported over long distances, and thus, by its nature, it is a local commodity.

Well-managed and effective district heating and district cooling systems with efficient combined heat and power production provide sustainable solutions for future heating and cooling in urban areas. District heating and cooling can significantly improve the resource efficiency of energy production and

mitigate the effects of climate change. Fortum is the world's fifth biggest heat producer.

Market reform approaching in Russia

Enforcement of heat production legislation, which took effect at the beginning of 2011, is continuing in Russia. Meanwhile, the elimination of cross-subsidies has been advanced between electricity and heat production as well as between residential and big industrial customers. The country has also taken into use long-term heat tariffs, but, as with the legislation on heat production, their implementation is still unfinished.

Modernisation of the heat sector in Russia is vitally important, as it would be very difficult to achieve the national targets for energy efficiency without it. As the first step, a change from cost plus-pricing of heat to pricing based on alternative forms of heating is under consideration. This would encourage investments in improved efficiency and especially in combined heat and power (CHP) production.

“ Modernisation of the heat sector in Russia is vitally important.”

In 2013, the Ministry of Energy stated that a heat reform should be developed before changing the current electricity and capacity market model. Therefore, at the end of the year, the Ministry of Energy proposed a new heat market model (for public discussion), which is supposed to ensure the transition to economically justified heat tariffs by 2020 and to attract investments into the heat sector. The new regulation concept is at an early stage and is expected to be further developed during 2014.

Quarterly reviews for gas prices

Since the beginning of 2013, wholesale gas prices (except for private household and industrial consumers) have been reviewed quarterly. In February 2013, the Board of Russia's Federal Tariff Service (FTS) adopted a decision according to which the wholesale gas price for industrial consumers decreased by 3% as of the second quarter 2013, compared to first quarter.

As of 1 July 2013, the Russian Government increased gas prices by 15% compared to

June 2013. Further increases were done in August and October in order to reach the planned total increase of approximately 15% in 2013 compared to 2012. According to a forecast made by the Russian Ministry of Economic Development, Russian gas price indexation will not take place as of July 2014. However, year-on-year gas price growth is estimated to be 7.6% in 2014.

In 2013, 1,026 (1,037) terawatt-hours of electricity was used in Russia. The corresponding figure in Fortum's operating area, in the First price zone, was 767 (769) terawatt-hours.

In January-December 2013, the average electricity spot price, excluding capacity price, increased by 10% to 1,104 roubles (2012: 1,001) per megawatt-hour in the First price zone.

Russia's electricity markets

Liberalisation of the Russian wholesale electricity market was completed by 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 special group of consumers – under regulated prices. Their share of the wholesale market varies between 15-25%.

In addition to the wholesale electricity market, Russia also has an electricity capacity market, in which an electricity

producer receives earnings for the production capacity it offers for market use. The purpose of the electricity capacity market is mainly to encourage new investments in electricity production.

The long-term capacity market rules were approved by the Russian Government in 2010 and have been applied from the beginning of 2011. The so-called old capacity, built before 2008, annually competes in competitive capacity selection. The generation capacity, built after

2007 under government Capacity Supply Agreements (CSA), will receive guaranteed payments for a period of 10 years. Prices for capacity under CSA are defined to ensure a sufficient return on investments.

Carbon market development

Substantial oversupply and low price levels characterised the EU market for emission allowances in 2013. The scheme is in urgent need of reform in order to give the market the right price signal that encourages investments in low-carbon production.

New knowledge about climate change

The Intergovernmental Panel on Climate Change (IPCC) published its latest assessment report on climate change in September 2013. The report takes a more serious tone than before in describing the advancement of climate change – limiting the increase in the global average temperature to two degrees is extremely challenging and, at worst, the increase can be as high as five degrees. As a new issue, the IPCC addresses the significance of oceans on climate change; the bulk of the heat increase is stored specifically in oceans.

In 2013, the carbon dioxide concentration in the atmosphere surpassed 400 parts per million (ppm) for the first time in human history. The IPCC also determined the carbon emissions limit that, if exceeded, would lead to atmospheric warming of more than two degrees. The IPCC noted that at the current pace the global carbon emissions quota will be reached in 30 years, and called for quick actions to curb emissions.

“ To improve the functionality of the emissions trading scheme, the EU must set an ambitious reduction target for greenhouse gas emissions only.

The UN's international climate negotiations advanced with weak results in 2013. The goal is for a universal climate agreement by 2015. Development of an international carbon market advanced only in some respects. Several emissions trading pilot projects were launched in China, and regional schemes were expanded in North America. Australia decided to repeal the previously agreed

emissions trading legislation, and thus its earlier agreed link with the EU's emissions trading scheme remains unrealised for now. Japan also announced that it will significantly lower its own emissions reduction target.

Climate targets must be clarified quickly

The EU has committed to an 80-95% reduction in carbon dioxide emissions by 2050. The European energy industry has committed to the challenging emissions target, but the regulatory uncertainty significantly hampers the investments and emissions reduction measures required to achieve the target. Climate policy must be long-term and predictable for energy sector investments. By committing to one target – the ambitious reduction of greenhouse gas emissions by 2030 – overlapping regulations and controls could be dismantled and uncertainty could be significantly reduced.

Market-driven solutions, like emissions trading, must be prioritised to minimise the costs incurred by reducing emissions. Emissions trading improves the competitiveness of low-carbon production methods and enables climate targets to be achieved at the lowest possible cost.

The EU is currently defining the energy and climate policy framework and targets for 2030. The Commission's proposal for 2030 target-setting was received in January 2014, and the aim is to decide on the targets during spring 2014. The Commission proposes a 40% reduction in greenhouse gas emissions by 2030 compared to 1990 levels. The proposal also includes a binding EU-level target to increase the share of renewable energy sources to 27% by 2030.

Emissions trading scheme must be reformed

The economic recession and overlapping climate policy steering mechanisms in the EU have led to reduced demand for emission

allowances and lower prices, which hovered around 4-5 euros for most of 2013, although the price did fluctuate considerably from 2.5 euros to nearly 7 euros. A very low emission allowance price does not encourage low-carbon investments, and thus creates a risk that new production capacity to be built will generate emissions far into the future.

After long negotiations in the EU and the resulting decision to postpone the auctioning of 900 million allowances (backloading), the end of the year saw a slight recovery in the carbon market from the low in spring 2013. The backloading to be implemented during 2014 is the first measure to reform the emissions trading scheme. The goal is to restore confidence in the emissions trading scheme and to give the market a price signal that encourages investments in low-carbon production methods.

Structural reform of the emissions trading scheme was actively debated. The Commission gave its proposal on reforming the scheme in January 2014, but the related decisions will be deferred to the term of the new Commission and Parliament. The Commission is proposing the adoption of a market stability reserve starting in 2021; the mechanism sparked wide interest already in 2013. Fortum proposed an allowance supply adjustment mechanism in July 2013 and actively lobbied for the method with various stakeholders.

During the year, real concern emerged about the impact of climate change mitigation on the competitiveness of Europe and energy-intensive industries in particular. Emissions must be reduced cost-efficiently, e.g. with a functioning carbon market; consequently, climate change mitigation costs and the impact on energy prices will remain lower than with other climate policy control mechanisms.

CO₂ allowance prices (ICE ECX EUA), EUR/tCO₂



Source: ICE
Market prices 31 December 2013; 2014–2018 future quotations

Financials 2013

In a challenging market environment, our result remained at a satisfactory level. The cash flow from operating activities was very strong with all divisions contributing.



Operating and financial review

Financial performance and position

The strategic assessment of the electricity distribution business and inaugurations of power plants were in focus.

Key financial figures

EUR million	2013	2012	2011	Change 13/12
Sales	6,056	6,159	6,161	-2%
Operating profit	1,712	1,874	2,402	-9%
Operating profit, % of sales	28.3	30.4	39.0	-7%
Comparable operating profit	1,607	1,752	1,802	-8%
Profit before taxes	1,499	1,586	2,228	-5%
Profit for the period attributable to owners of the parent	1,204	1,416	1,769	-15%
Earnings per share, EUR	1.36	1.59	1.99	-14%
Net cash from operating activities	1,836	1,382	1,613	33%
Shareholders' equity per share, EUR	11.28	11.30	10.84	0%
Capital employed	19,780	19,420	17,931	2%
Interest-bearing net debt	7,849	7,814	7,023	0%
Equity-to-assets ratio, %	44	43	44	2%
Average number of shares, 1,000s	888,367	888,367	888,367	0%

Group financial targets

	Target	2013	2012	2011	Change 13/12
ROCE, %	12	9.2	10.2	14.8	-10%
ROE, %	14	12.0	14.6	19.7	-18%
Capital structure:					
Comparable net debt/EBITDA	Around 3	3.4	3.2	3.0	6%
Net debt/EBITDA		3.2	3.1	2.3	3%

In 2013, electricity consumption in the Nordic countries was slightly lower than last year at 386 terawatt-hours (TWh), even though non-industrial consumption partly offset the decrease in industrial demand especially during the first half of the year. In Russia, in the areas where Fortum operates, consumption was flat at 767 TWh.

The Nordic hydro reservoirs were below the long-term average and although the levels normalised towards the end of the year, they were still clearly lower than last year's record-high levels. Precipitation was weak in Fortum's operating areas during the first three quarters of the year; this put pressure

on hydro volumes and thus impacted Fortum's results negatively.

The comparable profit declined compared to the previous year and totalled approximately EUR 1.6 billion, and earnings per share were EUR 1.36. The cash flow from operating activities, however, was strong with all divisions contributing. We made good progress in sustainability and safety in 2013. Fortum received a special award for innovation from the Global District Energy Climate Awards organisation and was ranked as the best company in the Nordic climate index. We had our lowest-ever total recordable incidents (TRIF) among our own personnel.

In December 2013, Fortum completed the strategic assessment of its electricity distribution business. The conclusion was that divesting the electricity distribution business is the best solution in order to further develop our company according to its strategy. We also consider it to be the best solution for the distribution business itself and for its customers. Focusing on electricity and heat production and sales, is estimated to give Fortum more strategic flexibility and to improve the company's long-term value creation.

In line with the conclusions of the completed assessment, Fortum agreed to sell its electricity distribution business in Finland to

Suomi Power Networks Oy. The business is in very good shape and deserves to be developed further as a core business from its own standpoint. The buyer has a deep understanding of the social importance of infrastructure assets and is committed to developing reliable networks and services for the customers. We expect to close the deal during the first quarter of 2014; until then, work continues as usual in all business areas. Fortum is also evaluating the possible future divestment opportunities within the electricity distribution business country by country.

In 2014, we will continue our everyday work in serving our customers in all areas of our business. The year-end storms in Finland, Sweden and Norway tested once again our ability to serve customers in challenging conditions. We have continuously improved the reliability of our networks. The same trend can be seen also in the results of the recent customer satisfaction survey: Fortum improved its ranking in electricity sales, distribution and as a supplier of district heat.

2013 was a year of inaugurations at Fortum. In Jelgava, Latvia, and in Järvenpää, Finland, we commissioned new biomass-fired CHP plants. In Klaipeda, Lithuania, we took into production a waste-to-energy CHP plant, while in Brista, Sweden, test-runs were started. Fortum also commissioned the world's first bio-oil production facility that is integrated with a combined heat and power (CHP) plant in Joensuu, Finland. In Russia, the gas-fired thermal power plant Nyagan GRES was inaugurated by President of Russia Vladimir Putin and President of Finland Sauli Niinistö. Units 1 and 2 are now commissioned, and both are receiving capacity payments. We will continue the determined implementation of our investment programme with three large units still under construction. Both with existing and with new power plants, we continue to build Fortum's future growth.

The on-going company-wide efficiency programme continued to proceed according to plan, and we are approximately half way through. The work will continue; we are continuously working on reducing fixed costs and capital expenditures, divesting non-core business and focusing on working capital efficiency.

Looking at the operating environment for Fortum overall, it's clear that the markets will remain challenging also in 2014. Only through our own actions can we ensure that the premises for success are in place.

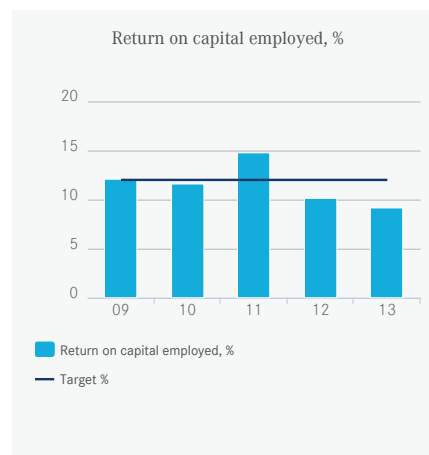
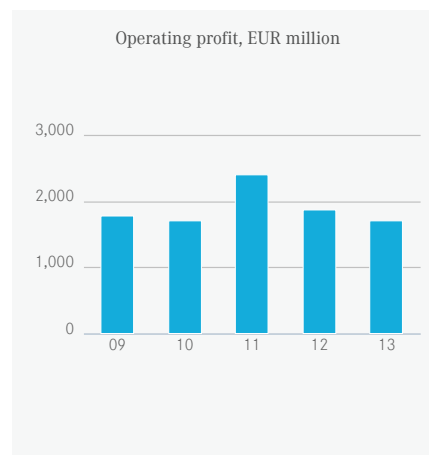
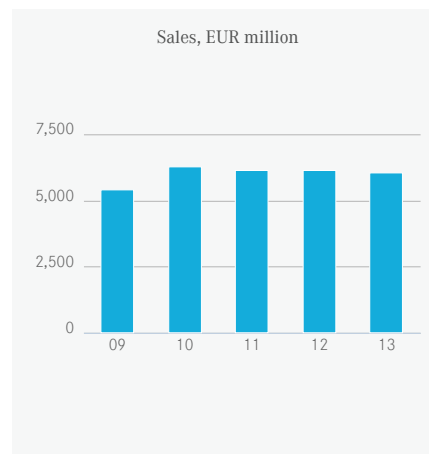
Changes to the EU energy and climate policy are likely to be seen in 2014. It is crucial that determined measures to mitigate climate change are continued. However, in order to safeguard the competitiveness of European industries and get the much needed investments into low-carbon energy production and infrastructure, the EU climate policy should be steered by a single CO₂ reduction target post-2020, and the existing overlapping steering mechanisms should be removed. In January, the European Commission published a new proposal for the EU's climate policy and energy policy - the proposal is a step in the right direction, but overlapping targets remain.

Regarding the tax climate, the governments in Finland and Sweden have made positive and material decisions on lowering the corporate tax rates to stimulate businesses; beyond that, the overall tax climate has tightened considerably. Fortum has appealed several cases raised by the tax authorities that have been addressed retroactively and also some cases that have already been scrutinised.

In Finland, the power plant tax (previously called the windfall tax) has been adopted as of 2014. It will be applied provided that the European Commission finds that it is in line with the general tax principles and regime in Finland and that it does not include forbidden state aid. The Swedish hydro real-estate tax is also being challenged.

We are pursuing growth, carefully considering and prioritising alternatives in line with our strategy. We consider Fortum to be well positioned among its peers and ready to grab emerging opportunities that are a good fit with our strategy focus on low-carbon power generation, energy-efficient combined heat and power (CHP) production and sales, and innovative customer offerings. Concentrating on electricity and heat production and sales is estimated to improve Fortum's long-term value creation.

To summarise, 2013 was a year full of activity as well as challenges; nevertheless, the result was satisfactory. The dividend proposal reflects Fortum's dividend policy to pay a stable, sustainable and over time increasing dividend that supports shareholder value and the company's strategy.





Efficiency programme 2013-2014

Fortum started an efficiency programme in 2012 in order to maintain and strengthen its 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 2014 is expected to be EUR 0.9-1.1 billion excluding Värme. At the end of 2014, the cost run-rate is targeted to be approximately EUR 150 million lower compared to 2012, including growth projects.

If headcount reductions are needed, Fortum seeks to limit redundancies whenever

possible. The assessments will therefore be done at a unit level.

At the end of December 2013, Fortum had divested approximately EUR 300 million in non-core assets since the start of the efficiency programme. The company has been able to decrease its cost run-rate by approximately half of the targeted EUR 150 million and working capital efficiency has been improved.

Assessment of the electricity distribution business

In December, Fortum completed the assessment of the future alternatives of its electricity distribution business; the assessment was launched in January 2013. After thorough consideration, the company concluded that divesting the electricity distribution business is the best solution for the business and its customers, Fortum's shareholders and the company's other businesses. During the assessment process all alternatives were carefully studied in order to find the best solution. Fortum is evaluating the remaining possible future divestment opportunities country by country. The outcome is dependent on market development and on development of national regulation in the countries of operation.

Also in December, as the first phase, Fortum agreed to sell its electricity distribution business in Finland to Suomi Power Networks Oy, which is owned by a consortium of Finnish pension funds Keva (12.5%) and LocalTapiola Pension (7.5%) together with international infrastructure investors First State Investments (40%) and Borealis Infrastructure (40%). The total consideration is EUR 2.55 billion on a debt- and cash-free basis. Fortum expects to complete the divestment process during the first quarter of 2014, subject to the necessary regulatory approvals as well as customary closing conditions. Fortum expects to book a one-time sales gain of EUR 1.8-1.9 billion, corresponding to approximately EUR 2.0 per share, in its Electricity Solutions and

Distribution Division's first-quarter 2014 results.

A total of 340 employees will transfer with the business at closing with existing terms of employment. The sale has no effect as such on Fortum's approximately 640,000 distribution customers. Upon closing, those customers will transfer with the business with existing terms.

For further information, see [Note 9 Assets held for sale](#).

Market conditions

Nordic countries

In 2013, according to preliminary statistics, electricity consumption in the Nordic countries was 386 TWh (2012: 391).

At the beginning of the year, the Nordic water reservoirs were at 85 TWh, i.e. 2 TWh above the long-term average. At the end of the year, the reservoirs were at 82 TWh, which is 1 TWh below the long-term average and 3 TWh below the corresponding level in 2012. Heavy precipitation, mild weather and moderate consumption led to rapid normalisation of reservoirs.

In 2013, the average system spot price was EUR 38.1 per MWh (2012: 31.2). In Finland, the average area price was EUR 41.2 per

MWh (2012: 36.6) and in Sweden (SE3) EUR 39.4 per MWh (2012: 32.3).

In Germany, the average spot price during 2013 was EUR 37.8 per MWh (2012: 42.6).

The market price of CO₂ emission allowances (EUA) dropped from approximately EUR 6.6 per tonne at the beginning of the year to approximately EUR 5.0 per tonne at the beginning of the fourth quarter, to which it also returned by the year-end. During 2013, EUA traded between EUR 2.8 and EUR 6.7 per tonne.

Russia

Fortum operates in the Urals and Western Siberia. Both in the Tyumen and Khanty-

Mansiysk area, where industrial production is dominated by the oil and gas industries, and in the Chelyabinsk area, which is dominated by the metal industry, electricity demand declined somewhat for the full year 2013 compared to previous year.

In 2013, Russia consumed 1,026 TWh (2012: 1,037) of electricity. The corresponding figure in Fortum's operating area in the First price zone (European and Urals part of Russia) was 767 TWh (2012: 769).

In 2013, the average electricity spot price, excluding capacity price, increased by 10% to RUB 1,104 per MWh (2012: 1,001) in the First price zone.

Power consumption

TWh	2013	2012	2011
Nordic countries	386	391	384
Russia	1,026	1,037	1,020
Tyumen	87	83	83
Chelyabinsk	36	36	36
Russia Urals area	253	252	250

Average prices

	2013	2012	2011
Spot price for power in Nord Pool power exchange, EUR/MWh	38.1	31.2	47.1
Spot price for power in Finland, EUR/MWh	41.2	36.6	49.3
Spot price for power in Sweden, SE3, Stockholm, EUR/MWh ¹⁾	39.4	32.3	47.9
Spot price for power in Sweden, SE2, Sundsvall, EUR/MWh ¹⁾	39.2	31.8	N/A
Spot price for power in European and Urals part of Russia, RUB/MWh ²⁾	1,104	1,001	990
Average capacity price, tRUB/MW/month	276	227	209
Spot price for power in Germany, EUR/MWh	37.8	42.6	51.1
Average regulated gas price in Urals region, RUB/1,000 m ³	3,131	2,736	2,548
Average capacity price for old capacity, tRUB/MW/month ³⁾	163	152	160
Average capacity price for new capacity, tRUB/MW/month ³⁾	576	539	560
Spot price for power (market price), Urals hub, RUB/MWh ²⁾	1,021	956	925
CO ₂ , (ETS EUA), EUR/tonne CO ₂	5	7	13
Coal (ICE Rotterdam), USD/tonne	82	93	122
Oil (Brent Crude), USD/bbl	109	112	111

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

²⁾ Excluding capacity tariff.

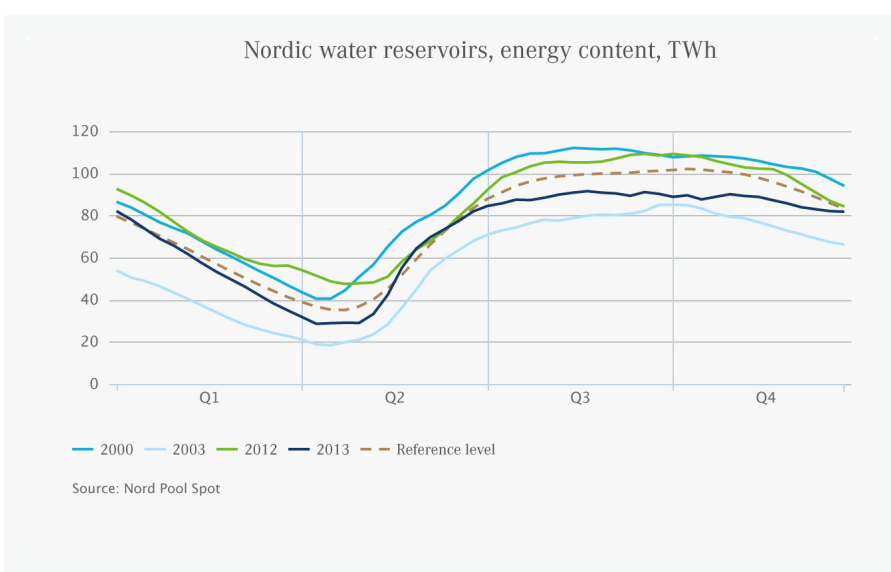
³⁾ Capacity prices paid only for the capacity available at the time.

Water reservoirs

TWh	31 Dec 2013	31 Dec 2012	31 Dec 2011
Nordic water reservoirs level	82	85	95
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)	2013	2012	2011
Export/import between Nordic area and Continental Europe+Baltics	-3	-19	-6
Export/import between Nordic area and Russia	5	5	11
Export/import Nordic area, total	-2	-14	5



innovations and demonstration, not on production. It is also important to integrate renewable electricity fully into the electricity market, as its amount and share will grow in the future. Increasing the share of renewable energy in the EU energy mix is a positive and desired development.

The EU carbon market was characterised by a significant surplus of allowances and therefore a low market price in 2013. The revision of the European emissions trading scheme (EU ETS) was actively debated throughout the year. After a lengthy process, in late 2013 and early 2014, the amendment of the emissions trading directive and changes to the auctioning regulation enabling the backloading of allowances from 2014-2016 to 2019-2020 were approved. The backloading concerns a total of 900 million allowances and is not expected to substantially increase the price. Backloading is expected to be implemented during the first half of 2014 and is the first step in the revision of the ETS. This revision aims at restoring confidence in the system and giving a price signal that encourages investments in low-carbon production methods.

The Commission released a proposal on the structural reform of the European Trading system (ETS) in January 2014. The proposal includes a market stability reserve, where the supply-demand balance is automatically managed by pre-defined rules from 2021 onwards. The proposal will be processed further by the new Commission and the Parliament.

European business environment and carbon market

In January, the European Commission published its proposal for the EU's climate and energy policy for 2020-2030. As a part of the proposal the Commission put forward an emissions reduction target of 40% by 2030, which is in line with the political target to reduce emissions by 80.95% by 2050. It is positive that in the 2030 framework the main focus is now more clearly on reducing greenhouse gases. In addition, a new stability mechanism for emissions trading was proposed.

Contrary to the current policy, only an EU-level target is proposed for renewable energy. This is a step in the right direction, although this EU-level target is binding and therefore creates some overlapping with the greenhouse gas emissions reduction target.

Fortum's view is that an energy and climate framework based on one single binding target for CO₂ and a non-binding target for renewables in 2030 would be a more cost-efficient solution to tackle climate change without compromising Europe's industrial competitiveness.

Fortum supports a technology-neutral approach both regarding climate policy and renewable energy, and the target for renewable energy (RES) should concentrate on promotion of research & development,

Restatements related to IFRS changes in accounting

Fortum is applying an amended IFRS standard for pensions as of 1 January 2013. Adoption of the new standard is done retrospectively and comparative information for 2012 is therefore restated to reflect the change. The change had only a minor impact on Fortum's financial results and financial position; however, it reduced the equity by EUR 124 million as of 1 January 2012. The

restated comparative figures for the year 2012 are presented in the attachment to the first-quarter 2013 interim report.

As of 1 January 2014, Fortum will apply the new IFRS 10 Consolidated Financial Statements and 11 Joint Arrangements standards. The major effect of this reassessment relates to Fortum Värme,

operating in the capital area in Sweden, which will be treated as a joint venture and thus consolidated with the equity method. The company is currently consolidated as a subsidiary with a 50% minority interest.

For further information see [Note 1 Accounting principles](#).

Financial results

Sales by division

EUR million	2013	2012	2011	Change 13/12
Power	2,248	2,415	2,481	-7%
Heat	1,565	1,628	1,737	-4%
Russia	1,119	1,030	920	9%
Distribution ¹⁾	1,075	1,070	973	0%
Electricity sales ¹⁾	744	722	900	3%
Other	69	137	108	-50%
Netting of Nord Pool transactions ²⁾	-510	-503	-749	-1%
Eliminations	-254	-340	-209	25%
Total	6,056	6,159	6,161	-2%

Comparable operating profit by division

EUR million	2013	2012	2011	Change 13/12
Power	858	1,146	1,201	-25%
Heat	273	271	278	1%
Russia	156	68	74	129%
Distribution ¹⁾	331	320	295	3%
Electricity sales ¹⁾	48	39	27	23%
Other	-59	-92	-73	36%
Total	1,607	1,752	1,802	-8%

Operating profit by division

EUR million	2013	2012	2011	Change 13/12
Power	921	1,175	1,476	-22%
Heat	288	344	380	-16%
Russia	156	79	74	97%
Distribution ¹⁾	348	331	478	5%
Electricity sales ¹⁾	56	39	3	44%
Other	-57	-94	-9	39%
Total	1,712	1,874	2,402	-9%

¹⁾ Part of the Electricity Solutions and Distribution division.

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

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

In 2013, Group sales were EUR 6,056 million (2012: 6,159). Comparable operating profit totalled EUR 1,607 million (2012: 1,752) and the reported operating profit totalled EUR 1,712 million (2012: 1,874). 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 105 million (2012: 122).

The share of profits of associates and joint ventures was EUR 105 million (2012: 23). The increase comes mainly from Hafslund and TGC-1. The share of profits from Hafslund and TGC-1 are based on the companies' published fourth-quarter 2012 as well as first-, second- and third-quarter 2013 interim reports.

The Group's net financial expenses were EUR 318 million (2012: 311). Net financial expenses included changes in the fair value of financial instruments of EUR 16 million (2012: 23).

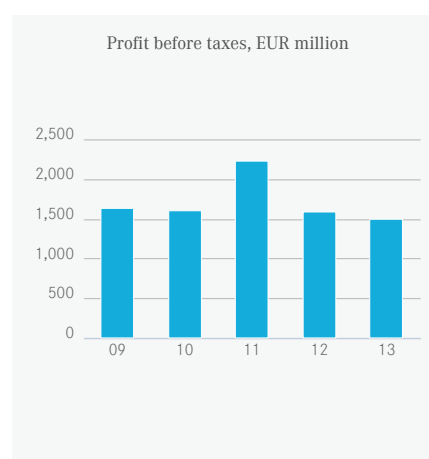
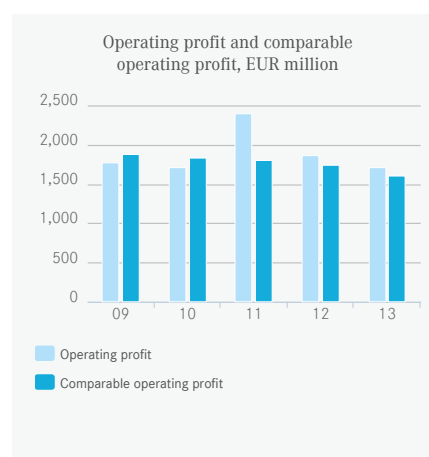
Profit before taxes was EUR 1,499 million (2012: 1,586).

Taxes for the period totalled EUR 220 million (2012: 74). The tax rate according to the income statement was 14.7% (2012: 4.7%). In

Finland, the corporate tax rate was decreased to 20.0% from 24.5% starting 1 January 2014. The tax rate change caused a one-time effect in 2013 of approximately EUR 0.09 per share. In Sweden, the corporate tax rate was decreased to 22.0% from 26.3% starting 1 January 2013. In 2012, the one-time positive effect from the tax rate change was approximately EUR 230 million, of which EUR 34 million is attributable to non-controlling interests. The tax rate, excluding the changes in the tax rates, the impact of the share of profits of associated companies and joint ventures as well as non-taxable capital gains was 22.3% (2012: 21.2%).

The profit for the period was EUR 1,279 million (2012: 1,512). Fortum's earnings per share were EUR 1.36 (2012: 1.59), of which EUR 0.10 per share (2012: 0.14) relates to items affecting comparability and EUR 0.09 per share to the change in Finnish corporate tax rate. In 2012, the impact of the lowered Swedish corporate tax rate was approximately EUR 0.22 per share.

Non-controlling (minority) interests amounted to EUR 75 million (2012: 96). These are mainly attributable to AB Fortum Värme Holding, in which the city of Stockholm has a 50% economic interest.

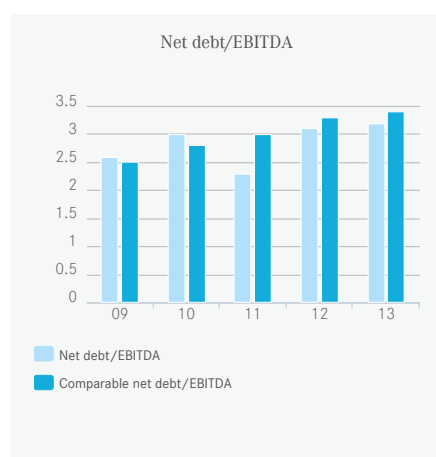
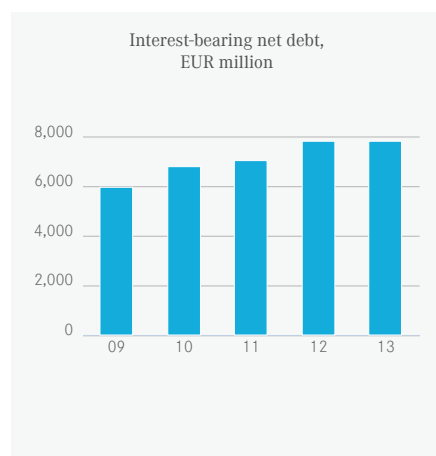


Financial position and cash flow

EUR million	2013	2012	2011	Change 13/12
Interest expense	-295	-300	-284	-2%
Interest income	42	54	56	-22%
Fair value gains and losses	-16	-23	5	-30%
Other financial expenses	-49	-42	-42	17%
Finance costs - net	-318	-311	-265	2%
Interest-bearing liabilities ¹⁾	9,118	8,777	7,770	4%
Less: Cash and cash equivalents ²⁾	1,269	963	747	32%
Interest-bearing net debt	7,849	7,814	7,023	0%

¹⁾ 2013 includes EUR 20 million presented as asset held for sale.

²⁾ 2013 includes EUR 15 million and 2011 EUR 16 million presented as asset held for sale.



Cash flow

In 2013, total net cash from operating activities increased by EUR 454 million to EUR 1,836 million (2012: 1,382), mainly due to a decrease in working capital of EUR 296 million and realised foreign exchange differences turning to positive EUR 320 million which were offset with a lower EBITDA. Capital expenditures decreased by EUR 151 million to EUR 1,271 million (2012: 1,422). Proceeds from divestments totalled EUR 210 million (2012: 433). Total net cash used in investing activities was EUR -1,210 million (2012: -1,128). Cash flow before financing activities, i.e. dividend distributions and financing, increased by EUR 372 million to EUR 626 million (2012: 254). Realised foreign exchange gains and losses of EUR 52 million (2012: -268) were related to the rollover of foreign exchange contract hedging loans to Fortum's Swedish and Russian subsidiaries.

Dividends totalling EUR 888 million were paid on 19 April 2013 using cash and cash equivalents.

Assets and capital employed

Total assets decreased by EUR 141 million to EUR 24,420 million (24,561 at year-end 2012). The net change in total assets was negative, even though capital expenditures

and gross investments in shares (EUR 1,299 million) were higher than depreciation during the year (EUR 740 million). The total impact of translation differences on intangible assets, property plant and equipment as well as participations in associates and joint ventures was negative EUR 861 million. Cash and cash equivalents increased by EUR 291 million.

Presenting the Finnish distribution business as assets held for sale impacted the structure of the balance sheet, because all assets and liabilities belonging to those operations were presented separately on one line both in assets and liabilities.

For further information, see [Note 9 Assets held for sale](#).

Capital employed was EUR 19,780 (19,420 at year-end 2012) million, an increase of EUR 360 million. The increase was due to the lower amount of total assets, EUR 141 million, and a EUR 501 million decrease in interest-free liabilities.

Equity

Total equity was EUR 10,662 (10,643 at year-end 2012) million, of which equity attributable to owners of the parent company totalled EUR 10,024 million (2012: 10,040) and non-controlling interests EUR 638 million (2012: 603).

The decrease in equity attributable to owners of the parent company totalled EUR 16 million and is mainly arising from the payment of dividends totalling EUR -888 million, net profit of EUR 1,204 million for the period and translation differences of EUR -471 million.

Financing

Net debt increased during 2013 by EUR 35 million to EUR 7,849 (7,814 at year-end 2012) million.

During 2013 Fortum Corporation issued new long term debt in SEK and EUR amounting to approximately EUR 760 million.

At the end of December 2013, the Group's liquid funds totalled EUR 1,269 million (963 at year-end 2012). Liquid funds include cash and bank deposits held by OAO Fortum

amounting to EUR 113 million (128 at year-end 2012). In addition to the liquid funds, Fortum had access to approximately EUR 2.2 billion of undrawn committed credit facilities.

The Group's net financial expenses during 2013 were EUR 318 million (2012: 311). Net financial expenses include changes in the fair value of financial instruments of EUR -16 million (2012: -23).

Fortum Corporation's long-term credit rating with S&P was reaffirmed at A- (negative outlook) in December 2013. As of April 2013, Fitch Ratings provides a rating of Fortum Corporation and any subsequently issued securities issued under Fortum's EMTN programme. Fitch's current long-term issuer default rating of Fortum Corporation is A- (negative outlook), which was also reaffirmed in December 2013. Fortum decided to terminate the rating relationship with

Moody's Investors Service in February. At that time, Moody's had assigned an A2 rating with a negative outlook.

Key figures

At year-end 2013, net debt to EBITDA was 3.2 (3.1 at year-end 2012) and comparable net debt to EBITDA 3.4 (2012: 3.2), impacted by EUR 888 million in dividend payments. Gearing was 74% (2012: 73%) and the equity-to-assets ratio 44% (2012: 43%). Equity per share was EUR 11.28 (2012: 11.30). Return on capital employed totalled 9.2% (2012: 10.2%) and return on shareholders' equity 12.0% (2012: 14.6%).

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	2013	2012	2011	Change 13/12
Sales	2,248	2,415	2,481	-7%
- power sales	2,117	2,282	2,353	-7%
- other sales	131	133	128	-2%
Operating profit	921	1,175	1,476	-22%
Comparable operating profit	858	1,146	1,201	-25%
Comparable EBITDA	1,003	1,260	1,310	-20%
Net assets (at period-end)	6,329	6,389	6,247	-1%
Return on net assets, %	14.6	18.7	24.6	-22%
Comparable return on net assets, %	13.8	18.5	19.9	-25%
Capital expenditure and gross investments in shares	180	190	148	-5%
Number of employees	1,709	1,846	1,847	-7%

In 2013, the Power Division's comparable operating profit was EUR 858 million (2012: 1,146), i.e. EUR 288 million lower than in 2012. Significantly lower hydro volumes, the increased real-estate tax for hydropower in Sweden and the write-down of the Inkoo power plant were the main reasons for the decreased profit. The Nordic annual inflow was approximately 10% lower in 2013

compared to 2012. The annual inflow in Fortum's hydropower production areas was approximately 30% lower than in 2012.

Operating profit was EUR 921 million (2012: 1,175). The operating profit was affected by sales gains totalling EUR 25 million (2012: 57) and by the IFRS accounting treatment (IAS 39) of derivatives used mainly for

hedging Fortum's power production and nuclear fund adjustments amounting to EUR 38 million (2012: -28).

Power generation by source

TWh	2013	2012	2011	Change 13/12
Hydropower	18.1	25.2	21.0	-28%
Nuclear power	23.7	23.4	24.9	1%
Thermal power	1.9	0.6	2.2	217%
Total in the Nordic countries	43.7	49.2	48.1	-11%
Thermal in other countries	1.0	1.1	1.2	-9%
Total	44.7	50.3	49.3	-11%

Nordic sales volume

TWh	2013	2012	2011	Change 13/12
Nordic sales volume	45.3	50.7	50.0	-11%
of which Nordic Power sales volume ¹⁾	40.2	46.8	44.3	-14%

¹⁾ The Nordic power sales income and volume does not include thermal generation, market price-related purchases or minorities (i.e. Meri-Pori, Inkoo and imports from Russia).

Sales price

EUR/MWh	2013	2012	2011	Change 13/12
Power's Nordic power price ²⁾	46.4	44.6	46.1	4%

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 achieved Nordic power price was EUR 46.4 per MWh, or EUR 1.8 per MWh higher than in 2012. The average system spot price was EUR 38.1 per MWh (2012: 31.2), and the average area price in Finland EUR 41.2 per MWh (2012: 36.6) and in Stockholm, Sweden, (SE3) 39.4 per MWh (2012: 32.3).

Significantly lower water reservoir levels and lower inflow decreased hydro generation significantly compared to 2012. Olkiluoto and Forsmark had record-high production in 2013, nuclear outages were also shorter in 2013 resulting in higher volumes than during the corresponding period in 2012. Nuclear availability was at a good level in all reactors except Oskarshamn 1 and 2. The total nuclear volume was thus lower than during the corresponding period in 2012. In 2013, the Power Division had 1.9 TWh (2012: 0.6) of thermal production in the Nordic countries. Hence, the CO₂-free production amounted to 94% (2012: 97%).

The combined effect of volumes and the achieved Nordic power price had a negative impact of approximately EUR 235 million during January-December 2013 compared to the corresponding period in 2012. Operating costs decreased as a result of savings

achieved through the efficiency programme, even with higher depreciation (EUR 9 million). In addition, the Swedish hydro power property taxes increased by EUR 45 million due to higher taxation values. The discontinuation of the Inkoo power plant caused an impairment loss of approximately EUR 20 million.

In 2013, the division's total power generation in the Nordic countries was 43.7 TWh (2012: 49.2), which corresponds to an approximately 11% decrease compared to 2012.

Fortum has two fully-owned reactors in Loviisa, Finland, and the company is also a co-owner in eight reactors at the Olkiluoto, Oskarshamn and Forsmark nuclear power plants in Finland and Sweden. Nuclear availability was at a good level in all of the reactors except Oskarshamn 1 and 2, and all the annual outages were executed with good results.

2013 was a good production year for Fortum's Loviisa nuclear power plant. The plant produced a total of 8.04 terawatt hours, which is approximately 9% of Finland's total electricity production. The load factor, which depicts the power plant's availability, was

92.5%; Loviisa 1's load factor was 92.1% and Loviisa 2's 93%. On an international scale this was good compared to the worldwide load factor for pressurised water power plants of approximately 83% last year.

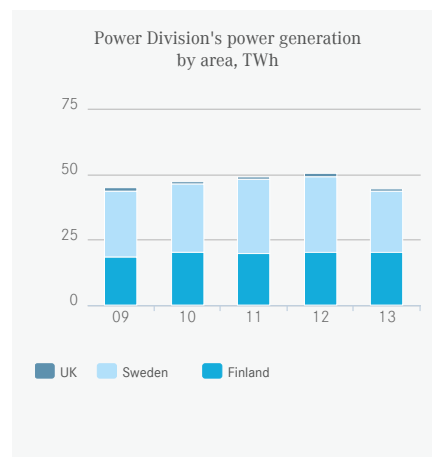
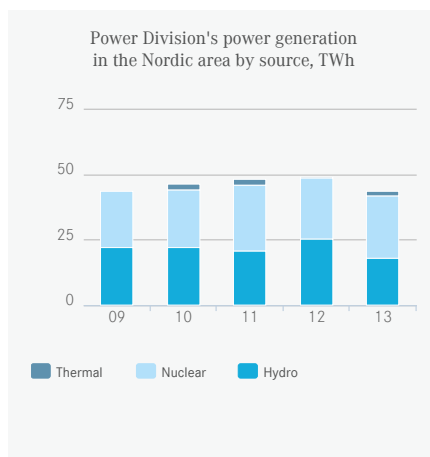
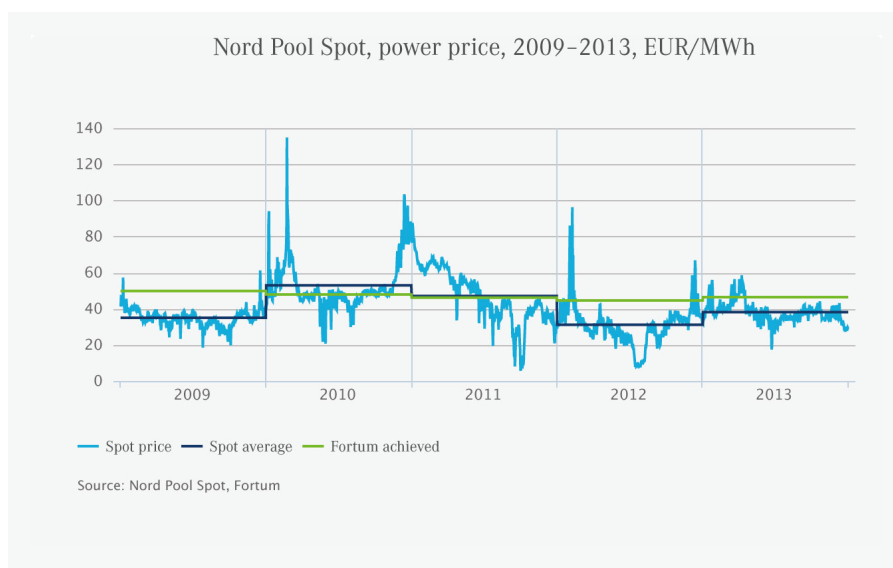
The process to update the real estate taxation values in Sweden for 2013 was finalised in the third quarter of 2013. The update is done on a six-year cycle and Fortum's costs increased by approximately EUR 45 million in 2013 compared to 2012. At the end of April 2013, Fortum filed a complaint with the EU Commission on the Swedish hydro tax to find out whether the structure of the tax is in line with the EU tax and State Aid regulations. The EU Commission informed Fortum in June that it will investigate the case in more detail, and the investigation was still on-going at the end of 2013.

In autumn 2013, Fortum announced that it had decided to discontinue electricity production at its Inkoo coal-fired power plant in Finland. Production operations will end in February 2014, after which the company will mothball three units. As a consequence of the decision to cease production, Fortum booked an impairment loss of approximately EUR 20 million in the Power Division's

results. The decision is based on the weak profitability of the Inkoop power plant.

In October, Fortum announced that it will supply nitrogen oxides reduction systems to coal-fired power plants owned by EDF Group in Krakow and Wroclaw, Poland. The deliveries are part of a project to be implemented in 2014-2015. The systems delivered by Fortum will bring the nitrogen emissions of the power plants to clearly below the European Union's new, strict emissions norms that take effect in 2016. The value of the delivery is EUR 90 million, and the project is being implemented in co-operation with Instal Kraków S.A.

At year-end, the Power Division's total power generating capacity was 9,475 megawatts (MW) (2012: 9,702), of which 9,335 MW (2012: 9,562) was in the Nordic countries. Hydropower capacity in the Nordic countries totalled 4,624 MW (2012: 4,627), nuclear power capacity 3,276 MW (2012: 3,247) and condensing capacity 1,435 MW (2012: 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	2013	2012	2011	Change 13/12
Sales	1,565	1,628	1,737	-4%
- heat sales	1,164	1,158	1,238	1%
- power sales	234	232	342	1%
- other sales	167	238	157	-30%
Operating profit	288	344	380	-16%
Comparable operating profit	273	271	278	1%
Comparable EBITDA	489	481	471	2%
Net assets (at period-end)	4,283	4,286	4,191	0%
Return on net assets, %	7.2	8.8	9.9	-18%
Comparable return on net assets, %	6.8	7.0	7.4	-3%
Capital expenditure and gross investments in shares	397	474	329	-16%
Number of employees	2,102	2,212	2,504	-5%

Heat sales volumes during 2013 amounted to 19.0 TWh (2012: 19.7) and power sales volumes from CHP production totalled 4.8 TWh (2012: 4.2). The warm weather in the last quarter reduced heat volumes.

The Heat Division's comparable operating profit in 2013 was EUR 273 million (2012: 271). The profit increase was mainly due to lower fuel costs. New CHP capacity and better availability, especially in Finland, increased power volumes. In 2013, fixed costs were lower due to the efficiency

programme. Income from sales of CO₂ allowances decreased.

Operating profit in 2013 totalled EUR 288 million (2012: 344). Sales gains related to divestments totalled EUR 18 million (2012: 80).

In September, Fortum disclosed that Fortum and the City of Stockholm have renewed their co-ownership agreement of Fortum Värme, the jointly-owned power and heat company operating in the capital area in Sweden. The agreement will come into force as of 2016,

when the existing ownership agreement expires.

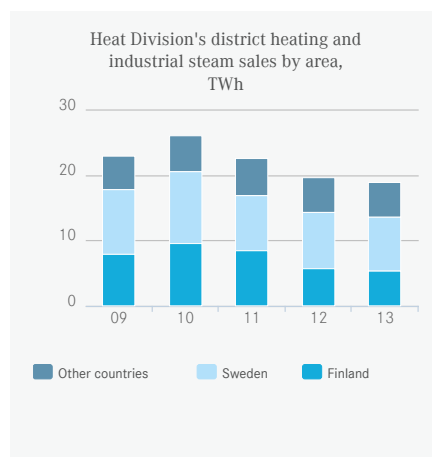
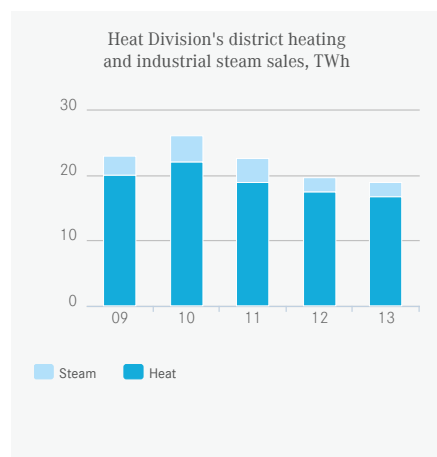
At year-end, the Heat Division's power generating capacity totalled 1,398 MW (2012: 1,569), of which 1,048 MW (2012: 1,315) was in the Nordic countries. The Heat Division's total heat production capacity was 7,943 MW (2012: 8,785), of which 5,751 MW (2012: 6,785) was in the Nordic countries.

Heat sales by area

TWh	2013	2012	2011	Change 13/12
Finland	5.4	5.8	8.5	-7%
Sweden	8.3	8.5	8.5	-2%
Poland	4.1	4.3	4.3	-5%
Other countries	1.2	1.1	1.3	9%
Total	19.0	19.7	22.6	-4%

Power sales

TWh	2013	2012	2011	Change 13/12
Total	4.8	4.2	6.2	14%



Russia

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

EUR million	2013	2012	2011	Change 13/12
Sales	1,119	1,030	920	9%
- power sales	822	713	590	15%
- heat sales	290	300	324	-3%
- other sales	7	17	6	-59%
Operating profit	156	79	74	97%
Comparable operating profit	156	68	74	129%
Comparable EBITDA	258	189	148	37%
Net assets (at period-end)	3,846	3,848	3,273	0%
Return on net assets, %	5.2	3.0	3.5	73%
Comparable return on net assets, %	5.2	2.7	3.5	93%
Capital expenditure and gross investments in shares	435	568	694	-23%
Number of employees	4,162	4,253	4,379	-2%

Fortum operates in the well-developed industrial regions of the Urals and in the 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 2013, Fortum sold approximately 83% of its power production in Russia at a liberalised electricity price.

The capacity selection for generation built prior to 2008 (CCS – “old capacity”) for 2013 was held at the end of 2012. In the selection auction, the majority of Fortum’s power plants were selected, with a price level close to the level received in 2012. Approximately 10% (265 megawatts, MW) of the old capacity was not allowed to participate in the selection for 2013, due to tightened technical requirements. It did, however, receive capacity payments at the capacity market price during 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. The period and the 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. If the new capacity is delayed or if the agreed major terms of the capacity supply agreement are not otherwise fulfilled, possible penalties can be claimed. 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.

The new capacity will bring income from new volumes sold and will 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 three years and six years after the commissioning of a unit and could revise the CSA payments accordingly. In addition, CSA payments can vary somewhat annually because they are linked to the Russian Government long-term bonds with 8 to 10 years maturity.

The company’s extensive investment programme is a key driver of growth in Russia. The last units have been slightly delayed by some months and the programme is now due to be completed during the first half of 2015. After the completion of the investment programme, the power generation capacity of the Russia Division will have nearly doubled and will exceed 5,100 MW. Fortum’s goal is to achieve an operating profit level (EBIT) of about EUR 500 million run-rate in its Russia Division during 2015 and to create positive economic value added in Russia.

The Russia Division's power sales volumes amounted to 25.6 TWh (2012: 23.3) during 2013. Heat sales totalled 24.1 TWh (2012: 26.4) during the same period.

The Russia Division’s comparable operating profit was EUR 156 million (2012: 68) in January–December 2013. The positive effect from the commissioning of the new units amounted to approximately EUR 163 million (2012: 87), including a reversal of the CSA provision totalling EUR 48 million. In addition, the EUR 40 million in compensation for CSA penalties received from E4 (the general contractor of the Nyagan power plant) was booked and recognised in the fourth quarter. The result was burdened by EUR 16 million in bad debt losses for Energostream group and

EUR 23 million due to unplanned outages. In addition, volumes were impacted negatively by the lower heat volumes due to exceptionally warm weather at both the beginning and end of 2013 as well as by the divestment of the heating network assets in Surgut in 2012.

Operating profit was EUR 156 million (2012: 79) in 2013. In 2012, the operating profit included a gain of EUR 11 million relating to

the divestment of heating network assets in Surgut.

In late March, Fortum finished the final stages in the construction of its Nyagan power plant unit 1. Accordingly, the company started receiving capacity payments for the unit from 1 April 2013 onwards. As of 1 December also Nyagan power plant unit 2 was commissioned and started receiving capacity payments. Nyagan 3 will be finalised at the

end of 2014. The capacity payments for the Nyagan unit 3 will start as of 1 January 2015.

At year-end, the Russia Division's total power generating capacity was 4,250 MW (2012: 3,404) and the division's total heat production capacity was 13,466 MW (2012: 13,396).

Key electricity, capacity and gas prices for OAO Fortum

	2013	2012	2011	Change 13/12
Electricity spot price (market price), Urals hub, RUB/MWh	1,021	956	925	7%
Average regulated gas price, Urals region, RUB/1,000 m ³	3,131	2,736	2,548	14%
Average capacity price for CCS "old capacity", tRUB/MW/month ¹⁾	163	152	160	7%
Average capacity price for CSA "new capacity", tRUB/MW/month ¹⁾	576	539	560	7%
Average capacity price, tRUB/MW/month	276	227	209	22%
Achieved power price for OAO Fortum, EUR/MWh	32.1	30.6	29.2	5%

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

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	2013	2012	2011	Change 13/12
Sales	1,075	1,070	973	0%
- distribution network transmission	896	877	809	2%
- regional network transmission	129	125	96	3%
- other sales	50	68	68	-26%
Operating profit	348	331	478	5%
Comparable operating profit	331	320	295	3%
Comparable EBITDA	550	529	482	4%
Net assets (at period-end)	3,770	3,889	3,589	-3%
Return on net assets, %	9.2	9.1	13.7	1%
Comparable return on net assets, %	8.8	8.8	8.6	0%
Capital expenditure and gross investments in shares	260	324	289	-20%
Number of employees	852	870	898	-2%

In 2013, the volume of distribution and regional network transmissions totalled 26.1 TWh (2012: 26.6) and 16.3 TWh (2012: 17.3), respectively.

The Distribution business area's comparable operating profit was EUR 331 million (2012: 320). The increased profits are mainly attributable to an increased amount of relocation of cables and parts of the network.

Operating profit in 2013 totalled EUR 348 million (2012: 331) and was affected by sales gains totalling EUR 17 million (2012: 5).

In January 2013, Fortum announced that it had decided to assess the strategic position of its electricity distribution business; the assessment was concluded in December. The assessment has no impact on Fortum's electricity distribution customers and excludes the company's electricity retail business.

The Finnish government submitted a Government Bill for the renewal of electricity market legislation in the spring of 2013, and the new Electricity Market act came into force on 1 September 2013. The new legislation includes implementation of the 3rd electricity market directive and functional demands on electricity grids. This includes that the maximum length of outages should be limited to six hours for urban areas and 36 hours for rural areas after a 15-year transition period. Also, gradual increases in customer compensation for long outages have been included; 150% of the annual grid fee after 8 days of outage and 200% of the annual grid fee for outages longer than 12 days. The maximum amount would be increased from 700 euros to 2,000 euros by 2015.

Both in Finland and Sweden, legal processes are under way concerning the appeals filed regarding the network income regulatory period 2012-2015, which came into force as of 1 January 2012. In Finland, the appeal of

the national grid company Fingrid is being processed in the Supreme Administrative Court; in Sweden the Administrative Court ruled in favour of the network companies, in December. The Energy Market Inspectorate decided, however, to appeal the decision, and the process continues.

At the end of 2013, a total of almost 620,000 smart meters with hourly measurement capabilities had been installed for network customers in Finland over the course of three years in Fortum's electricity distribution areas (434,000 at year-end 2012). The new meters are part of the smart electricity network of the future, enabling more efficient energy use through, for example, hourly measurement of electricity consumption and real-time billing, and supporting the transition towards a more sustainable energy system. The new legislation on hourly meter reading in Finland became effective as of 1 January 2014.

Volume of distributed electricity in distribution network

TWh	2013	2012	2011	Change 13/12
Sweden	14.1	14.4	14.2	-2%
Finland	9.5	9.8	9.5	-3%
Norway	2.5	2.4	2.3	4%
Estonia	-	-	0.1	N/A
Total	26.1	26.6	26.1	-2%

Number of electricity distribution customers by area

Thousands	2013	2012	2011	Change 13/12
Sweden	903	898	893	1%
Finland	642	633	627	1%
Norway	103	102	101	1%
Estonia	-	-	24	N/A
Total	1,648	1,633	1,645	1%

Electricity sales

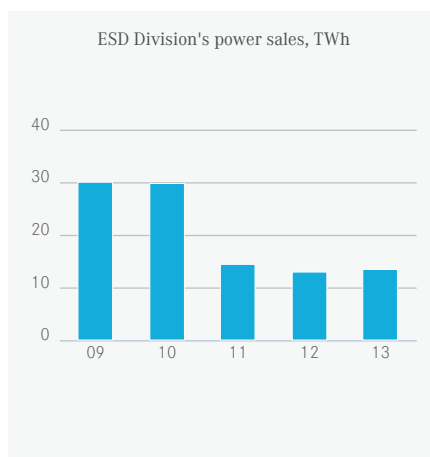
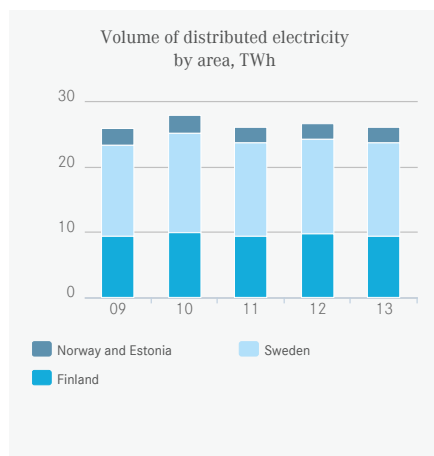
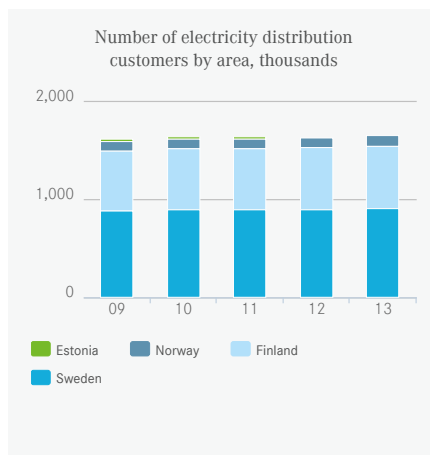
The Electricity Sales business area is responsible for retail sales of electricity as well as smart electricity solutions and services to a total of 1.2 million private customers. In addition, standardised products are offered for large corporate customers (Sales Trading). Electricity Sales buys its electricity from the Nordic power exchange.

EUR million	2013	2012	2011	Change 13/12
Sales	744	722	900	3%
- power sales	723	697	879	4%
- other sales	21	25	21	-16%
Operating profit	56	39	3	44%
Comparable operating profit	48	39	27	23%
Comparable EBITDA	50	40	29	25%
Net assets (at period-end)	39	51	11	-24%
Return on net assets, %	148.9	152.3	4.2	-2%
Comparable return on net assets, %	137.9	203.1	33.5	-32%
Capital expenditure and gross investments in shares	1	1	5	0%
Number of employees	496	509	519	-3%

In 2013, the business area's electricity sales volume to retail customers totalled 12.1 TWh (2012: 12.1) and Sales Trading 1.5 TWh (2012: 2.1) (reported until 2012 in the Other segment).

Electricity Sales' comparable operating profit in 2013 totalled EUR 48 million (2012: 39). The increase was mainly due to favourable wholesale market conditions, an increased customer base and Sales Trading.

The operating profit totalled EUR 56 million (2012: 39) and was affected by an IFRS accounting treatment (IAS 39) of derivatives.

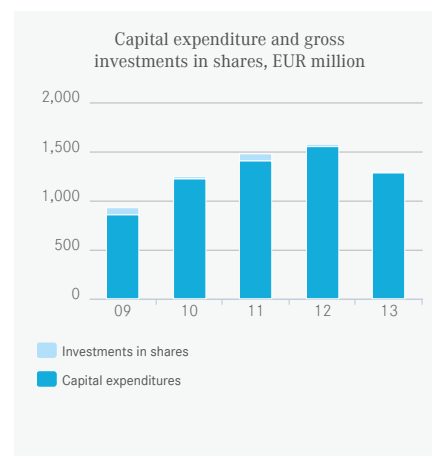
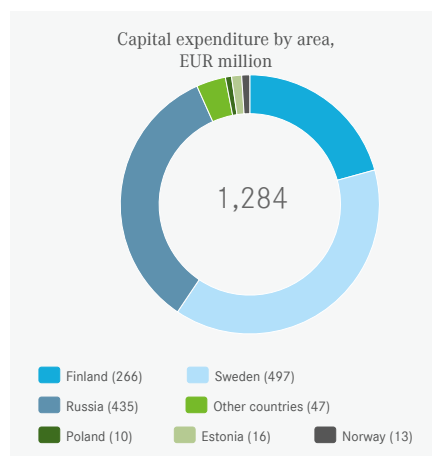


Capital expenditure, investments & divestments of shares

EUR million	2013	2012	2011
Capital expenditure			
Intangible assets	49	35	27
Property, plant and equipment	1,235	1,523	1,381
Total	1,284	1,558	1,408
Gross investments in shares			
Subsidiaries	11	5	47
Associated companies	0	10	25
Available for sale financial assets	4	1	2
Total	15	16	74

In 2013, capital expenditures and investments in shares totalled EUR 1,299 million (2012: 1,574). Investments, excluding acquisitions, were EUR 1,284 million (2012: 1,558).

See also [Note 19.2 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	2014	
Heat				
Värtan, Sweden	Biofuel (CHP)	130	280	Q2 2016
Russia ¹⁾				
Nyagan 3	Gas (CCGT)	418		2H 2014
Chelyabinsk 1	Gas (CCGT)	248	175	1H 2015
Chelyabinsk 2	Gas (CCGT)	248	175	1H 2015

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

Power

Through its interest in Teollisuuden Voima Oyj (TVO), Fortum is participating in the building of Olkiluoto 3 (OL3), a 1,600-MW nuclear power plant unit in Finland. Based on the

progress reports received from the plant supplier, AREVA-Siemens Consortium, TVO is preparing for the possibility that the start of regular electricity production at OL3 may be postponed until 2016.

The Board of Directors of TVO proposed in February a new EUR 300 million shareholder loan commitment to the company's B-series shareholders. By means of the shareholder loan, TVO will prepare to maintain a sufficient level of equity in the OL3 project and cope with possible additional delays and costs in

finalising the project. In June, all the B-series shareholders signed the loan agreement in accordance with the proposal made by the Board of Directors. Fortum's share of the new shareholder loan is 25% (EUR 75 million). In addition, Fortum has earlier committed to another EUR 300 million shareholder loan in the OL3 project; Fortum's share of that shareholder loan is 25% as well.

In June, TVO withdrew EUR 100 million from the first EUR 300 million shareholder loan commitment for the OL3 project; Fortum's share was EUR 25 million.

Wind power production was started at the Blaiken wind power park (75 MW) in the first quarter of the year. The first 30 windmills underwent test runs in February and commercial production was started in the second quarter. The Blaiken wind power park is co-owned by Skellefteå Kraft (60%) and Fortum (40%).

In July, Fortum completed the divestment of its 33% holding in Infratek ASA to a fund managed by Triton, following the approval of the Swedish and Norwegian competition authorities. The sales price was approximately EUR 38 million. A sales gain of EUR 11 million was booked in the Power Division's third-quarter 2013 results.

In September, Fortum and Metsähallitus agreed to sell their Kuolavaara-Keulakkopää (50 MW) and Joukhaiselkä (25 MW) pre-construction stage wind power projects in Lapland to the Impax New Energy Investors II Fund ("NEF II") managed by Impax Asset Management. Fortum's share of the projects is 51% and Metsähallitus' 49%. The transaction will be implemented in phases and the sale is expected to be completed during the first quarter of 2014. The transaction will have a minor impact on Fortum's Power Division's financial results and it will be booked over several quarters. The sale price and other terms are not disclosed.

Heat

In January, the cornerstone for the new, EUR 500 million biofuel-fired CHP plant was laid in Stockholm (Värtan), Sweden; the plant is scheduled to be ready in 2016. This project is the largest ongoing investment in the Heat Division.

In May, Fortum's new waste-fuelled CHP plant was inaugurated in Klaipeda, Lithuania. Commercial operation started at the end of

the first quarter. The Klaipeda CHP plant has a capacity of 60 MW heat and 20 MW electricity. With an efficiency of almost 90%, it is able to incinerate 230,000 tonnes of waste and biomass annually, and by replacing gas-fired capacity it reduces CO₂ emissions by approximately 100,000 tonnes annually.

In June, a new bio-fuelled CHP plant was inaugurated in Järvenpää, Finland. Commercial operation started in April. The plant has a capacity of 63 MW heat and 23 MW electricity. Also in June, Fortum announced that it is acquiring district heating operations from the Estonian company Eraküte in the city of Tartu. Eventually, Fortum plans to connect the acquired network area to Fortum's current network supplied by the company's biomass and peat-fired Tartu CHP plant. This will enable a larger use of biomass, reduce CO₂ emissions and increase efficiency of heat production. After the acquisition, Fortum owns the whole district heating network of Tartu.

In September, Fortum inaugurated the first large-scale biomass CHP plant in Latvian city of Jelgava. The new plant covers approximately 85% of the city's district heating demand. Fortum's new power plant uses wood chips as fuel and replaces old natural gas-fired heat production in Jelgava. The production capacity of the Jelgava power plant is 23 MW electricity and 45 MW heat. The plant will produce approximately 110 GWh of electricity and 230 GWh of heat per year.

In October, Fortum disclosed that it had sold its Kuusamo combined heat and power plant to the Finnish energy company Adven Oy. The sale had a minor impact on Fortum's financial result.

In November, Fortum sold its 50% stake in the Finnish district heating company Riihimäen Kaukolämpö Oy to the City of Riihimäki and to Riihimäen Kaukolämpö Oy. The divestment had a minor impact on Fortum's financial result. The total sales price was EUR 11 million.

In November, Fortum inaugurated the second unit at the Brista CHP plant in Sigtuna, Stockholm. Brista 2 produces heat and power from 240,000 tonnes of sorted municipal and industrial waste annually and has a capacity of 57 MW heat and 20 MW electricity. The annual heat production is about 500 GWh, and the estimated annual electricity production is 140 GWh. Fortum co-owns the plant (85%) together with the municipal

energy company Sollentuna Energi (15%). Final testing was started late 2013.

In 2013, Heat launched a new commercial concept for bio-oil. In the future, besides heat and electricity, CHP+ plants will produce bio-oil; in these plants, pyrolysis is integrated into the production process. The commercial scale CHP+ plant is the first of its kind in the world and is being integrated with Fortum's Joensuu CHP plant in Finland. The Joensuu bio-oil plant's annual production of 50,000 tonnes corresponds to the heating needs of more than 10,000 households. Fortum Otso® bio-oil can be used at heat plants or in industrial steam production as a replacement for heavy and light fuel oil, and in the future, bio-oil can be used as a raw material for various biochemicals or traffic fuels.

In December, Fortum announced that it sold its combined heat and power (CHP) plant as well as its natural gas and district heating network in the town of Nokia to the Finnish energy company Leppäkosken Sähkö. Fortum also announced the sale of the Kauttua combined heat and power plant in Eura, in south-western Finland, to the Finnish energy company Adven Oy. The sales had a minor impact on Fortum's financial performance and the parties have agreed not to disclose the sales price. In addition, in December, Fortum's Uimaharju combined heat and power plant ownership was transferred to Stora Enso as part of an arrangement signed in 1990. According to the agreement, the transfer price paid by Stora Enso is approximately EUR 15 million. The impact on Fortum's financial result was marginal.

Russia

In late March, Fortum finished the final stages in the construction of its Nyagan power plant unit 1. Accordingly, the company started receiving capacity payments for the unit as of 1 July 2013. The unit's capacity was certified to exceed 420 MW.

As of 1 December, Nyagan unit 2 was commissioned and started receiving capacity payments. The second unit's certified capacity is 424 MW.

Distribution

In June, Fortum agreed to sell its 47.9% ownership in the Swedish energy company Härjeåns Kraft AB to the Finnish energy company Oy Herrfors Ab, a subsidiary of Katternö Group. The sales price was SEK 445

million (approximately EUR 51 million). The transaction was completed in July and Fortum booked a sales gain of EUR 17 million to Distribution's third-quarter 2013 financial result.

In December, Fortum disclosed that it had completed the assessment of the future alternatives of its electricity distribution business; the assessment was launched in January 2013. After thorough consideration, the company concluded that divesting the electricity distribution business is the best solution for the business and its customers, Fortum's shareholders and the company's other businesses. Fortum is evaluating the possible further divestment opportunities country by country.

In December 2013, Fortum disclosed that it has agreed to sell its electricity distribution business in Finland to Suomi Power Networks Oy. The total consideration is EUR 2.55 billion on a debt- and cash-free basis. Fortum expects to complete the divestment process during the first quarter of 2014, subject to the necessary regulatory approvals as well as customary closing conditions. Fortum expects to book a one-time sales gain of EUR 1.8-1.9 billion corresponding to approximately EUR 2.00 per share.

Other

In June, Fortum acquired a solar power plant in the state of Rajasthan, in north-western India. The company's short-term ambition is

to build a small photo-voltaic (PV) solar portfolio in order to gain experience in different solar technologies and in operating in the Indian power market. The power plant's nominal peak capacity is 5.4 MW and its annual production is approximately 9 gigawatt-hours. The plant will receive a higher, guaranteed electricity price for 25 years. The period and the prices for power generation under the government's power purchase agreement are defined to ensure a sufficient return on investment. In the short term, Fortum is looking to invest some tens of millions of euros – including this acquisition – in developing its PV solar competence and operations in India.

Employees

	2013	2012	2011
Number of employees, 31 Dec	9,886	10,371	10,780
Average number of employees	10,246	10,600	11,010
Total amount of employee costs, EUR million	529	543	529

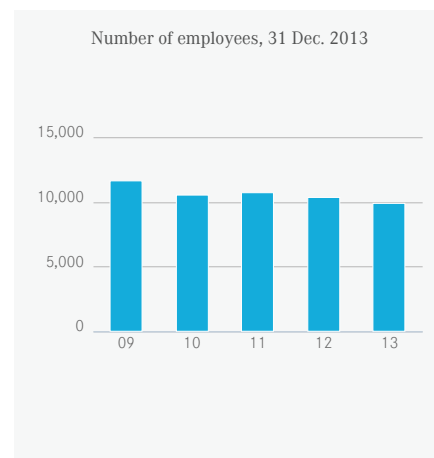
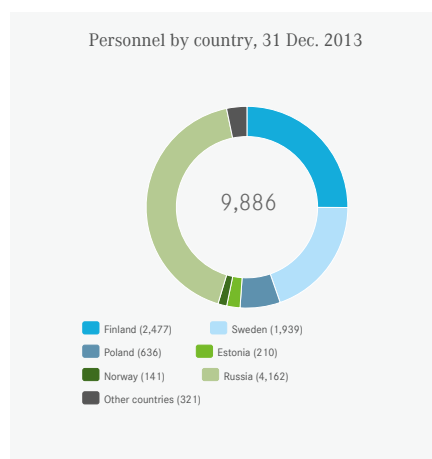
Fortum's operations are mainly based in the Nordic countries, Russia and Baltic Rim area. The total number of employees at the end of December was 9,886 (10,371 at the end of 2012).

The Power Division had 1,709 employees (2012: 1,846), the Heat Division 2,102 (2012: 2,212), the Russia Division 4,162 (2012: 4,253), the Distribution business area 852 (2012: 870), the Electricity Sales business area 496 (2012: 509) and Other 565 (2012: 681) at the end of December 2013.

Possible headcount reductions due to Fortum's efficiency program have been implemented on a unit level by using natural rotation, rearranging of vacant jobs and by retirement. During 2013, the efficiency programme proceeded according to plan and vacant jobs have primarily been filled internally. The possibilities for internal rotation were improved during the year. By

rotating staff between different countries and divisions, we improve know-how and develop the exchange of competencies throughout the organisation.

For further details of Group personnel see [Note 12 Employee benefits](#).



Changes in Fortum's Management

In March, Fortum Corporation's President and CEO Tapio Kuula was diagnosed with a condition requiring medical treatment. He started his sick leave immediately. During

Tapio Kuula's leave of absence, Fortum's CFO Markku Rauramo assumed responsibility for the duties of President and CEO. President

and CEO Kuula returned to work during the second half of November 2013.

Kaarina Ståhlberg, LL.M. (Helsinki University), LL.M. (Columbia University, New York), 46,

was appointed General Counsel and member of Fortum Corporation's Management Team

as of 1 September 2013. She reports to the President and CEO.

Events after the balance sheet date

In February, Fortum announced that it will renew its business structure as of 1 March 2014. The target of the reorganisation is to strengthen Fortum's capability to execute the company's strategy in the fast developing operating environment. Fortum will report its 2014 first quarter financial results according to the new structure.

The new structure will consist of four reporting segments and staff functions. The four segments are Heat, Electricity Sales and Solutions, Power and Technology, Russia and

Distribution. The staff functions are Finance, Strategy, Mergers and Acquisitions, Legal, Human Resources and IT, Communications and Corporate Relations.

Matti Ruotsala is appointed Chief Operating Officer (COO) and will act as deputy to the CEO. Fortum's new CFO will be Timo Karttinen, who also will head the Distribution Division. Markus Rauramo will continue in a new role as Executive Vice President, Heat, Electricity Sales and Solutions, Per Langer as Executive Vice President, Hydro Power and

Technology and Alexander Chuvaev as Executive Vice President, Russia.

New Executive Management members are Tiina Tuomela, Executive Vice President, Nuclear and Thermal Power; Kari Kautinen, Senior Vice President, Strategy, Mergers and Acquisitions and Esa Hyvärinen, Senior Vice President, Corporate Relations.

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 commodity and CO₂ emissions allowance prices, and this 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 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 the [Risk management](#) section of the Operating and financial review and [Note 3 Financial risk management](#).

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. The new 650-MW Estlink-2 interconnector between Finland and Estonia increases market coupling between the Nordic and Baltic countries.

During the fourth quarter of 2013, the price of oil improved, whereas coal and EUA ended close to their opening levels. The price of electricity for the upcoming twelve months clearly decreased in the Nordic area, whereas in Germany it was largely unchanged.

In late January 2014, the future quotation for coal (ICE Rotterdam) for the rest of 2014 was around USD 81 per tonne, and the price for CO₂ for 2014 was about EUR 6 per tonne.

In late January 2014, the electricity forward price in Nord Pool for the rest of 2014 was around EUR 32 per MWh. For 2015 the price was around EUR 33 per MWh, and for 2016 around EUR 33 per MWh. In Germany, the electricity forward price for the rest of 2014 was around EUR 36 per MWh and for 2015 EUR 37 per MWh.

In late January 2014, Nordic water reservoirs were about 1 TWh above the long-term average and 1 TWh above the corresponding level of 2013.

Power

The Power Division's Nordic power price typically depends on such factors as 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 (achieved) 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 volumes and its profits.

The on-going multi-year Swedish nuclear investment programmes are expected to 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 of associated companies.

Russia

The generation capacity built after 2007 under the Russian Government's Capacity Supply Agreements (CSA – “new capacity”) receives guaranteed capacity payments for a period of 10 years. Prices for capacity under CSA are defined in order to ensure a sufficient return on investments.

Capacity not under CSA competes in the competitive capacity selection (CCS – “old capacity”). The capacity selection for 2014 was held in September 2013. In the selection auction, the majority of Fortum's power plants were selected. The volume of Fortum's installed capacity not selected in the auction totalled 132 MW, which is approximately 4.6% of Fortum's total installed capacity. All of Fortum's capacity was allowed to participate in the selection for 2014.

The Russia Division'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 CSA. The regulator will review the earnings from the electricity-only market three years and six years after the commissioning of a unit and could revise the CSA payments accordingly. CSA payments can vary somewhat annually because they are linked to Russian Government long-term bonds with 8 to 10 years maturity.

Fortum estimates that the commissioning of the Nyagan unit 3 will be finalised by the end of 2014. The capacity payments for Nyagan unit 3 will start as of 1 January 2015, one year earlier than originally planned in 2008. In accordance with the CSA terms, no penalties for unit 3 can start to run before 1 January 2016.

The last two units of Fortum's Russian investment programme are being built in Chelyabinsk instead of Tyumen, as originally planned. The units constructed at the Chelyabinsk GRES power plant, originally

planned to be commissioned by the end of 2014, have been slightly delayed and are scheduled to be finalised during the first half of 2015 mainly due to extensive groundwork at the brownfield site. The delay will not cause any penalties. In addition, Fortum plans to modernise and upgrade the existing equipment of the power plant.

The value of the remaining part of the investment programme, calculated at the exchange rates prevailing at the end of December 2013, is estimated to be approximately EUR 0.5 billion, as of January 2014.

After completing the on-going investment programme by mid-2015, Fortum's goal is to achieve an operating profit level (EBIT) of about EUR 500 million run-rate in its Russia Division during 2015 and to create positive economic added value in Russia. The Russian Government's earlier target to increase gas prices by 15% annually to reach netback price parity with European prices by 2018 has recently been changed. The forecast by the Russian Ministry of Economic Development now suggests much lower annual increases. The Russia Division's profits are impacted by possible changes in gas prices, currency exchange rates and other regulations. The suggested gas price development and the weaker Russian rouble make the approximately EUR 500 million operating profit level (EBIT) goal more challenging for the Division, but the company is making every effort to mitigate the negative impacts.

In 2013, the Ministry of Energy stated that a Heat reform should be developed before changing the current Electricity and Capacity Market model. Therefore, at the end of the year, the Ministry of Energy proposed a new heat market model (for public discussion), which is supposed to ensure transition to economically justified heat tariffs by 2020 and to attract investments into the heat sector. The new regulation concept is at an early stage and expected to be further developed during 2014.

Since the beginning of 2013, wholesale gas prices (except for private household and industrial consumers) have been reviewed quarterly. In February 2013, the Board of Russia's Federal Tariff Service (FTS) adopted a decision according to which the wholesale gas price for industrial consumers decreased by 3% as of the second quarter 2013, compared to first quarter. As of 1 July 2013, the Russian Government increased gas prices by 15% compared to June 2013, and in October 2013 they were further increased by

1.9% in order to reach the planned total increase of approximately 15% in 2013 compared to 2012. According to a forecast made by the Russian Ministry of Economic Development, Russian gas price indexation will not take place as of July 2014. However, year-on-year gas price growth is estimated to be 7.6% in 2014.

Distribution

Fortum has disclosed that it has completed the assessment of the future alternatives of its electricity distribution business; the assessment was launched in January 2013. As a result, Fortum is evaluating the possible divestment opportunities country by country.

Fortum's electricity distribution business in Finland is to be sold to Suomi Power Networks Oy. The divestment process is expected to be finalised during the first quarter of 2014 subject to the necessary regulatory approvals as well as customary closing conditions. The total consideration is EUR 2.55 billion on a debt- and cash-free basis. Fortum expects to book a one-time sales gain of EUR 1.8-1.9 billion, corresponding to approximately EUR 2.00 per share in its Electricity Distribution and Sales Division's first quarter 2014 results. A total of 340 employees will transfer with the business at closing.

The work to define the Swedish network income regulation model for the next regulatory period 2016-2019 has been ongoing and a first proposal from the Energy Market Inspectorate is expected to come during the first quarter of 2014.

Capital expenditure and divestments

Fortum currently expects its capital expenditure, excluding Värme in 2014, to be approximately EUR 0.9-1.1 billion, excluding potential acquisitions (including the Finnish distribution business until the end of first quarter 2014). The annual maintenance capital expenditure is estimated to be about EUR 400-500 million in 2014, below the level of depreciation. Capex for electricity distribution in Finland has been approximately EUR 150 million annually.

Fortum will gradually decrease its financing to Värme during 2014-2015. At the end of 2013, Värme's share of debt totalled approximately EUR 1 billion.

Taxation

The effective corporate tax rate for Fortum in 2014 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 reduced from 24.5% to 20% as of 1 January 2014. In Sweden, the corporate tax rate was decreased from 26.3% to 22% as of 1 January 2013.

The Finnish Parliament approved the power plant tax (previously called windfall tax) in December 2013. It will be enacted later and will be applied from the beginning of 2014, provided that the EU Commission approves it.

Fortum has filed a complaint on the tax to the Commission, arguing that it is not in line with general tax principles in Finland and that it constitutes illegal state aid for those plants that are not subject to the tax. If implemented, the estimated impact on Fortum would be approximately EUR 25 million annually.

Hedging

At the end of December 2013, approximately 60% of the Power Division's estimated Nordic power sales volume was hedged at approximately EUR 43 per MWh for the calendar year 2014. The corresponding figures for the calendar year 2015 were about 20% at approximately EUR 41 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 the development of renewable energy production, like wave and solar power, are an important part of Fortum's strategy implementation.

In 2013, Fortum decided to participate in the Sustainable Bioenergy Solutions for Tomorrow (BEST) research programme established by two Strategic Centres for Science, Technology and Innovation (SHOK), CLEEN Oy and FIBIC Oy, in Finland and India. The programme's goal is to encompass a completely new kind of collaboration between forestry and energy know-how.

Fortum is also a co-signer along with DCNS and AW-Energy of a development agreement

in wave power research and development with the support of La Région Bretagne. As part of the agreement, the companies will develop a joint 1.5-MW wave power demonstration project. Fortum will be responsible for project development and will be the owner of the demonstration park. The agreement is an extension to the wave power research and development collaboration initiated in 2011 by DCNS and Fortum.

In addition, Fortum received a special award for innovation from the Global District Energy Climate Awards organisation. The prize was awarded to Fortum for its investment project using fast pyrolysis technology to produce bio-oil in connection with existing district heating production and a combined heat and power plant. Commissioned at the end of the year, the commercial plant is the first of its kind in the world and integrated with

Fortum's Joensuu CHP plant. The use of bio-oil has significant positive environmental impacts because energy produced with bio-oil reduces greenhouse gas emissions by as much as 90% or more compared to fossil fuels.

Fortum acquired a solar power plant in the state of Rajasthan, in north-western India. The company's short-term ambition is to build a small photo-voltaic (PV) solar portfolio in order to gain further experience in different solar technologies.

The Group reports its R&D expenditure on a yearly basis. In 2013, Fortum's R&D expenditure was EUR 49 million (2012: 41) or 0.8% (2012: 0.7%) of sales.

	2013	2012	2011
R&D expenditure, EUR million	49	41	38
R&D expenditure, % of sales	0.8	0.7	0.6

Sustainability

Fortum strives for balanced management of economic, social and environmental responsibility in the company's operations. Fortum's sustainability targets consist of Group-level key indicators and division-level indicators.

The Group-level sustainability targets emphasise Fortum's role in society and measure not only environmental and safety targets, but also Fortum's reputation, customer satisfaction, and the security of supply of power and heat.

The achievement of the sustainability targets is monitored through monthly, quarterly and annual reporting. As of the beginning of 2013, results of the sustainability indicators have been regularly reported to Fortum's Board of Directors. In June 2013, the Board of Directors decided on

a more systematic handling of sustainability issues and supplemented their working order with the approval of Fortum Corporation's Sustainability Policy, sustainability target setting as well as follow-up and the review of Fortum's Sustainability Report.

The company is listed on the STOXX Global ESG Leaders, the NASDAQ OMX and OMX GES Sustainability Finland indices. In October 2013, Fortum was awarded as the best Nordic company in the Nordic Climate Disclosure Leadership Index focusing on management and reporting of climate issues.

Fortum received its all-time high score – a full 100/100. In December Fortum was listed in ECPI® Indices.

Sustainability indicators at the Group level

	Target	2013	Five-year average
Specific CO ₂ emission from power generation in the EU (g/kWh), 5-year average	< 80	70	66
Specific CO ₂ emission from total energy production (g/kWh), 5-year average	< 200	196	186
Overall efficiency of fuel use as a five-year average, %	> 70	61	66
Environmental incidents	< 40	51	
Energy availability of CHP plants in the EU, %	> 92	94	
SAIDI*, minutes in 2013	< 110	220	
Lost workday injury frequency (LWIF) for own personnel	< 1.0	1.1	

* System Average Interruption Duration Index

Targets for reputation and customer satisfaction are monitored annually. In the One Fortum Survey for 2013 the result was 69.8 (target for 2013 was 69.6) and the company's reputation among the key stakeholders was good. Customer satisfaction improved in all divisions.

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, suppliers, and other key stakeholders in the company's operating areas. 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.

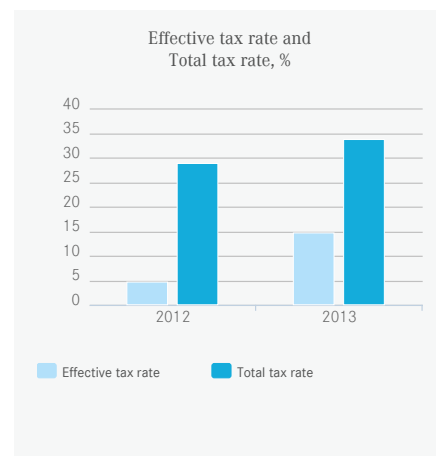
corporate income taxes EUR 220 million (2012: 74) but also several other taxes. In 2013, Fortum's taxes borne were EUR 644 million (2012: 565). Taxes borne include corporate income taxes, production taxes, employment taxes, taxes on property and cost of indirect taxes. Production taxes include also production taxes and taxes on property paid through electricity purchased from associated companies.

Fortum's effective tax rate (ETR) was 14.7% (4.7% in 2012) and total tax rate (TTR) 33.8% (2012: 29.0%). See also [note 14 Income tax expense](#).

In addition, Fortum administers and collects different taxes on behalf of governments and authorities. Such taxes include e.g. VAT, excise taxes on power consumed by customers, payroll taxes and withholding taxes. The amount of taxes collected by Fortum was EUR 834 million (2012: 749). In 2012 Fortum reported VAT as a gross amount for input and output VAT. The gross amount of taxes collected was EUR 3,918 million in 2012.

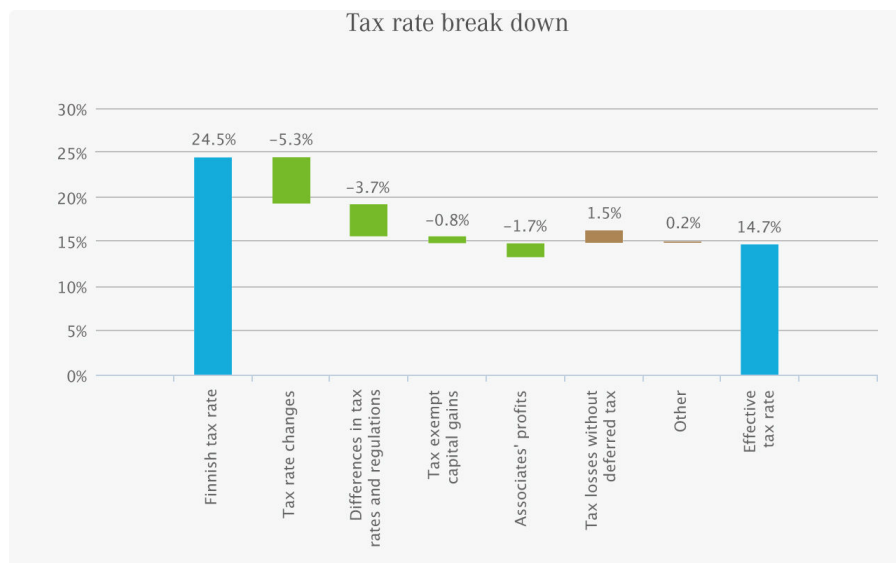
Fortum as a tax payer

Fortum supports social development and well-being of the areas of operations by e.g. paying taxes. The tax benefits Fortum produces to society include not only



Environmental responsibility

Fortum's environmental responsibility emphasises mitigation of climate change, efficient use of resources as well as



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 CO₂ emissions, energy efficiency as well as environmental incidents and non-compliances. At the end of September 2013, ISO 14001 certification covered 96% of Fortum's power and heat production and distribution operations worldwide.

Fortum's climate targets over the next five years are: specific CO₂ emissions from power generation in the EU below 80 grams per kilowatt-hour (g/kWh) and total specific CO₂ emissions from both electricity and heat production in all countries below 200 g/kWh. Both targets are calculated as a five-year average. At the end of December 2013, the five-year average for specific CO₂ emissions from power generation in the EU was at 66 g/kWh (2012: 60) and the total specific CO₂ emissions from energy production were at 186 g/kWh (2012: 179), both better than the target level.

Fortum's total CO₂ emissions in 2013 amounted to 21.3 million tonnes (Mt) (2012: 20.7), of which 6.0 Mt (2012: 4.8) were within the EU's emissions trading scheme (EU ETS). Since 2013, electricity production does not receive free allowances in the EU ETS. The amount of free allowances for heat will gradually decrease during 2013-2020 as well. Plant-specific free allowances have not yet been confirmed for 2013. The preliminary estimate for Fortum is about 3.0 Mt, which is clearly less than the 5.4 Mt in 2012.

Fortum's energy efficiency target is to raise the overall efficiency of fuel use to 70% as a five-year average. In 2013, the overall efficiency of fuel use was 61% (2012: 64%) and the five-year average after September was 66% (2012: 67%), meaning the target level was not met.

Fortum's target is for fewer than 40 environmental incidents annually. In 2013, a total of 51 (2012: 36) environmental incidents took place in Fortum's operations. This includes 19 leaks or spills of oil into the environment, 12 fires, 14 environmental non-compliances, four explosions and two International Nuclear Event Scale 1 incidents (INES). None of these incidents had significant environmental or financial impacts.

Fortum's total CO ₂ emissions (million tonnes, Mt)	2013	2012	2011	Change 13/12
Total emissions	21.3	20.7	23.5	3%
Emissions subject to ETS	6.0	4.8	8.0	25%
Free emission allocation	3.0 ¹⁾	5.4	6.8	-44%
Emissions in Russia	15.3	15.6	14.7	-2%

¹⁾ Pending approval of the European Commission

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, reliable energy supply and ensuring a safe working environment for all employees and contractors at Fortum sites are emphasised. At the end of 2013, OHSAS 18001 certification covered 75% of Fortum's power and heat production and distribution operations worldwide.

In 2013, the average energy availability of Fortum's European CHP plants was 93.9 (2012: 90.9), which is above the annual target level of 92%. In electricity distribution, the cumulative SAIDI (System Average Interruption Duration Index) was 220 minutes (2012: 103) in 2013, while the annual target is less than 110 minutes. The high SAIDI was caused by severe storms in Finland and Sweden in December 2013.

In 2013, the Group-level lost workday injury frequency (LWIF) was 1.1 (2012: 1.5), which is close to the target level of less than one per million working hours for Fortum's own personnel. In contrast to the LWIF for

Fortum's own employees, contractor safety has not developed as desired. The injury frequency is higher than in 2012. Safety improvements were implemented in 2013 and include more precise instructions and requirements and increased supervision of high-risk jobs. Fortum's categorical target is to avoid serious injuries.

Fortum wants to conduct business with viable companies that act responsibly and comply with the Fortum Code of Conduct and the Fortum Supplier Code of Conduct. In 2013, Fortum audited 13 suppliers, focusing on biomass suppliers and contractors.

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, enable the strategy execution, support the achievement of agreed financial targets, and avoid unwanted operational events.

Risk management framework and objectives

Involvement in the power and heat business exposes Fortum to several types of risks. The main sources of risk in the Nordic business are 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. The Russian business is exposed to risks related to fuel, electricity and capacity prices and volumes, which are to a large extent subject to regulation, although the market is developing.

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. Also

the new market entries like India add complexity and risk in operations.

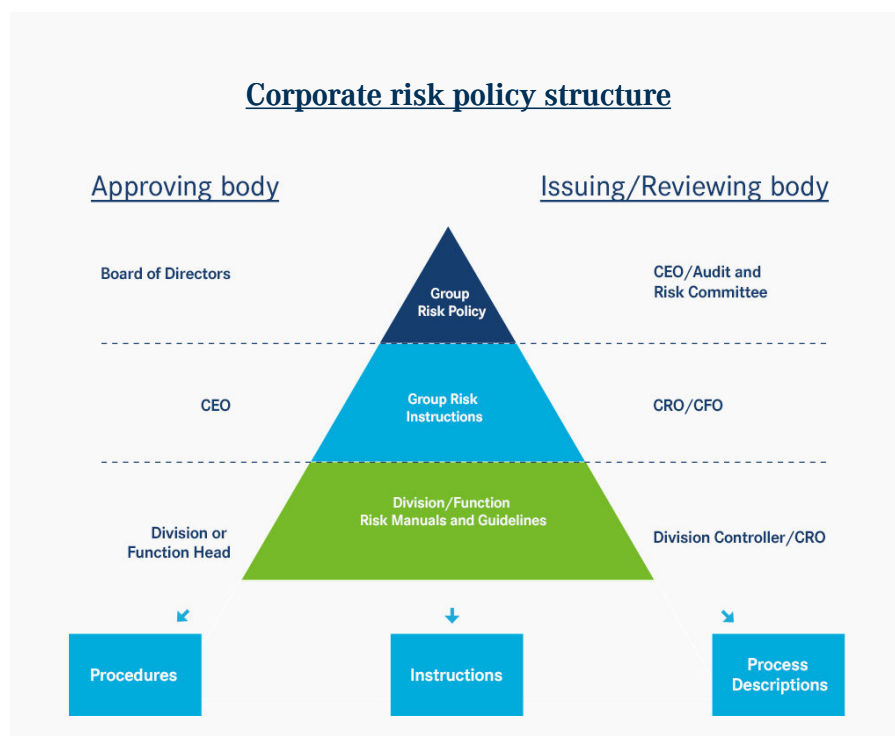
Risk management objective

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

Group risk policy

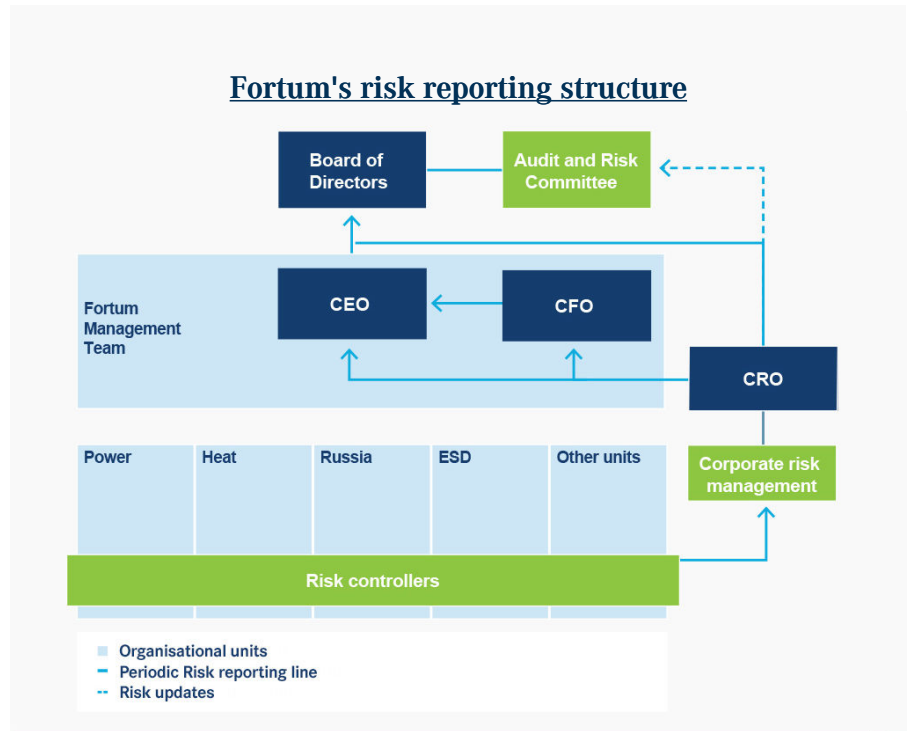
Fortum's Board of Directors annually approves the Group Risk Policy, which sets the objective, principles and division of responsibilities for risk management activities within the Group as well as defines the overall risk management process.

The CEO approves Group Risk Policy appendices, 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, liquidity and refinancing risks as well as for insurance management. Credit Control in Corporate Risk Management is responsible for assessing and consolidating the Group's exposure to counterparty risks, monitoring the creditworthiness of counterparties and 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.



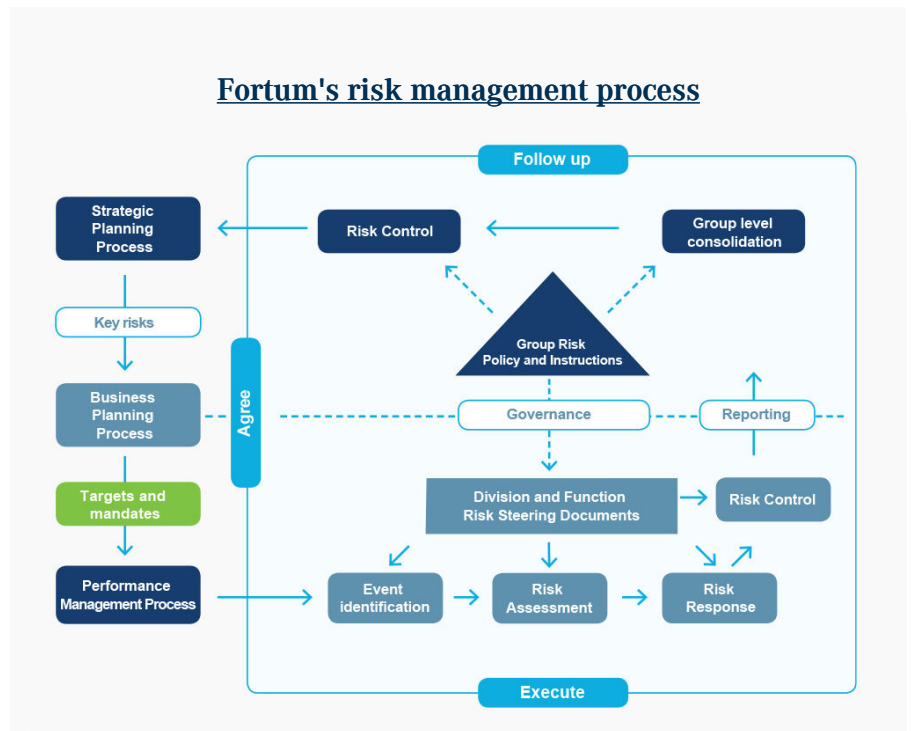
Risk management organisation

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 the source, unless otherwise agreed. In order to maintain a strict segregation of duties, risk control functions in the 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 of risks, 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 and corporate unit 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 and market risks to Group Management and the Board of Directors on a monthly basis.



Strategic risks

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

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

Investment, integration and project risks

Fortum's growth strategy includes expansion of operations. As a result of ongoing integrations or any future acquisitions, 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 and requirements for personnel and other resources in other cultures;
- 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 the management and risks are followed up in monthly management reporting.

Political and regulatory risks

The political and regulatory environment has a clear impact on energy businesses. This applies both to existing and potential new businesses and market areas. 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. The current trend of national policies could even

endanger market-driven development of the energy sector and the uncertainty with regard to future policy targets and framework is currently considerable. Fortum favours market-driven development, which would mean e.g. more interconnections and competition in addition to policy harmonisation, by maintaining an active dialogue with all stakeholders.

Currently the biggest potential risks within the policy framework relate to the electricity market model, targets with regard to future climate change mitigation and renewable energy and taxation. In particular, the interlinkages of these issues create uncertainty, as they are overlapping and undermine the effects of each other. The EU is currently discussing capacity remuneration mechanisms that would change the market model. The specific details of targets for CO₂ emissions and renewables for 2030 are also under discussion. At the end of 2013 in Finland, a Government Bill for a windfall tax on some non-emitting and old power plants was approved. Furthermore, the nuclear safety directive is under revision, and

a discussion on broadening nuclear liability in the EU is starting.

All these would pose risks, but also opportunities, for energy companies. To manage these risks and proactively participate in the development of the political and regulatory framework, Fortum maintains an active dialogue with the bodies involved in the development of laws and regulations at national and EU-levels.

Russia

Russia is exposed to political, economic and social uncertainties and risks resulting from changes in policies, legislation, economic and social upheaval and other similar factors, as other similar countries.

Fortum owns and operates heat and power generation assets in Russia under the operations of OAO Fortum. The wholesale power market deregulation in Russia has proceeded well and to a large extent according to original plans. The main policy-related risks in Russia are linked to the development of the whole energy sector, part of which, namely wholesale electricity, is liberated while other parts, like gas, heat, and retail electricity, are not. Currently, there is the risk that the Government will freeze tariffs of certain regulated products including gas, which creates a risk for Fortum's

efficient operations. Cross-subsidies, which are supposed to be eliminated but still exist, compromise the competitiveness of energy-efficient combined heat and power (CHP) production. Artificially low energy prices do not benefit anyone in the long run, as they promote inefficiency by limiting investments in efficiency.

Political risk concerning taxes

The current economic situation in Fortum's key operating territories has created an unstable tax environment leading to new or increased taxes and new interpretations of existing tax laws. This in turn has led to unexpected challenges for Fortum in the way the Group is organised and how its operations are taxed. The certainty and visibility around taxes has decreased. Where there is uncertainty, Fortum seeks to maintain its position in line with its tax policy.

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 in which it operates.

Inadequacies in the legal systems and law enforcement mechanisms in Russia and

certain other emerging markets expose Fortum to a risk of loss resulting from 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 concerning, for example, 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 confidential information before it is published. Segregation of duties and internal controls are enforced to minimise the possibilities of unauthorised activities.

Compliance with competition legislation is an important area for Fortum. Fortum has also enhanced its 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 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 and to take 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. The Profit-at-Risk measure in the form of Group minimum EBITDA is monitored by management to ensure that Fortum can deliver on its financial commitments without weakening its financial position. The development of minimum EBITDA is

monitored in quarterly meetings and in monthly reporting.

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 that financial commitments can be met. Hedging strategies cover several years in the short to

Risk Management in Fortum's Performance Management



medium term and 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 utilising 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 emissions 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 these 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.

Financial Risks

Liquidity and refinancing risks

The power and heat business is capital intensive. Consequently, Fortum has a regular need to raise financing.

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

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 biomass-based 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 that 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 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 limited to some extent because of Fortum's flexible generation possibilities that 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.

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 a 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 the 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 at the Group level). For transaction risks, the main principle is that all material exposures are hedged while translation exposures are not hedged or are 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. During 2013 Fortum enhanced the country entry and partner risk assessment processes when entering new markets and/or partnerships.

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 unit 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. A long-term programme is in place 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 programme 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. At the Loviisa power plant, the assessment and improvement of nuclear safety is a continuous process 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 (Special Drawing Right). The same type of insurance policies are in place for the operators where Fortum has a minority interest. In Sweden, the limits are compliant with the national legislation.

Decisions have been made in both Finland and Sweden to renew the current nuclear liability legislation to align more with the Paris and Brussels convention. The new legislation is not likely to come into force during 2014 in Finland and Sweden. The changes in the new national legislation consist of a liability on plant operators covering damages up to EUR 700 million in Finland and up to EUR 1,200 million per nuclear incident in Sweden. The liability 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 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.

Technology risks

Fortum actively explores opportunities in new technologies in a solar economy. Fortum is participating in technologies and projects in solar and wave energy, and in 2013 invested in the first solar plant in India. New technologies, like bio-oil and solar, expose Fortum to new types of risks, such as IPR risks and viability of technologies. These, in combination with operating in new markets, add complexity.

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's IT community identifies the IT-related operational risks that might threaten business continuity, and the mitigating actions are planned accordingly. Fortum IT is exposed to hardware and software risks including cyber attacks, as is any other corporate function, however, taking into account the size and complexity of the business. The management of these risks is coordinated by Corporate IT, headed by the CIO, 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	2013	2012	2011
Earnings per share	1.36	1.59	1.99
Cash flow per share	2.07	1.56	1.82
Equity per share	11.28	11.30	10.84
Dividend per share	1.10 ¹⁾	1.00	1.00
Payout ratio, %	80.9 ¹⁾	62.9	50.3
Dividend yield, %	6.6 ¹⁾	7.1	6.1

¹⁾ Board of Directors' proposal for the Annual General Meeting 8 April 2014.

[For the full set of share key figures, 1998-2013, see the Key figures section in the Financial Statements.](#)

Shareholders value, share price performance and volumes

Fortum's mission is to deliver excellent value to its shareholders. Fortum's share price has appreciated approximately 9% during the last five years, while the Dow Jones Europe Utility Index has decreased 18%. During the same period NASDAQ Helsinki Cap index has increased 69%. During 2013 Fortum's share price appreciated approximately 18%, while the Dow Jones Europe Utility Index increased 7% and the NASDAQ Helsinki Cap index increased 26%.

During 2013, a total of 465.0 million (2012: 494.8) Fortum Corporation shares, totalling EUR 7,027 million, were traded on the NASDAQ OMX Helsinki Ltd. The highest quotation of Fortum Corporation shares

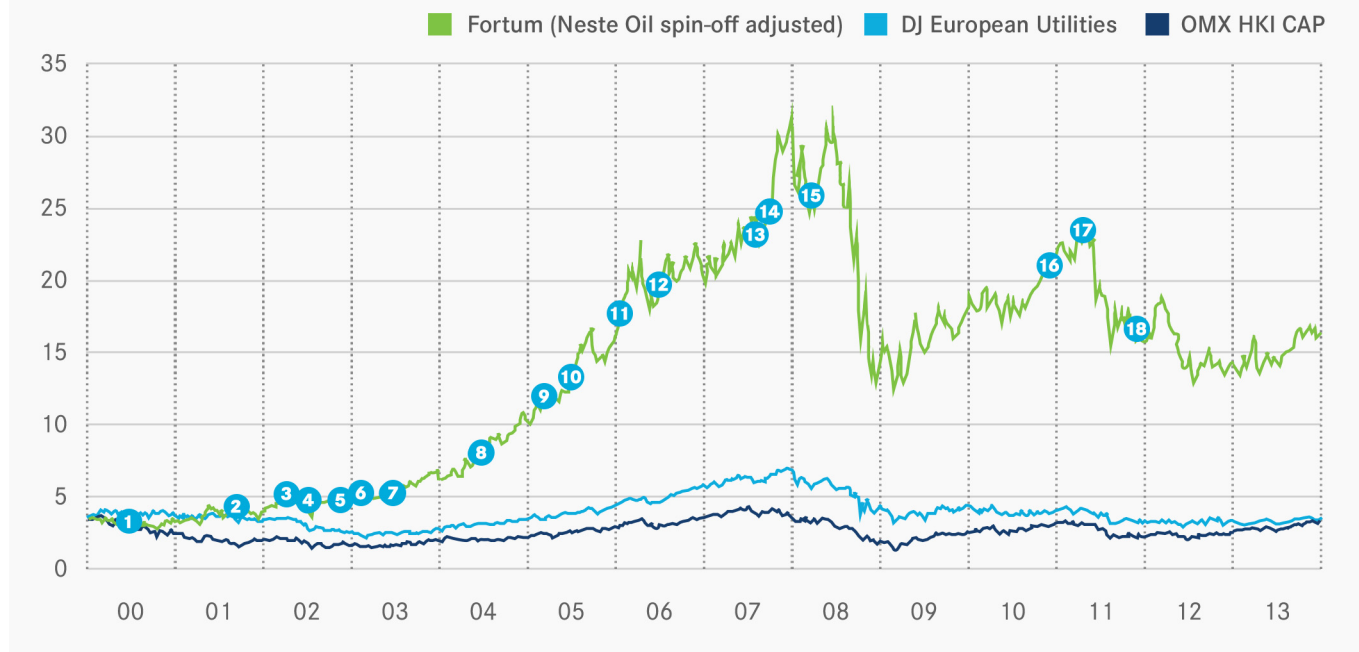
during 2013 was EUR 18.18, the lowest EUR 13.10, and the volume-weighted average EUR 15.11. The closing quotation on the last trading day of the year 2013 was EUR 16.63 (2012: 14.15). Fortum's market capitalisation, calculated using the closing quotation of the last trading day of the year, was EUR 14,774 million (2012: 12,570).

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 in 2013, including also all other trades than the primary market place, was approximately 1,101 million shares

(2012: 1,097) and the turnover was approximately EUR 16,508 million (2012: 17,292). In 2013, approximately 58% (2012: 55%) of Fortum's traded shares were traded on markets other than NASDAQ OMX Helsinki Ltd.

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.

Share price performance, eur



1. Acquisition of Stora Enso power generation assets 1.9 bn EUR

2. Birka acquisition remaining 50% 3.6 bn EUR

3. Sale of Fortum Energie GmbH 545 MEUR

4. Ministry of Trade and Industry sells down to 61%

5. Sale of Norwegian E&P for \$1.1 bn

6. Asset swap worth 800 MEUR gaining shareholdings in Hafslund and Lenenergo

7. Increase in Hafslund stake to 31%

8. Increase in Lenenergo stake

9. Dividending out and sale of Neste Oil shares market value 3.8 bn EUR

10. Ministry of Trade and Industry sells down to 51.7%

11. Acquisition of Wroclaw 120 MEUR

12. E.ON Finland acquisition 713 MEUR

13. Sale of Russian Lenenergo stake for 295 MEUR

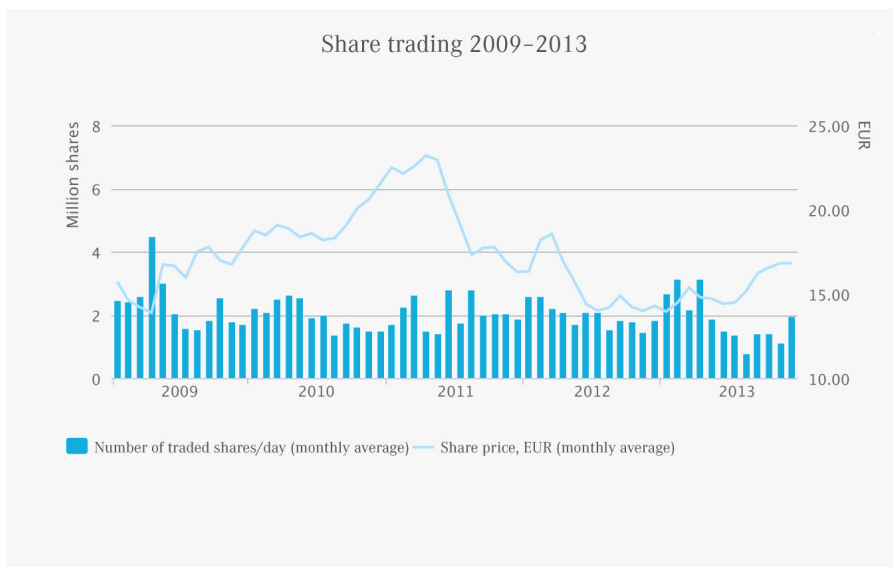
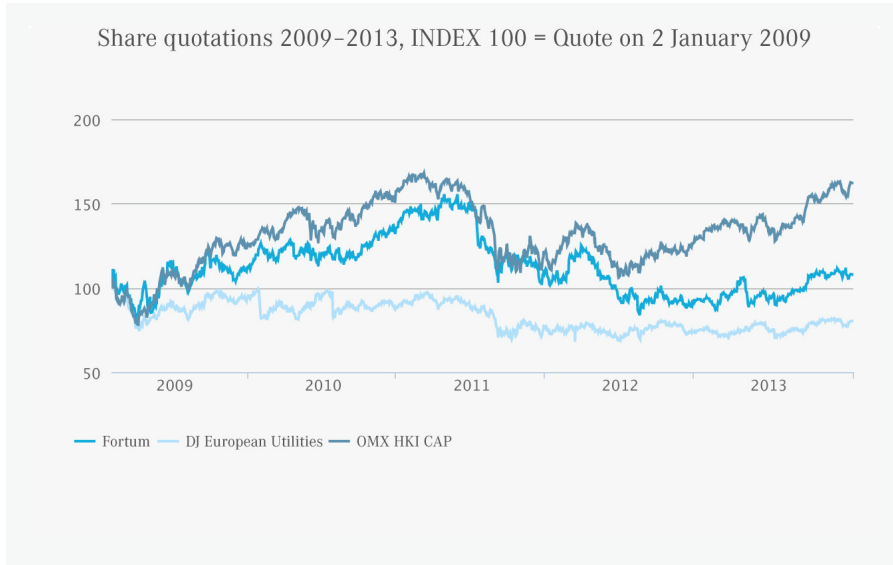
14. Participation in 243 MEUR share issue in TGC-1

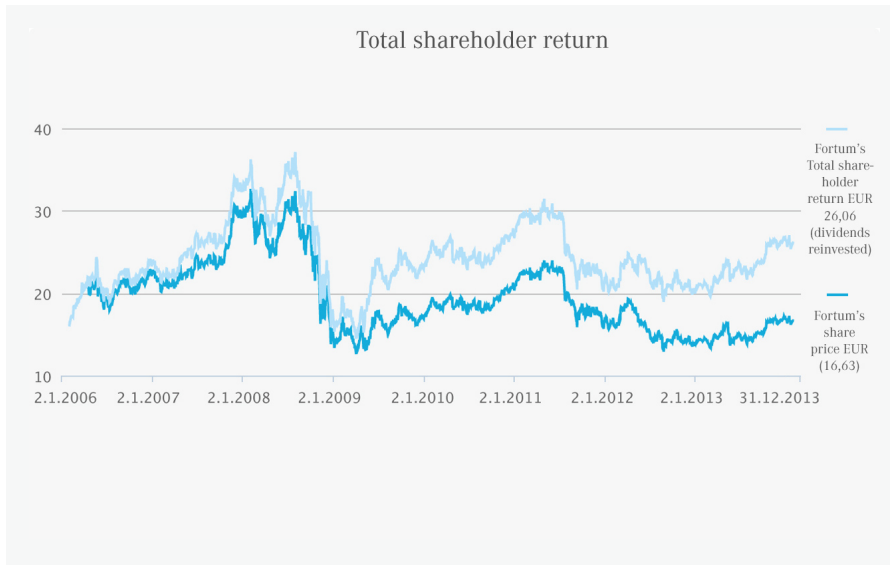
15. Acquisition of TGC-10 (Changed name to OAO Fortum) EUR 2.5 bn

16. Divestment of district heat operations outside Stockholm area in Sweden, total sales price appr. 220 MEUR

17. Final agreement over sale of Fingrid shares appr. 325 MEUR

18. Fortum agreed to sell Fortum Energiaratkaisut Oy and Fortum Termest AS total sales price appr. 200 MEUR

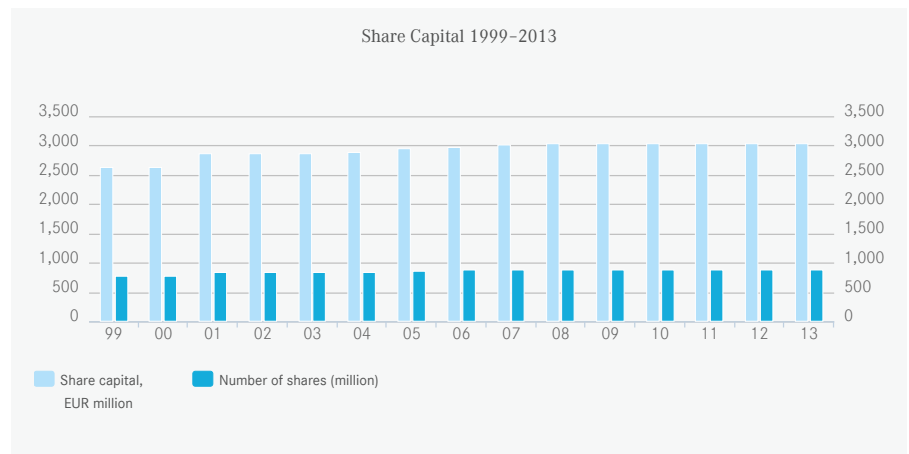




Share capital

Fortum has one class of shares. By the end of 2013, 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 2013 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.



Shareholders

At the end of 2013, 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 increased to 26.2% (2012: 25.4%).

Shareholders, 31 December 2013

Shareholders	No. of shares	Holding %
Prime Minister's Office	450,932,988	50.76
Ilmarinen Mutual Pension Insurance Company	7,351,961	0.83
The Finnish Social Insurance Institution	7,195,896	0.81
The State Pension Fund	6,560,000	0.74
The city of Kurikka	6,203,500	0.70
Varma Mutual Pension Insurance Company	4,964,300	0.56
Mandatum Life Insurance Company Ltd.	4,954,834	0.56
Mutual Insurance Company Pension Fennia	3,476,000	0.39
The Local Government Pensions Institution	2,951,403	0.33
Schweizerische Nationalbank	2,787,984	0.31
Tapiola Mutual Pension Insurance Company	2,300,000	0.26
Society of Swedish Literature in Finland	2,202,700	0.25
Etera Mutual Pension Insurance Company	1,710,006	0.19
OP-Delta Mutual Fund	1,625,000	0.18
Nominee registrations and direct foreign ownership*	229,790,979	25.87
Other shareholders in total	153,359,494	17.26
Total number of shares	888,367,045	100.00

*Excluding Schweizerische Nationalbank

By shareholder category	% of total amount of shares
Finnish shareholders	
Corporations	2.13
Financial and insurance institutions	2.74
General government	56.10
Non-profit organisations	2.02
Households	10.83
Non-Finnish shareholders	26.18
Total	100.00

Breakdown of share ownership, 31 December 2013

Number of shares owned	No. of shareholders	% of shareholders	No. of shares	% of total amount of shares
1-100	33,180	25.12	1,980,533	0.22
101-500	53,752	40.70	14,426,381	1.63
501-1,000	22,363	16.93	16,413,674	1.85
1,001-10,000	21,390	16.20	55,195,035	6.21
10,001-100,000	1,262	0.96	29,132,710	3.28
100,001-1,000,000	103	0.08	30,136,102	3.39
1,000,001-10,000,000	21	0.01	64,257,134	7.23
over 10,000,000	1	0.00	450,932,988	50.76
	132,072	100.00	662,474,557	74.57
Unregistered/uncleared transactions on 31 December			75,696	0.01
Nominee registrations			225,816,792	25.42
Total			888,367,045	100

Management interests, 31 December 2013

At the end of 2013, the President and CEO and other members of the Fortum Management Team owned 346,106 shares (2012: 268,992) representing approximately 0.04% of the total shares in the company.

A full description of the shareholdings and interests in long-term incentive schemes of the President and CEO and of other members of the Fortum Management Team is shown in [Note 12 Employee benefits](#).

Authorisations from the Annual General Meeting 2013

Currently the Board of Directors has no unused authorisations from the Annual General Meeting of Shareholders to issue convertible loans or bonds with warrants or

to issue new shares or to buy Fortum Corporation's own shares.

Dividend

Updated dividend policy

In April 2013, Fortum's Board of Directors updated the company's dividend policy. The new dividend policy ensures that shareholders receive a fair remuneration for their entrusted capital, supported by the company's long-term strategy that aims at increasing earnings per share and thereby the dividend. When proposing the dividend, the Board of Directors looks at a range of factors, including the macro environment, balance sheet strength as well as future investment plans. Fortum Corporation's target is to pay a stable, sustainable and over time increasing dividend, in the range of 50-80% of earnings per share, excluding one-off items.

Dividend distribution proposal

The distributable funds of Fortum Corporation as at 31 December 2013 amounted to EUR 4,151,029,137.59, including the profit for the period of EUR 477,747,032.48. 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 a dividend of EUR 1.10 per share be paid for 2013 totaling approximately EUR 977 million, when calculated based on the number of registered shares as of 3 February 2014. The Board of Directors proposes that the remaining part of the profit be retained in the shareholders' equity. The Annual General Meeting will be held on 8 April 2014 at 14:00 EET at Finlandia Hall in Helsinki.





Financial key figures

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

Oil operations were presented as discontinued operations in years 2004 and 2005.

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 prepared under Finnish Accounting Standards (FAS).

EUR million or as indicated	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	Change
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	13/12 %
Sales total Fortum	11,659	5,918	4,491	4,479	5,636	5,435	6,296	6,161	6,159	6,056	-2
Sales continuing operations	3,835	3,877	4,491	4,479	5,636	5,435	6,296	6,161	6,159	6,056	-2
EBITDA total Fortum ¹⁾	2,443	2,307	1,884	2,298	2,478	2,292	2,271	3,008	2,538	2,452	-3
EBITDA continuing operations	1,583	1,754	1,884	2,298	2,478	2,292	2,271	3,008	2,538	2,452	-3
Comparable EBITDA continuing operations		1,741	1,866	2,015	2,360	2,398	2,396	2,374	2,416	2,299	-5
Operating profit total Fortum	1,916	1,864	1,455	1,847	1,963	1,782	1,708	2,402	1,874	1,712	-9
- of sales %	16.4	31.5	32.4	41.2	34.8	32.8	27.1	39.0	30.4	28.3	
Operating profit continuing operations	1,195	1,347	1,455	1,847	1,963	1,782	1,708	2,402	1,874	1,712	-9
- of sales %	31.2	34.7	32.4	41.2	34.8	32.8	27.1	39.0	30.4	28.3	
Comparable operating profit continuing operations	1,148	1,334	1,437	1,564	1,845	1,888	1,833	1,802	1,752	1,607	-8
Profit before income tax total Fortum	1,700	1,776	1,421	1,934	1,850	1,636	1,615	2,228	1,586	1,499	-5
- of sales %	14.6	30.0	31.6	43.2	32.8	30.1	25.7	36.2	25.8	24.8	
Profit before income tax continuing operations	962	1,267	1,421	1,934	1,850	1,636	1,615	2,228	1,586	1,499	-5
- of sales %	25.1	32.7	31.6	43.2	32.8	30.1	25.7	36.2	25.8	24.8	

Profit for the period continuing operations	703	936	1,120	1,608	1,596	1,351	1,354	1,862	1,512	1,279	-15
- of which attributable to owners of the parent	670	884	1,071	1,552	1,542	1,312	1,300	1,769	1,416	1,204	-15
Capital employed total Fortum	12,890	11,357	12,663	13,544	15,911	15,350	16,124	17,931	19,420	19,780	2
Capital employed continuing operations	10,739	11,357	12,663	13,544	15,911	15,350	16,124	17,931	19,420	19,780	2
Interest-bearing net debt	5,095	3,158	4,345	4,466	6,179	5,969	6,826	7,023	7,814	7,849	0
Capital expenditure and gross investments in shares total Fortum	830	578	1,395	972	2,624	929	1,249	1,482	1,574	1,299	-17
- of sales %	7.1	9.8	31.1	21.7	46.6	17.1	19.8	24.1	25.6	21.4	
Capital expenditure and gross investments in shares continuing operations	514	479	1,395	972	2,624	929	1,249	1,482	1,574	1,299	-17
Capital expenditure continuing operations	335	346	485	655	1,108	862	1,222	1,408	1,558	1,284	-18
Net cash from operating activities total Fortum	1,758	1,404	1,151	1,670	2,002	2,264	1,437	1,613	1,382	1,836	33
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	1,836	33
Return on capital employed total Fortum, %	15.8	16.6	13.4	16.5	15.0	12.1	11.6	14.8	10.2	9.2	
Return on capital employed continuing operations, %	11.4	13.5	13.4	16.5	15.0	12.1	11.6	14.8	10.2	9.2	
Return on shareholders' equity total Fortum, %	18.2	18.7	14.4	19.1	18.7	16.0	15.7	19.7	14.6	12.0	
Return on shareholders' equity continuing operations, % ²⁾		13.5	14.4	19.1	18.7	16.0	15.7	19.7	14.6	12.0	
Interest coverage	8.0	11.6	11.5	12.8	9.4	12.4	13.7	10.5	7.6	6.8	
Interest coverage including capitalised borrowing costs					8.6	10.3	10.0	8.5	5.7	5.3	
Funds from operations/interest-bearing net debt, %	36.4	43.2	30.6	36.3	34.1	37.6	20.5	21.5	19.9	21.8	
Gearing, % ³⁾	67	43	53	52	73	70	78	69	73	74	
Net debt/EBITDA	2.1	1.4	2.3	1.9	2.5	2.6	3.0	2.3	3.1	3.2	
Net debt/EBITDA continuing operations	-	1.8	2.3	1.9	2.5	2.6	3.0	2.3	3.1	3.2	
Comparable net debt/EBITDA continuing operations	-	1.8	2.3	2.2	2.6	2.5	2.8	3.0	3.2	3.4	
Equity-to-assets ratio, %	44	49	48	49	41	43	40	44	43	44	
Dividends ⁴⁾	506	987	1,122	1,198	888	888	888	888	888	977 ⁵⁾	10
Dividends continuing operations		511	650	683							

Dividends additional in 2006 and 2007/discontinued operations in 2005	476	472	515									
Research and development expenditure	26	14	17	21	27	30	30	38	41	49	20	
- of sales %	0.2	0.2	0.4	0.5	0.5	0.5	0.5	0.6	0.7	0.8		
Average number of employees total Fortum	12,859	10,026	8,910	8,304	14,077	13,278	11,156	11,010	10,600	10,246		
Average number of employees continuing operations	8,592	8,939	8,910	8,304	14,077	13,278	11,156	11,010	10,600	10,246		

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 %, 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 8 April 2014.

[See Definitions of key figures.](#)

Share key figures

EUR or as indicated	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	Change
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	13/12 %
Earnings per share total Fortum	1.48	1.55	1.22	1.74	1.74	1.48	1.46	1.99	1.59	1.36	-14
Earnings per share continuing operations	0.79	1.01	1.22	1.74	1.74	1.48	1.46	1.99	1.59	1.36	-14
Earnings per share discontinued operations	0.69	0.54	-	-	-	-	-	-	-	-	
Diluted earnings per share total Fortum	1.46	1.53	1.21	1.74	1.74	1.48	1.46	1.99	1.59	1.36	-14
Diluted earnings per share continuing operations	0.78	1.00	1.21	1.74	1.74	1.48	1.46	1.99	1.59	1.36	-14
Diluted earnings per share discontinued operations	0.68	0.53	-	-	-	-	-	-	-	-	
Cash flow per share total Fortum	2.06	1.61	1.31	1.88	2.26	2.55	1.62	1.82	1.56	2.07	33
Cash flow per share continuing operations	1.44	1.46	1.31	1.88	2.26	2.55	1.62	1.82	1.56	2.07	33
Equity per share	8.65	8.17	8.91	9.43	8.96	9.04	9.24	10.84	11.30	11.28	0
Dividend per share total Fortum ¹⁾	0.58	1.12	1.26	1.35	1.00	1.00	1.00	1.00	1.00	1.10 ²⁾	10
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, %	39.2	72.3	103,3 ⁴⁾	77,6 ⁴⁾	57.5	67.6	68.5	50.3	62.9	80.9 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, %	4.3	7.1	5.8	4.4	6.6	5.3	4.4	6.1	7.1	6.6 ²⁾	
Price/earnings ratio (P/E)	9.2	10.2	17.7	17.7	8.8	12.8	15.4	8.3	8.9	12.2	
Share prices											
At the end of the period	13.62	15.84	21.56	30.81	15.23	18.97	22.53	16.49	14.15	16.63	

Average	10.29	13.87	20.39	23.57	24.79	15.91	19.05	19.77	15.66	15.11
Lowest	7.45	10.45	15.71	20.01	12.77	12.60	17.18	15.53	12.81	13.10
Highest	13.99	16.90	23.48	31.44	33.00	19.20	22.69	24.09	19.36	18.18
Market capitalisation at the end of the period, EUR million	11,810	13,865	19,132	27,319	13,519	16,852	20,015	14,649	12,570	14,774
Trading volumes ⁵⁾										
Number of shares, 1 000 shares	478,832	900,347	830,764	787,380	628,155	580,899	493,375	524,858	494,765	465,004
In relation to the weighted average number of shares, %	59.2	103.2	94.3	88.5	70.8	65.4	55.5	59.1	55.7	52.3
Number of shares, 1 000 shares	867,084	875,294	887,394	886,683	887,638	888,367	888,367	888,367	888,367	888,367
Number of shares excluding own shares, 1 000 shares	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	852,625	872,613	881,194	889,997	887,256	888,230	888,367	888,367	888,367	888,367
Diluted adjusted average number of shares, 1 000 shares	861,772	887,653	886,929	891,395	887,839	888,230	888,367	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 8 April 2014.

3) Payout 2005 ratio is calculated for continuing and discontinued operations are 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 1,101 million shares (2012: 1,097) and the turnover was approximately EUR 16,508 million (2012: 17,292) in 2013. In 2013, approximately 58% (2012: 55%) 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 prepared under Finnish Accounting Standards (FAS).

[See Definitions of key figures.](#)

Operational key figures, volumes

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
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	48.7
Heat generation	TWh	25.4	25.1	25.8	26.1	25.0	23.2	26.1	22.0	18.5	18.6
Fortum's total power and heat generation in Russia											
Power generation	TWh	-	-	-	-	11.6	16.0	16.1	17.4	19.2	20.0
Heat generation	TWh	-	-	-	-	15.3	25.6	26.0	25.4	24.8	24.2
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	18.1
Nuclear power	TWh	25.8	25.8	24.4	24.9	23.7	21.4	22.0	24.9	23.4	23.7
Thermal power	TWh	9.5	4.2	9.0	6.2	5.0	4.6	8.3	7.2	3.0	4.7
Total	TWh	54.4	51.2	53.2	51.1	51.6	48.1	52.3	53.1	51.6	46.5
Fortum's own power generation by source, total in the Nordic area											
Hydropower	%	35	42	37	39	44	46	42	40	49	39
Nuclear power	%	47	50	46	49	46	44	42	47	45	51
Thermal power	%	18	8	17	12	10	10	16	13	6	10
Total	%	100	100	100	100	100	100	100	100	100	100
Power generation capacity by segment											
Power	MW	10,003	9,540	9,560	9,575	9,709	9,728	9,752	9,702	9,475	
Heat	MW	1,278	1,373	1,360	1,213	1,446	1,600	1,670	1,569	1,398	
Russia	MW	-	-	-	2,785	2,785	2,785	3,404	3,404	4,250	
Other (solar in India)	MW	-	-	-	-	-	-	-	-	5	
Total	MW	11,281	10,913	10,920	13,573	13,940	14,113	14,826	14,675	15,128	
Heat production capacity by segment											
Power	MW	250	250	250	250	250	250	250	250	250	
Heat	MW	9,757	10,633	10,973	10,218	10,284	10,448	10,375	8,785	7,943	
Russia	MW	-	-	-	13,796	13,796	13,796	14,107	13,396	13,466	
Total	MW	10,007	10,883	11,223	24,264	24,330	24,494	24,732	22,431	21,659	
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	2,519
Heat sales	EUR million	809	867	1,014	1,096	1,157	1,095	1,309	1,278	1,201	1,210
Fortum's total power and heat sales in Russia											
Electricity sales	EUR million	-	-	-	-	332	390	505	590	713	822
Heat sales	EUR million	-	-	-	-	141	219	287	324	300	290

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	23.4
Sweden	TWh	27.6	30.4	28.5	27.6	28.5	26.9	28.3	29.4	30.1	24.6
Russia	TWh	-	-	-	-	14.8	19.5	18.7	20.2	23.3	25.6
Other countries	TWh	3.6	3.3	3.5	3.1	3.0	3.2	3.2	3.6	3.8	4.3
Total	TWh	62.3	59.7	61.6	59.7	75.0	75.7	80.9	77.8	78.8	77.9
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	5.5
Russia	TWh	-	-	-	-	15.3	25.6	26.8	26.7	26.4	24.1
Sweden	TWh	9.6	9.5	9.3	9.2	9.1	9.8	10.9	8.5	8.5	8.2
Poland	TWh	0.4	1.1	3.6	3.5	3.6	3.7	4.0	4.3	4.3	4.1
Other countries	TWh	3.3	3.4	3.2	3.3	3.4	3.5	3.6	3.4	2.9	3.1
Total	TWh	23.8	23.8	26.8	27.1	42.2	50.6	54.9	51.4	47.9	45.0
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	9.5
Sweden	TWh	14.2	14.4	14.4	14.3	14.0	14.0	15.2	14.2	14.4	14.1
Norway	TWh	2.1	2.2	2.3	2.3	2.3	2.3	2.5	2.3	2.4	2.5
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	26.1

Operational key figures, segments

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.

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

Sales by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Power	2,084	2,058	2,439	2,350	2,892	2,531	2,702	2,481	2,415	2,248
- of which internal	128	-97	-133	323	0	254	-281	-24	296	70
Heat	1,025	1,063	1,268	1,356	1,466	1,399	1,770	1,737	1,628	1,565
- of which internal	49	-12	-32	38	0	23	-8	8	18	8
Russia	-	-	-	-	489	632	804	920	1,030	1,119
- of which internal	-	-	-	-	-	-	-	-	-	-
Distribution	707	707	753	769	789	800	963	973	1,070	1,075
- of which internal	10	-8	8	9	10	13	18	15	37	36
Electricity Sales	1,387	1,365	1,912	1,683	1,922	1,449	1,798	900	722	744
- of which internal	92	-101	149	155	177	67	158	95	55	73
Other	90	91	78	81	83	71	51	108	137	69
- of which internal	93	-63	62	72	82	-5	169	115	-66	67
Eliminations	-1,458	-1,407	-1,959	-1,760	-2,005	-1,447	-1,792	-958	-843	-764
Total	3,835	3,877	4,491	4,479	5,636	5,435	6,296	6,161	6,159	6,056

Comparable operating profit by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Power	730	854	985	1,095	1,528	1,454	1,298	1,201	1,146	858
Heat	207	253	253	290	250	231	275	278	271	273
Russia	-	-	-	-	-92	-20	8	74	68	156
Distribution	240	244	250	231	248	262	307	295	320	331
Electricity Sales	23	30	-4	-1	-33	22	11	27	39	48
Other	-52	-47	-47	-51	-56	-61	-66	-73	-92	-59
Comparable operating profit	1,148	1,334	1,437	1,564	1,845	1,888	1,833	1,802	1,752	1,607
Non-recurring items	18	30	61	250	85	29	93	284	155	61
Other items affecting comparability	29	-17	-43	33	33	-135	-218	316	-33	44
Operating profit	1,195	1,347	1,455	1,847	1,963	1,782	1,708	2,402	1,874	1,712

Comparable EBITDA by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Power	834	966	1,093	1,198	1,625	1,547	1,398	1,310	1,260	1,003
Heat	331	376	397	453	419	393	462	471	481	489
Russia	-	-	-	-	-25	55	94	148	189	258
Distribution	373	389	397	393	413	426	485	482	529	550
Electricity Sales	39	45	15	10	-26	28	13	29	40	50
Other	-41	-35	-36	-39	-46	-51	-56	-66	-83	-51
Total	1,536	1,741	1,866	2,015	2,360	2,398	2,396	2,374	2,416	2,299

Depreciation, amortisation and impairment charges by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Power	104	112	108	103	97	93	100	109	114	145
Heat	124	123	144	163	169	162	187	193	210	216
Russia	-	-	-	-	67	75	86	108	121	150
Distribution	133	145	147	162	165	164	178	187	209	219
Electricity Sales	16	15	19	11	7	6	2	2	1	2
Other	11	12	11	12	10	10	10	7	9	8
Total	388	407	429	451	515	510	563	606	664	740

Share of profit of associates and joint ventures by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Power	-21	-21	-9	-23	26	-35	-25	3	-12	4
Heat	15	11	23	24	12	30	31	19	20	19
Russia	-	-	-	-	19	20	8	30	27	46
Distribution	16	20	15	18	16	10	19	14	8	5
Electricity Sales	0	1	1	0	5	0	1	2	0	0
Other	2	44	39	222	48	-4	28	23	-20	31
Total	12	55	69	241	126	21	62	91	23	105

Capital expenditure by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Power	84	83	95	93	134	96	97	131	190	178
Heat	123	124	184	309	408	358	304	297	464	397
Russia	-	-	-	-	256	215	599	670	568	435
Distribution	106	115	183	236	296	188	213	289	324	260
Electricity Sales	10	10	8	3	3	1	0	5	1	1
Other	12	14	15	14	11	4	9	16	11	13
Total	335	346	485	655	1,108	862	1,222	1,408	1,558	1,284

Gross investments in shares by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Power	23	45	5	52	0	57	25	17	-	2
Heat	53	87	589	18	23	1	1	32	10	0
Russia	103	2	140	245	1,492	3	-	24	-	0
Distribution	0	-	130	1	0	5	0	-	-	0
Electricity Sales	0	-	6	0	0	-	-	-	-	-
Other	0	-	40	1	1	1	1	1	6	13
Total	179	134	910	317	1,516	67	27	74	16	15

Gross divestments of shares by segment, EUR million	2009	2010	2011	2012	2013
Power	10	0	3	102	79
Heat	1	52	203	269	11
Russia	-	43	23	-	-
Distribution	1	46	323	37	52
Electricity Sales	-	-	16	2	-
Other	2	6	0	0	-
Total	14	147	568	410	142

Net assets by segment, EUR million	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Power	5,804	5,493	5,690	5,599	5,331	5,494	5,806	6,247	6,389	6,329
Heat	2,440	2,551	3,407	3,507	3,468	3,787	4,182	4,191	4,286	4,283
Russia	151	153	294	456	2,205	2,260	2,817	3,273	3,848	3,846
Distribution	3,091	3,021	3,412	3,239	3,032	3,299	3,683	3,589	3,889	3,770
Electricity Sales	194	228	176	247	188	125	210	11	51	39
Other	220	447	835	1,237	796	382	29	208	158	315
Total	11,900	11,893	13,814	14,285	15,020	15,347	16,727	17,519	18,621	18,582

Return on net assets by segment, %	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Power	12.6	14.3	17.5	19.2	29.6	24.5	19.5	24.6	18.7	14.6
Heat	9.8	11.6	9.6	9.3	8.9	7.9	8.4	9.9	8.8	7.2
Russia	-	-	-	66.3	3.7	0.0	2.4	3.5	3.0	5.2
Distribution	8.1	8.8	8.4	7.7	8.1	8.7	9.7	13.7	9.1	9.2
Electricity Sales	25.2	17.4	-1.6	6.9	-14.0	28.9	38.4	4.2	152.3	148.9

Comparable return on net assets by segment, %	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Power	12.0	14.9	17.4	18.9	28.0	26.4	22.3	19.9	18.5	13.8
Heat	9.3	11.0	9.2	9.2	7.3	7.6	7.7	7.4	7.0	6.8
Russia	-	-	-	0.0	-3.8	0.0	0.7	3.5	2.7	5.2
Distribution	8.3	8.6	8.3	7.6	8.2	8.6	9.3	8.6	8.8	8.8
Electricity Sales	17.1	16.4	-0.8	-0.6	-15.3	18.6	9.3	33.5	203.1	137.9

Average number of personnel	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Power	4,588	4,374	4,147	3,475	3,591	2,068	1,891	1,873	1,896	1,887
Heat	1,605	2,186	2,345	2,302	2,422	2,652	2,482	2,682	2,354	2,164
Russia	-	-	-	-	5,566	6,170	4,555	4,436	4,301	4,245
Distribution	995	1,008	983	1,060	1,222	1,166	1,098	902	873	866
Electricity Sales	682	745	825	936	766	629	538	510	515	506
Other	722	626	610	531	510	593	592	607	661	578
Total	8,592	8,939	8,910	8,304	14,077	13,278	11,156	11,010	10,600	10,246

Definitions of key figures

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 the accounting of Fortum's part of the Finnish Nuclear Waste Fund 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, %	=	$\frac{\text{Comparable operating profit} + \text{Share of profit (loss) in associated companies and joint ventures (adjusted for IAS 39 effects and major sales gains or losses)}}{\text{Comparable net assets average}} \times 100$
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 - cash and cash equivalents
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	=	$\frac{\text{Interest-bearing net debt}}{\text{Operating profit} + \text{Depreciation, amortisation and impairment charges}}$
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



Consolidated financial statements

Consolidated income statement

EUR million	Note	2013	2012*
Sales	5	6,056	6,159
Other income	10	94	109
Materials and services	11	-2,533	-2,548
Employee benefits	12	-529	-543
Depreciation, amortisation and impairment charges	5, 18, 19	-740	-664
Other expenses	10	-741	-761
Comparable operating profit	5	1,607	1,752
Items affecting comparability	6, 7	105	122
Operating profit	5	1,712	1,874
Share of profit of associates and joint ventures	5, 20	105	23 1
Interest expense	13	-295	-300
Interest income	13	42	54
Fair value gains and losses on financial instruments	13	-16	-23
Other financial expenses - net	13	-49	-42
Finance costs - net	13	-318	-311
Profit before income tax		1,499	1,586
Income tax expense	14	-220	-74 2
Profit for the period		1,279	1,512
Attributable to:			
Owners of the parent		1,204	1,416
Non-controlling interests		75	96
		1,279	1,512
Earnings per share (in EUR per share)	15		
Basic		1.36	1.59

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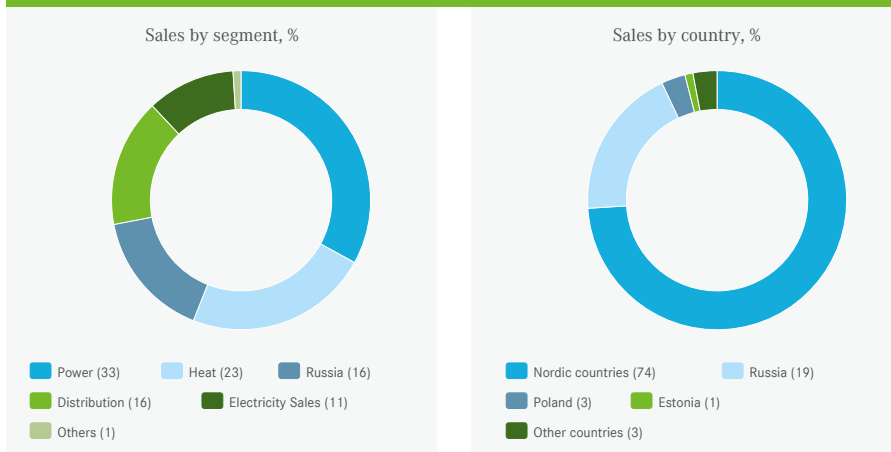
Diluted	1.36	1.59
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EUR million	2013	2012
Comparable operating profit	1,607	1,752
Non-recurring items (sales gains)	61	155
Changes in fair values of derivatives hedging future cash flow	21	-2
Nuclear fund adjustment	23	-31
Operating profit	1,712	1,874

* Comparative period information for 2012 presented in these financial statements has been restated due to the accounting change for pensions, see Note 1.6.1.

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

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



Consolidated statement of comprehensive income

The components of the 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	2013	2012
Profit for the period	1,279	1,512
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods		
Cash flow hedges		
Fair value gains/losses in the period	105	15
Transfers to income statement	-51	-152
Transfers to inventory/fixed assets	-8	-5
Tax effect	-8	33
Net investment hedges		
Fair value gains/losses in the period	28	0
Tax effect	-7	0
Available for sale financial assets		
Fair value changes in the period	0	0
Exchange differences on translating foreign operations	-496	204
Share of other comprehensive income of associates	39	-23
Other changes	0	0
	-398	72
Items that will not be reclassified to profit or loss in subsequent periods		
Actuarial gains/losses on defined benefit plans	58	-24
Actuarial gains/losses on defined benefit plans in associates	2	-36
	60	-60
Other comprehensive income for the period, net of tax	-338	12
Total comprehensive income for the year	941	1,524
Total comprehensive income attributable to:		
Owners of the parent	881	1,412
Non-controlling interests	60	112
	941	1,524

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 RUB, NOK and SEK.

Consolidated balance sheet

EUR million	Note	31 Dec 2013	31 Dec 2012
ASSETS			
Non-current assets			
Intangible assets	18	392	442
Property, plant and equipment	19	15,201	16,497
Participations in associates and joint ventures	20	1,905	1,979
Share in State Nuclear Waste Management Fund	30	744	678
Other non-current assets	21	75	69
Deferred tax assets	29	130	177
Derivative financial instruments	3	363	451
Long-term interest-bearing receivables	22	1,463	1,384
Total non-current assets		20,273	21,677
Current assets			
Inventories	23	375	428
Derivative financial instruments	3	297	223
Trade and other receivables	24	1,048	1,270
Cash and cash equivalents	25	1,254	963
Assets held for sale	9	1,173	-
Total current assets		4,147	2,884
Total assets		24,420	24,561
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	3,046	3,046
Share premium		73	73
Retained earnings		6,851	7,020
Other equity components		54	-99
Total		10,024	10,040
Non-controlling interests	27	638	603
Total equity		10,662	10,643

LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	28	6,960	7,699
Derivative financial instruments	3	177	182
Deferred tax liabilities	29	1,648	1,879
Nuclear provisions	30	744	678
Other provisions	31	103	207
Pension obligations	32	65	152
Other non-current liabilities	33	151	472
Total non-current liabilities		9,848	11,269
Current liabilities			
Interest-bearing liabilities	28	2,138	1,078
Derivative financial instruments	3	85	264
Trade and other payables	34	1,147	1,307
Liabilities related to assets held for sale	2	540	-
Total current liabilities		3,910	2,649
Total liabilities		13,758	13,918
Total equity and liabilities		24,420	24,561

Consolidated statement of changes in total equity

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 2012		3,046	73	7,193	-173	34	-133	0	10,040	603	10,643
Net profit for the period				1,204					1,204	75	1,279
Translation differences					-476	-1	2	4	-471	-25	-496
Other comprehensive income						35	72	41	148	10	158
Total comprehensive income for the period				1,204	-476	34	74	45	881	60	941
Cash dividend	15			-888					-888		-888
Dividends to non-controlling interests									0	-26	-26
Changes due to business combinations	8			1					1		1
Other changes				-10					-10	1	-9
Total equity 31 December 2013		3,046	73	7,500	-649	68	-59	45	10,024	638	10,662

Total equity 31 December 2011	3,046	73	6,670	-352	136	-2	61	9,632	529	10,161
Change in accounting policy						-106	-5	-111	-13	-124
Total equity 1 January 2012	3,046	73	6,670	-352	136	-108	56	9,521	516	10,037
Net profit for the period			1,416					1,416	96	1,512
Translation differences				179	4	-3	3	183	21	204
Other comprehensive income					-106	-22	-59	-187	-5	-192
Total comprehensive income for the period			1,416	179	-102	-25	-56	1,412	112	1,524
Cash dividend 15			-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	7,193	-173	34	-133	0	10,040	603	10,643

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 by EUR -471 million during 2013 (2012: 183) including the net effect from RUB, NOK and SEK amounting to EUR -465 million in 2013 (2012: 173).

[For information regarding exchange rates used, see Note 1 Accounting policies.](#)

[For information about translation exposure, see Note 3.6 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 34 million (2012: -102), 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 (2012: -26).

Change in accounting policy

[Comparative period information has been restated due to the accounting change for pensions, see Note 1.6.1.](#)

Consolidated cash flow statement

EUR million	Note	2013	2012
Cash flow from operating activities			
Net profit for the period		1,279	1,512
Adjustments:			
Income tax expenses		220	74
Finance costs - net		318	311
Share of profit of associates and joint ventures		-105	-23
Depreciation, amortisation and impairment charges		740	664
Operating profit before depreciations (EBITDA)		2,452	2,538
Non-cash flow items and divesting activities		-260	-192
Interest received		28	59
Interest paid		-374	-352
Dividends received		50	45
Realised foreign exchange gains and losses and other financial items		46	-274
Taxes		-229	-269
Funds from operations		1,713	1,555
Change in working capital		123	-173
Total net cash from operating activities		1,836	1,382
Cash flow from investing activities			
Capital expenditures	5, 18, 19	-1,271	-1,422
Acquisitions of shares		-15	-14
Proceeds from sales of fixed assets		66	13
Divestments of shares		122	239
Proceeds from interest-bearing receivables relating to divestments		22	181
Shareholder loans to associated companies		-136	-138
Change in other interest-bearing receivables		2	13
Total net cash used in investing activities		-1,210	-1,128
Cash flow before financing activities			
		626	254
Cash flow from financing activities			
Proceeds from long-term liabilities		790	1,375
Payments of long-term liabilities		-642	-669
Change in short-term liabilities		438	168
Dividends paid to the owners of the parent	15	-888	-888
Other financing items		-2	-33
Total net cash used in financing activities		-304	-47

Total net increase(+)/decrease(-) in cash and cash equivalents	322	207
Cash and cash equivalents at the beginning of the year	963	747
Foreign exchange differences in cash and cash equivalents	-16	9
Cash and cash equivalents at the end of the year ¹⁾	25	1,269

¹⁾ Including cash balances of EUR 15 million relating to assets held for sale as of 31 December 2013.

1 Non-cash flow items and divesting activities consist mainly of changes in provisions (including nuclear) EUR -178 million (2012: -40), adjustments for unrealised fair value changes of derivatives EUR -21 million (2012: 3) and capital gains EUR -61 million (2012: -155). The actual proceeds for divestments are shown under cash flow from investing activities.

2 Realised foreign exchange gains and losses and other financial items include realised foreign exchange gains and losses of EUR 52 million for 2013 (2012: -268) related mainly to financing of Fortum's Swedish and Russian subsidiaries 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 net debt

EUR million	2013	2012
Net debt 1 January	7,814	7,023
Foreign exchange rate differences	-110	89
EBITDA	2,452	2,538
Paid net financial costs, taxes and adjustments for non-cash and divestment items	-739	-983
Change in working capital	123	-173
Capital expenditures	-1,271	-1,422
Acquisitions	-15	-14
Divestments	188	252
Proceeds from interest-bearing receivables relating to divestments	22	181
Shareholder loans to associated companies	-136	-138
Change in other interest-bearing receivables	2	13
Dividends	-888	-888
Other financing activities	-2	-45
Net cash flow (- increase in net debt)	-264	-679
Fair value change of bonds and amortised cost valuation	-119	23
Net debt 31 December	7,849	7,814

Additional cash flow information
Change in working capital

EUR million	2013	2012
Change in interest-free receivables, decrease(+)/increase(-)	123	-226
Change in inventories, decrease(+)/increase(-)	39	109
Change in interest-free liabilities, decrease(-)/increase(+)	-39	-56
Total	123	-173

Positive effect from change in working capital during 2013, EUR 123 million (2012: -173) is mainly due to decrease in receivables.

Capital expenditure

EUR million	Note	2013	2012
Capital expenditure	5 , 18 , 19	1,284	1,558
Change in not yet paid investments, decrease(+)/increase(-)		56	-56
Capitalised borrowing costs		-69	-80
Capital expenditure in cash flow		1,271	1,422

Capital expenditure in intangible assets and property, plant and equipment in the balance sheet was EUR 1,284 million (2012: 1,558). Capital expenditure in cash flow EUR 1,271 million (2012: 1,422) is presented without not yet paid investments i.e. change in trade payables related to investments EUR -56 million (2012: 56) and capitalised borrowing costs EUR 69 million (2012: 80), 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 19.2 Capital expenditure.](#)

Acquisition of shares in cash flow

Acquisition of shares, net of cash acquired, amounted to EUR 15 million during 2013 (2012: 14).

Divestments of shares in cash flow

EUR million	Note	2013	2012
Proceeds from sales of subsidiaries, net of cash disposed	8	22	223
Proceeds from sales of associates	20	100	13
Proceeds from available for sale financial assets		0	3
Total		122	239

Gross divestment of shares totalled EUR 142 million in 2013 (2012: 410) including interest-bearing debt in sold subsidiaries of EUR 22 million (2012: 181). Proceeds from divestments of shares totalled EUR 122 million in 2013 (2012: 239).

Notes to the consolidated financial statements

1 Accounting policies

1.1 Basic information

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 3 February 2014.

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 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 IFRIC 5.

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

1.2.2 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.

1.3 Principles for consolidation

The consolidated financial statements have been prepared in accordance with the principles set forth in IAS 27, Consolidated and Separate Financial Statements. The consolidated financial statements comprise of the parent company, subsidiaries, joint ventures and associated companies.

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.

1.3.1 Subsidiaries

Subsidiaries are defined as 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 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.

The Fortum Group subsidiaries are disclosed in [Note 42 Subsidiaries by segment on 31 December 2013](#).

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.

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 Foreign currency transactions and translation

1.4.1 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.

1.4.2 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.

1.4.3 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.

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	
		2013	2012	31 Dec 2013	31 Dec 2012
Sweden	SEK	8.6624	8.7015	8.8591	8.5820
Russia	RUB	42.4441	40.2354	45.3246	40.3295
Poland	PLN	4.2027	4.1900	4.1543	4.0740
Norway	NOK	7.8266	7.4840	8.3630	7.3483

1.4.4 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 1.4.3 Group companies.

where they are presented as well as the relevant IFRS standard.

1.5 Accounting policies

Fortum describes the accounting principles in conjunction with the relevant note information. The table below lists the significant accounting policies and the note

Accounting principle	Note	IFRS-standard
Segment reporting	5. Segment reporting	IFRS 8
Revenue recognition	5. Segment reporting and 24. Trade and other receivables	IAS 18
Government grants	19. Property, plant and equipment	IAS 20
Share-based payments	12. Employee benefits	IFRS 2
Income taxes	29. Deferred income taxes	IAS 12
Non-current assets held for sale and discontinued operations	9. Assets held for sale	IFRS 5
Joint ventures	20. Participations in associated companies and joint ventures	IAS 31
Investments in associates	20. Participations in associated companies and joint ventures	IAS 28
Shares and participations	16. Financial assets and liabilities by categories	IAS 32, IAS 36, IAS 39
Intangible assets	18. Intangible assets	IAS 38
Tangible assets	19. Property, plant and equipment	IAS 16, IAS 36, IAS 40
Leasing	36. Leasing	IAS 17
Inventories	23. Inventories	IAS 2
Earnings per share	15. Earnings and dividend per share	IAS 33
Pensions and similar obligations	32. Pension obligations	IAS 19
Decommissioning obligation	30. Nuclear related assets and liabilities	IFRIC 5
Provisions	31. Other provisions	IAS 37
Contingent liabilities	38. Contingent liabilities	IAS 37
Financial instruments	16. Financial assets and liabilities by categories and 17. Financial assets and liabilities by fair value hierarchy	IAS 32, IAS 39, IFRS 7
Cash equivalents	25. Cash and cash equivalents	IAS 7
Borrowings	28. Interest-bearing liabilities	IAS 39

1.6 New accounting principles

1.6.1 New IFRS standards adopted from 1 Jan 2013

Fortum has adopted the following new or amended standards on 1 January 2013:

IAS 19 Employee benefits

The amendment to IAS 19 Employee benefits changed 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 did not have a material effect on Fortum's financial results or financial position, however it had an impact to equity through other comprehensive income.

Transition requirements in IAS19 require that the financial information for 2012 is restated. Restated quarterly information for 2012 (including effects for segments) is presented in the attachment to the Q1/2013 interim report. The following table summarises the adjustments made to the statement of financial position.

Impact on balance sheet as of 31 December 2012

EUR million	Balances at 1 Jan 2012, previously reported	Impact of change in accounting policy	Restated balances at 1 Jan 2012	Balances at 31 Dec 2012, previously reported	Impact of change in accounting policy	Restated balances at 31 Dec 2012
Participation in associates and joint ventures	2,019	-5	2,014	2,019	-40	1,979
Deferred tax assets	150	25	175	148	29	177
Pension assets	60	-60	0	54	-54	0
Other non-current assets	69	-4	65	71	-2	69
Impact to assets		-44			-67	
Equity	10,161	-124	10,037	10,821	-178	10,643
Deferred tax liability	2,013	-16	1,997	1,893	-14	1,879

Pension obligations	26	95	121	27	125	152
Other non-current liabilities	465	1	466	472	0	472
Impact to equity and liabilities		-44			-67	

The effect on the consolidated income statement and consolidated statement of

comprehensive income for 2012 is presented below. When starting to apply the amended

IAS19 standard, Fortum has decided to present the net interest in financial items.

Impact on income statement for 2012

EUR million	Previously reported 2012	Impact of change in accounting policy	Restated 2012
Effect to income statement			
Employee benefits	-556	13	-543
Comparable operating profit	1,739	13	1,752
Share of profit in associates and joint ventures	21	2	23
Other financial expenses - net	-38	-4	-42
Income tax expense	-72	-2	-74
Profit for the year	1,503	9	1,512
Effect to other comprehensive income			
Actuarial gains/losses on defined benefit plans	-	-24	-24
Actuarial gains/losses on defined benefit plans in associates	-	-36	-36

Other new or amended standards adopted from 1 January 2013

New IFRS 13 Fair value measurement – standard establishes guidance under IFRS for all fair value measurements. IFRS 13 does not change the requirement when to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by Fortum. IFRS 13 also requires specific disclosures on fair value hierarchy. These disclosures are given in [Note 17](#).

IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities – standard as amended requires disclosures about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. This information is disclosed in [Notes 16](#) and [17](#).

The amendment to IAS 1 Presentation of Financial statements: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012) relates to presentation of Comprehensive Income. The adoption of the

standard did not 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 did not have an impact on Fortum's financial statements.

1.6.2 Adoption of new IFRS standards from 1 Jan 2014 or later

Fortum will apply the following new IFRS standards starting from 1 January 2014:

IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosures of interests in other entities

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.

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.

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. These disclosures will be given in the consolidated financial statements for 2014.

When adopting the new standards Fortum has reassessed its control conclusions for its investees and re-evaluated its involvement in its partially owned investments. The reassessment has led reclassification of some entities from an associated company to

a joint venture. Notwithstanding the reclassification, the investments will continue to be recognised by applying the equity method and there will be no impact on the recognised assets, liabilities and comprehensive income of Fortum.

The accounting effects of applying the new standards to Fortum Group financial information relate to AB Fortum Värme samägt med Stockholms Stad (Fortum Värme), that will be treated as a joint venture and thus consolidated with equity method from 1 January 2014. Fortum Värme is a district heating company producing heat and power with CHP plants in Stockholm area. Currently the company is being consolidated as a subsidiary with 50% minority interest.

In the following tables Fortum's income statement, balances sheet and certain key figures are presented before and after restatement.

In the restated balance sheet shares of Fortum Värme are included in the Shares in associated companies and joint ventures. At the year end Fortum Oyj and its subsidiaries had given loans to Fortum Värme which are presented as shareholders loans in the restated balance sheet. There is a plan to refinance those shareholder loans with external financing e.g. bank financing by the end of 2015.

Restatement does not have any or only limited effect on Fortum's key ratios such as earnings per share, return on capital employed and return on shareholders' equity.

The current financing arrangement effects the restated comparable net debt to EBITDA ratio negatively, increase from 3.4 to 3.9 in 2013, due to Fortum's definition of net debt where interest-bearing receivables are not deducted from net debt. The effect will decrease as Fortum's shareholder loans are replaced with external financing. Comparable net debt to EBITDA ratio would be 3.4, if the interest-bearing receivables from Fortum Värme are deducted from net debt.

When applying IFRS 10 and 11 in 2014, the standards require the comparative information to be restated i.e. 2013 financial information will be restated. Full set of restated quarterly information for 2013 will be given in the Q1 /2014 interim report.

Impact on income statement for 2013

EUR million	Fortum Group with Värme as subsidiary	Fortum group restated Värme as joint venture	Change
Sales	6,056	5,309	-747
Other income	94	93	-1
Materials and services	-2,533	-2,270	263
Employee benefit costs	-529	-460	69
Other expenses	-740	-621	119
Depreciation, amortisation and impairment charges	-741	-648	93
Comparable operating profit	1,607	1,403	-204
Items affecting comparability	105	105	0
Operating profit	1,712	1,508	-204
Share of profits in associates and joint ventures	105	178	73
Finance costs - net	-318	-289	29
Profit before income taxes	1,499	1,397	-102
Income taxes	-220	-185	35
Profit for the period	1,279	1,212	-67
Non-controlling interests	-75	-8	67
Net profit for the period, owners of the parent	1,204	1,204	0
Earnings per share, EUR	1.36	1.36	0

Impact on balance sheet as of 31 December 2013

EUR million	Fortum Group with Värme as subsidiary	Fortum group restated Värme as joint venture	Change
ASSETS			
Intangible assets	392	384	-8
Property, plant and equipment	15,201	12,849	-2,352
Shares in associated companies and joint ventures	1,905	2,341	436
Long-term interest-bearing receivables	1,463	2,597	1,134
Other non-current assets	1,312	1,314	2
Total non-current assets	20,273	19,485	-788
Inventories, total	375	263	-112
Trade and other receivables ¹⁾	2,518	2,350	-168
Liquid funds	1,254	1,250	-4
Total current assets	4,147	3,863	-284
Total assets	24,420	23,348	-1,072
EQUITY AND LIABILITIES			
Share capital	3,046	3,046	0
Other equity	6,978	6,978	0
Total	10,024	10,024	0
Non-controlling interests	638	100	-538
Total equity	10,662	10,124	-538
Interest-bearing liabilities	9,098	9,039	-59
Deferred tax liabilities	1,648	1,338	-310
Other interest-free liabilities ²⁾	3,012	2,847	-165
Total liabilities	13,758	13,224	-534
Total liabilities and equity	24,420	23,348	-1,072

¹⁾ Include assets held for sale EUR 1,173 million.

²⁾ Include liabilities related to assets held for sale EUR 540 million.

Impact on key ratios for 2013

EUR million	Fortum Group with Värme as subsidiary	Fortum group restated Värme as joint venture	Change
Comparable EBITDA, EUR million	2,299	1,976	-323
Earnings per share (basic), EUR	1.36	1.36	0
Capital expenditure, EUR million	1,284	1,004	-280
Capital employed, EUR million	19,780	19,183	-597
Interest-bearing net debt, EUR million	7,849	7,794	-55
Interest-bearing net debt without Värme financing, EUR million	7,849	6,660	-1,189
Return on capital employed, %	9.2	9.0	-0.2
Return on shareholders' equity, %	12.0	12.0	0.0
Comparable net debt/EBITDA	3.4	3.9	0.5
Comparable net debt/EBITDA without Värme financing	3.4	3.4	0.0

Impact on Heat segment information for 2013

EUR million	Heat segment with Värme as subsidiary	Heat segment restated Värme as joint venture	Change
Comparable EBITDA	489	166	-323
Comparable operating profit	273	69	-204
Operating profit	288	84	-204
Share of profits in associates and joint ventures	19	92	73
Depreciation and amortisation	216	97	-119
Capital expenditure	397	117	-280
Assets (at period end)	4,709	2,478	-2,231
Liabilities (at period end)	426	239	-187
Net assets (at period end)	4,283	2,239	-2,044
Comparable RONA, %	6.8	7.1	0.3
RONA, %	7.2	7.8	0.6
Number of employees (at period end)	2,102	1,402	-700
Power generation, TWh	4.0	2.8	-1.2
Heat production, TWh	16.5	8.3	-8.2
Power generation capacity, MW	1,398	788	-610
Heat production capacity, MW	7,943	4,326	-3,617

Fortum will apply the following new or amended standards and interpretations starting from 1 January 2015 or later

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.

IFRIC 21 Levies (effective for annual periods beginning on or after 1 January 2014). The interpretation has guidance on when to recognise a liability to pay a levy. Fortum will apply the new standard in due course. The Standard is still subject to endorsement by EU.

Annual improvements to IFRSs issued in December 2013 (effective for annual periods beginning on or after 1 July 2014). 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 Standard is still subject to endorsement by EU.

2 Critical accounting estimates

The preparation of IFRS consolidated financial statements 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.

The table below is listing the areas where management's accounting estimates and

judgements are most critical to reported results and financial position. The table is also showing where to find more information about those estimates.

Critical accounting estimates	Note
Assigned values and useful lives determined for intangible assets and property, plant and equipment acquired in a business combination	18. Intangible assets 19. Property, plant and equipment
Assumptions related to impairment testing of property, plant and equipment and intangible assets	18. Intangible assets 19. Property, plant and equipment
Assumptions and estimates regarding future tax consequences	29. Deferred income taxes
Assumptions made to determine long-term cash flow forecasts of estimated costs for provision related to nuclear production	30. Nuclear related assets and liabilities
Assumptions used to determine future pension obligations	32. Pension obligations

3 Financial risk management

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 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 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, Profit-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 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 such as forward or futures, mainly on Nasdaq OMX Commodities Europe. 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. As per 31 December 2013, approximately 60% of the Power Division's estimated Nordic power sales volume was hedged for the calendar year 2014 and approximately 20% for the calendar year 2015. 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 2014 comparable operating profit by approximately EUR 18 million and for 2015 by approximately EUR 36 million. The volume used in this sensitivity analysis is 45 TWh which includes the electricity generation sold to the spot market in Sweden and Finland in the Power Division without minority owner's shares of electricity or other pass-through sales, and excluding the volume of Fortum's coal-condensing generation. 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 for hedging purposes within Fortum. Sensitivities are calculated based on 31 December 2013 (31 December 2012) 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	2013	2012
Effect on Profit before income tax	-/+	7	26
Effect on Equity	-/+	22	20

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 16 Financial assets and liabilities by categories for accounting principles and basis 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 2013

	Volume, TWh				Fair value, EUR million		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Sales swaps	50	22	0	72	484	33	451
Purchase swaps	29	13	0	42	11	253	-242
Purchased options	0	0	0	0	0	0	0
Written options	0	1	0	1	0	0	0
Total	79	36	0	115	495	286	209
Netting against electricity exchanges ¹⁾					-227	-227	0
Total					268	59	209

Electricity derivatives by accounting status 2013

	Volume, TWh				Fair value, EUR million		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Derivatives with hedge accounting status	19	12	0	31	181	42	139
Derivatives with non-hedge accounting status ²⁾	60	24	0	84	314	244	70
Total	79	36	0	115	495	286	209
Netting against electricity exchanges ¹⁾							
Derivatives with hedge accounting status					-35	-35	0
Derivatives with non-hedge accounting status ²⁾					-192	-192	0
Total					-227	-227	0
Total					268	59	209
Of which long-term					82	35	47
Short-term					186	24	162

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

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 commodity derivatives

EUR million	2013				2012			
	Under 1 year	1-5 years	Over 5 years	Total	Under 1 year	1-5 years	Over 5 years	Total
Electricity derivatives assets	186	80	2	268	288	21	80	389
Electricity derivatives liabilities	25	33	2	60	174	51	1	226
Other commodity derivatives, assets	28	3	0	31	50	17	0	67
Other commodity derivatives, liabilities	10	2	0	12	44	3	0	47

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.

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 these prices and volumes 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.

3.5 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 2013, 95% (2012: 93%) of the Group's total external financing was raised by the parent company Fortum Oyj.

On 31 December 2013, the total interest-bearing debt was EUR 9,118 million (2012: 8,777) and the interest-bearing net debt was EUR 7,849 million (2012: 7,814).

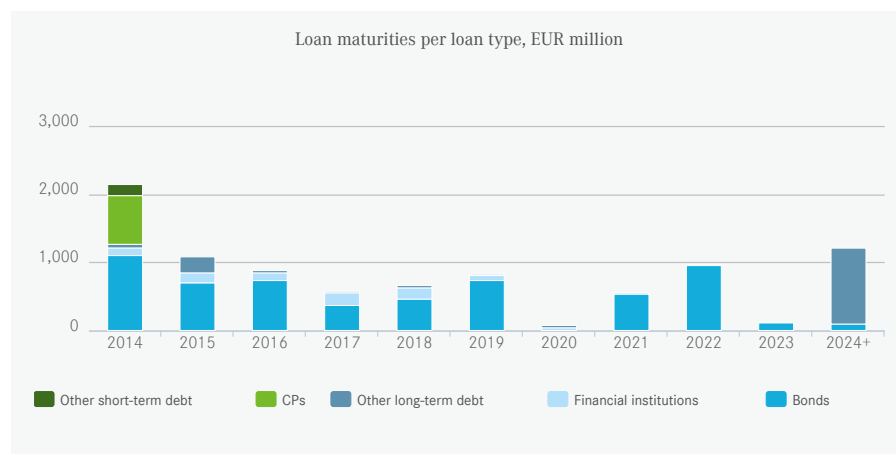
Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. The Group shall at all times have access to cash, marketable securities and unused committed credit facilities including overdrafts, to cover all loans 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 2013, loan maturities for the coming twelve-month period amounted to EUR 2,142 million (2012: 1,078). Cash and cash equivalents amounted to EUR 1,269 million (2012: 963) and the total amount of committed credit facilities amounted to EUR 2,218 million (2012: 2,722) of which EUR 2,218 million (2012: 2,722) was undrawn.

Maturity of interest-bearing liabilities

EUR million	2013
2014	2,142
2015	1,088
2016	884
2017	580
2018	668
2019 and later	3,756
Total ¹⁾	9,118

¹⁾ Including interest-bearing debt of EUR 20 million (2012: 0) classified as assets held for sale in the balance sheet.



Cash and cash equivalents, major credit lines and debt programmes 2013

EUR million	Total facility	Drawn amount	Available amount
Cash and cash equivalents ¹⁾			1,269
of which in Russia (OAO Fortum)			113
Committed credit lines			
EUR 2,000 million syndicated credit facility	2,000	-	2,000
Bilateral overdraft facilities	218	-	218
Total	2,218	-	2,218
Debt programmes (uncommitted)			
Fortum Corporation, CP programme EUR 500 million	500	381	119
Fortum Corporation, CP programme SEK 5,000 million	564	337	227
Fortum Corporation, EMTN programme EUR 8,000 million	8,000	5,839	2,161
Total	9,064	6,557	2,507

¹⁾ Including cash balances of EUR 15 million (2012: 0) classified as assets held for sale in the balance sheet.

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 programme EUR 500 million	500	100	400
Fortum Corporation, CP programme SEK 5,000 million	583	128	455
Fortum Corporation, EMTN programme EUR 6,000 million	6,000	5,841	159
Total	7,083	6,069	1,014

Cash and cash equivalents amounted to EUR 1,269 million (2012: 963), including OAO Fortum's bank deposits amounting to EUR 101 million (2012: 105) earmarked for capacity increase investments in Russia. Of these deposits at year-end 2013 EUR 58 million (2012: 100) were in euros and EUR 43 million (2012: 5) in Russian roubles.

[See also Note 25 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	2013				2012			
	Under 1 year	1-5 years	Over 5 years	Total	Under 1 year	1-5 years	Over 5 years	Total
Interest-bearing liabilities	2,411	3,920	4,250	10,581	1,377	4,626	4,274	10,277
Interest rate and currency derivatives liabilities	7,116	1,942	294	9,352	8,695	1,365	304	10,364
Interest rate and currency derivatives receivables	-7,142	-2,023	-271	-9,436	-8,560	-1,473	-330	-10,363
Total	2,385	3,839	4,273	10,497	1,512	4,518	4,248	10,278

Interest-bearing liabilities include loans from the State Nuclear Waste Management Fund and Teollisuuden Voima Oyj of EUR 995 million (2012: 940). 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 30 Nuclear related assets and liabilities.](#)

3.6 Interest rate risk and currency risk

3.6.1 Interest rate risk

The Treasury risk policy stipulates that the average duration of the debt portfolio shall always be kept within a range of 24 and 48 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 50 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 2013, the average duration of the debt portfolio (including derivatives) was 2.4 years (2012: 2.1). Approximately 51% (2012: 45%) 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 179 million on 31 December 2013 (2012: 175). 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 14 million (2012: 24).

The average interest rate on loans and derivatives on 31 December 2013 was 3.6% (2012: 4.5%). Average cumulative interest rate on loans and derivatives for 2013 was 4.1% (2012: 4.7%).

3.6.2 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 2013 the open transaction and translation exposures were EUR 1 million (2012: 1) and EUR 4,837 million (2012: 4,993) respectively. The VaR for the transaction exposure was EUR 0 million (2012: 0) and VaR for the translation exposure was EUR 55 million (2012: 45).

Group Treasury's transaction exposure

EUR million	2013			2012		
	Net position	Hedge	Open	Net position	Hedge	Open
SEK	5,769	-5,769	0	6,789	-6,789	0
USD	-33	33	0	-61	61	0
NOK	39	-39	0	94	-94	0
RUB	523	-523	0	571	-571	0
PLN	110	-110	0	114	-114	0
Other	59	-58	1	96	-95	1
Total	6,467	-6,466	1	7,603	-7,602	1

In addition OAO Fortum is hedging its euro investments with euro deposits EUR 58 million (2012: 100), 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	2013			2012		
	Investment	Hedge	Open	Investment	Hedge	Open
RUB	3,187	-317	2,870	3,086	-26	3,060
SEK	1,303	-	1,303	1,217	-	1,217
NOK	440	-	440	451	-	451
PLN	138	-	138	135	-	135
Other	86	-	86	130	-	130
Total	5,154	-317	4,837	5,019	-26	4,993

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 RUB, NOK and SEK was EUR -465 million in 2013 (2012: 173).

Interest rate and currency derivatives by instrument 2013

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	6,796	396	-	7,192	73	44	29
Interest rate swaps	944	2,215	3,499	6,658	252	147	105
Interest rate and currency swaps	-	928	-	928	36	0	36
Forward rate agreements	56	-	-	56	0	0	0
Total	7,796	3,539	3,499	14,834	361	191	170
Of which long-term					278	140	138
Short-term					83	51	32

Interest rate and currency derivatives by use 2013

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 ¹⁾	55	-	-	55	-	0	0
Cash flow hedging foreign exchange derivatives	258	203	-	461	7	7	0
Non-hedging foreign exchange derivatives ²⁾	6,483	193	-	6,676	66	37	29
Total forward foreign exchange contracts	6,796	396	-	7,192	73	44	29
Fair value hedging interest rate derivatives	-	-	1,700	1,700	70	22	48
Cash flow hedging interest rate derivatives	44	1,086	299	1,429	0	43	-43
Non-hedging interest rate derivatives ²⁾	956	1,129	1,500	3,585	182	82	100
Total interest rate derivatives	1,000	2,215	3,499	6,714	252	147	105
Net investment hedging, interest rate and currency swaps	-	344	-	344	19	0	19
Non-hedging interest rate and currency swaps ²⁾	-	584	-	584	17	-	17
Total interest rate and currency swaps	-	928	-	928	36	0	36
Total	7,796	3,539	3,499	14,834	361	191	170

¹⁾ Contracts hedging dividends.

²⁾ Consists of deals without hedge accounting status.

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 ¹⁾	61	-	-	61	-	0	0
Cash flow hedging foreign exchange derivatives	262	177	-	439	5	5	0
Non-hedging foreign exchange derivatives ²⁾	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 ²⁾	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 ²⁾	-	26	-	26	-	0	0
Non-hedging interest rate and currency swaps ²⁾	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⁾ Contracts hedging dividends.

²⁾ Consists of deals without hedge accounting status.

3.7 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. In December 2013 there were no outstanding share derivatives.

[See Note 12 Employee benefits for more information about the Group's long-term incentive schemes.](#)

EUR million	2013		2012	
	Notional value	Net fair value	Notional value	Net fair value
Share forwards	-	-	8	7

3.8 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 Group Credit Instructions. Counterparty creditworthiness is continuously monitored and reported. 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.

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. 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.

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 fulfil 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.

3.8.1 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	2013		2012	
	Carrying amount	of which past due	Carrying amount	of which past due
Investment grade receivables	1,553	-	1,284	-
Electricity exchanges	185	-	160	-
Associated companies	1,416	-	1,332	-
Other	135	-	109	-
Total	3,289	-	2,885	-

Investment grade receivables consist of deposits and Treasury bank accounts EUR 1,163 million (2012: 818), fair values of interest rate and currency derivatives EUR 361 million (2012: 400) and fair values of electricity, coal, oil and CO₂ emission allowance derivatives EUR 29 million (2012: 66). Electricity exchange receivable is the fair value of derivatives on NASDAQ OMX Commodities Europe. Associated companies receivables consist of loan receivables EUR 1,415 million (2012: 1,332) and fair values of electricity derivatives EUR 1 million (2012: 0). Other receivables consist of loan and other interest bearing receivables EUR 52 million (2012: 58), finance lease receivables EUR 2 million (2012: 3) and fair values of electricity, coal, oil, and CO₂ emission allowance derivatives EUR 81 million (2012: 48).

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

Deposits and Treasury Bank Accounts

EUR million	2013	2012
Counterparties with external credit rating from Standard & Poor's and/or Moody's Investment grade ratings		
AAA	-	-
AA+/AA/AA-	410	144
A+/A/A-	658	586
BBB+/BBB/BBB-	95	88
Total investment grade ratings	1,163	818
Non-investment grade ratings	-	-
Counterparties without external credit rating from Standard & Poor's and/or Moody's	-	-
Total	1,163	818

In addition, cash in other bank accounts totalled EUR 106 million on 31 December 2013 (2012: 145).

Interest rate and currency derivatives

EUR million	2013		2012	
	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-	36	0	12	0
A+/A/A-	308	220	374	272
BBB+/BBB/BBB-	17	0	14	8
Total investment grade ratings	361	220	400	280
Counterparties without external credit rating from Standard & Poor's and/or Moody's	-	-	-	-
Total	361	220	400	280

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

EUR million	2013		2012	
	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	0	0
A+/A/A-	30	21	66	32
BBB+/BBB/BBB-	-	-	-	-
Total investment grade ratings	30	21	66	32
Non-investment grade ratings				
BB+/BB/BB-	8	7	1	1
B+/B/B-	-	-	-	-
Below B-	-	-	-	-
Total non-investment grade ratings	8	7	1	1

Total associated companies	1	1	0	0
Counterparties without external credit rating from Standard & Poor's or Moody's				
Government or municipality	1	1	2	2
Fortum Rating 5 - Lowest risk	1	1	10	9
Fortum Rating 4 - Low risk	23	23	10	9
Fortum Rating 3 - Normal risk	47	46	16	15
Fortum Rating 2 - High risk	-	-	9	9
Fortum Rating 1 - Highest risk	2	1	0	0
No rating	1	1	0	0
Total non-rated counterparties	75	73	47	44
Total	114	102	114	77

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 counterparty. 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. For counterparties rated by both Standard & Poor's and Moody's, a conservative approach is taken by choosing the lower of the two ratings.

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. 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

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. Fortum's net debt to EBITDA target is around 3.

In April 2013, Fortum's Board of Directors updated the company's dividend policy. The new dividend policy ensures that shareholders receive a fair remuneration for their entrusted capital, supported by the company's long-term strategy that aims at increasing earnings per share and thereby the dividend. When proposing the dividend, the Board of Directors looks at a range of factors, including the macro environment, balance sheet strength as well as future investment plans. Fortum Corporation's target is to pay a stable, sustainable and over time increasing dividend, in the range of 50-80% of earnings per share, excluding one-off items.

Fortum Corporation's long-term credit rating with S&P was reaffirmed at A- (negative outlook) in December. As of April 2013, Fitch Ratings provides a rating of Fortum Corporation and any subsequently issued securities under Fortum's EMTN programme. Fitch's current long-term issuer default rating of Fortum Corporation is A- (negative outlook) was also reaffirmed in December. Fortum decided to terminate the rating relationship with Moody's Investors Service in February. Moody's had at the time being an A2 rating with a negative outlook.

Net debt/EBITDA ratios

EUR million	Note	2013	2012
Interest-bearing liabilities ¹⁾	28	9,118	8,777
Less: Cash and cash equivalents ¹⁾	25	1,269	963
Net debt		7,849	7,814
Operating profit		1,712	1,874
Add: Depreciation, amortisation and impairment charges		740	664
EBITDA		2,452	2,538
Less: Items affecting comparability		105	122
Less: Net release of CSA provision		48	-
Comparable EBITDA		2,299	2,416
Net debt/EBITDA		3.2	3.1
Comparable net debt/EBITDA		3.4	3.2

¹⁾ Including interest-bearing debt of EUR 20 million and cash balances of EUR 15 million (2012: 0) classified as assets held for sale in balance sheet.

5 Segment reporting

Accounting policies

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.

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:

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.

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.

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).

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 Sales. 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 as well as smart electricity solutions and services to a total of 1.2 million private customers. In addition, standardised products are offered for large corporate customers (Sales Trading). Electricity Sales buys its electricity from Nord Pool Spot.

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 30 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 2013 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 2013

Income statement

EUR million	Note	Power	Heat	Russia	Distribution	Electricity Sales	Other	Netting and eliminations ¹⁾	Total
Sales		2,248	1,565	1,119	1,075	744	69	-764	6,056
of which internal		70	8	-	36	73	67	-254	0
External sales		2,178	1,557	1,119	1,039	671	2	-510	6,056
Depreciation, amortisation and impairment		-145	-216	-150	-219	-2	-8	-	-740
Comparable EBITDA		1,003	489	258	550	50	-51	-	2,299
Comparable operating profit		858	273	156	331	48	-59	-	1,607
Non-recurring items	6	25	18	0	17	0	1	-	61
Changes in fair values of derivatives hedging future cash-flow	6, 7	15	-3	0	0	8	1	-	21
Nuclear fund adjustment	6, 30	23	-	-	-	-	-	-	23
Operating profit		921	288	156	348	56	-57	-	1,712
Share of profit of associated companies and joint ventures	20, 30	4	19	46	5	0	31	-	105
Finance costs - net									-318
Income taxes									-220
Profit for the period									1,279

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 510 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	Distribution	Electricity Sales	Other	Total
Recognised impairment losses for trade receivables	0	-3	-18	-2	-1	0	-24
Recognised impairment losses for intangible assets and property, plant and equipment	-24	0	-	-	-	-	-24
Restructuring costs	0	-2	0	0	0	-2	-4

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

Recognised impairment losses for property, plant and equipment in Power segment includes EUR 20 million impairment loss relating to the decision to discontinue electricity production at Inkoo power plant.

Assets and liabilities

EUR million	Power	Heat	Russia	Distribution	Electricity Sales	Other	Eliminations	Total
Non-interest-bearing assets	6,441	4,553	3,687	4,233	310	138	-268	19,094
Participations in associated companies and joint ventures	896	156	463	68	0	322	-	1,905
Assets included in Net assets	7,337	4,709	4,150	4,301	310	460	-268	20,999
Interest-bearing receivables								1,467
Deferred taxes								130
Other assets ¹⁾								570
Cash and cash equivalents								1,254
Total assets								24,420
Liabilities included in Net assets	1,008	426	304	531	271	145	-268	2,417
Deferred tax liabilities								1,648
Other liabilities								575
Total liabilities included in Capital employed								4,640
Interest-bearing liabilities ²⁾								9,118
Total equity								10,662
Total equity and liabilities								24,420

¹⁾ Other assets at 31 December 2013 includes cash, EUR 15 million, included in Assets related to Assets held for sale.

²⁾ Interest-bearing liabilities at 31 December 2013 includes interest-bearing liabilities, EUR 20 million, included in Liabilities related to Assets held for sale.

Investments/Divestments

EUR million	Note	Power	Heat	Russia	Distribution	Electricity Sales	Other	Total
Gross investments in shares	<u>8,</u> <u>20</u>	2	0	0	0	-	13	15
Capital expenditure	<u>18,</u> <u>19</u>	178	397	435	260	1	13	1,284
of which capitalised borrowing costs		2	11	56	-	-	-	69
Gross divestments of shares		79	11	-	52	-	-	142

Comparable return on net assets ³⁾

	Net assets by segments EUR million	Return on net assets, %	Comparable return on net assets, %
Power	6,329	14.6	13.8
Heat	4,283	7.2	6.8
Russia	3,846	5.2	5.2
Distribution	3,770	9.2	8.8
Electricity Sales	39	148.9	137.9
Other	315	-9.6	-8.3

³⁾ Including assets and liabilities relating to Assets held for sale.

Employees

	Power	Heat	Russia	Distribution	Electricity Sales	Other	Total
Number of employees 31 Dec	1,709	2,102	4,162	852	496	565	9,886
Average number of employees	1,887	2,164	4,245	866	506	578	10,246

5.6 Segment information 2012
Income statement

EUR million	Note	Power	Heat	Russia	Distribution	Electricity Sales	Other	Netting and eliminations 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		1,260	481	189	529	40	-83	-	2,416
Comparable operating profit		1,146	271	68	320	39	-92	-	1,752
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, 30	-31	-	-	-	-	-	-	-31
Operating profit		1,175	344	79	331	39	-94	-	1,874
Share of profit of associated companies and joint ventures	20, 30	-12	20	27	8	0	-20	-	23
Finance costs - net									-311
Income taxes									-74
Profit for the period									1,512

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	Distribution	Electricity 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	-	-	-	-	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	6,477	4,628	3,833	4,319	292	326	-403	19,472
Participations in associated companies and joint ventures	903	157	476	109	0	334		1,979
Assets included in Net assets	7,380	4,785	4,309	4,428	292	660	-403	21,451
Interest-bearing receivables								1,393
Deferred taxes								177
Other assets								577
Cash and cash equivalents								963
Total assets								24,561
Liabilities included in Net assets	991	499	461	539	241	502	-403	2,830
Deferred tax liabilities								1,879
Other liabilities								432
Total liabilities included in Capital employed								5,141
Interest-bearing liabilities								8,777
Total equity								10,643
Total equity and liabilities								24,561

Investments/Divestments

EUR million	Note	Power	Heat	Russia	Distribution	Electricity Sales	Other	Total
Gross investments in shares	<u>8</u> <u>20</u>	-	10	-	-	-	6	16
Capital expenditure	<u>18</u> <u>19</u>	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	6,389	18.7	18.5
Heat	4,286	8.8	7.0
Russia	3,848	3.0	2.7
Distribution	3,889	9.1	8.8
Electricity Sales	51	152.3	203.1
Other	158	-68.8	-34.1

Employees

	Power	Heat	Russia	Distribution	Electricity 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

5.7 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	2013	2012
Power sales excluding indirect taxes	3,341	3,413
Heat sales	1,500	1,501
Network transmissions	1,024	1,002
Other sales	191	243
Total	6,056	6,159

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	2013	2012
Nordic	4,464	4,641
Russia	1,121	1,029
Poland	205	220
Estonia	69	69
Other countries	197	200
Total	6,056	6,159

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	2013	2012
Finland	266	338
Sweden	497	492
Russia	435	568
Poland	10	19
Estonia	16	10
Norway	13	35
Other countries	47	96
Total	1,284	1,558

Segment assets by location ¹⁾

EUR million	2013	2012
Finland	4,371	4,401
Sweden	10,046	10,396
Russia	3,687	3,833
Poland	352	386
Estonia	200	203
Norway	245	285
Other countries	461	263
Eliminations	-268	-295
Non-interest bearing assets	19,094	19,472
Participations in associates and joint ventures	1,905	1,979
Total	20,999	21,451

¹⁾ Including assets relating to Assets held for sale.

[See also Note 9 Assets held for sale.](#)

Number of employees on 31 December by location

	2013	2012
Finland	2,477	2,647
Sweden	1,939	2,050
Russia	4,162	4,252
Poland	636	687
Estonia	210	204
Norway	141	145
Other countries	321	386
Total	9,886	10,371

6 Items affecting comparability

EUR million	2013	2012
Capital gains on disposals	61	155
Fair value changes on derivatives that do not qualify for hedge accounting	21	-2
Nuclear fund adjustments	23	-31
Total	105	122

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 2013 mainly include sales gains from finalising the sale of small hydropower plants in Sweden and sale of Fortum's 33% shareholding in Infratek ASA in Norway, both in Power segment. Sale of Fortum's 47.9% shareholding in Härjeåns Kraft AB in Sweden, in Distribution segment. Capital gains includes also gains related to divestment of the combined heat and power plants in Kuusamo and Kauttua, in Finland, and divestments of Fortum's 50% shares in Riihimäen Kaukolämpö Oy, in Finland, which are included in Heat segment.

Capital gains in 2012 mainly include sales gains from sales of Fortum Energiaratkaisut Oy, Fortum Termest 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.

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 20 Participations in associated companies and joint ventures.](#)

[For more information regarding nuclear waste management, see Note 30 Nuclear related assets and liabilities.](#)

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

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 -16 million (2012: -12). The net effect of fair value changes of hedging derivative and hedged bonds are EUR 1 million (2012: 0).

EUR million	2013	2012
In operating profit		
Fair value changes from derivatives not getting hedge accounting status		
Electricity derivatives	-2	46
Currency derivatives	15	1
Oil derivatives	0	0
Coal and CO ₂ derivatives	-8	-22
Ineffectiveness from cash flow hedges	16	-27
Total effect in operating profit	21	-2
Fair value changes of derivatives not getting hedge accounting included in share of profit of associated companies	3	1
In finance costs		
Exchange gains and losses on loans and receivables	-214	246
Fair value changes of derivatives not getting hedge accounting status		
Cross currency interest rate derivatives	19	-12
Foreign currency derivatives	195	-231
Rate difference on forward contracts	-1	-11
Currency derivatives	213	-254
Interest rate derivatives	-16	-12
Fair value change of hedging derivatives in fair value hedge relationship	25	39
Fair value change of hedged items in fair value hedge relationship	-24	-39
Total ¹⁾	198	-266
Total effect in finance costs	-16	-20
Total effect on profit before income tax	8	-21

¹⁾ Including fair value gains and losses on financial instruments and exchange gains and losses on derivatives.

8 Acquisitions and disposals

Gross investments in subsidiary shares by segment

EUR million	2013	2012
Power	-	1
Heat	-	-
Russia	-	-
Distribution	-	-
Electricity Sales	-	-
Other	11	4
Total	11	5

Gross investments in subsidiary shares by country

EUR million	2013	2012
Finland	-	5
Sweden	-	-
Russia	-	-
Other countries	11	-
Total	11	5

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 2013 and 2012

Total investment in subsidiary shares in 2013 amounted to EUR 11 million (2012: 5).

8.2 Disposals in 2013 and 2012

During 2013 Fortum divested small hydropower plants in Sweden and a minor gain was recognised in the Power segment.

In June 2013, Fortum agreed to sell its 47.9% ownership in the Swedish energy company Härjeåns Kraft AB to the Finnish energy company Oy Herrfors Ab, a subsidiary of Katternö Group. The sales price was SEK 445 million (approximately EUR 51 million). The transaction was completed in July and a capital gain of EUR 17 million was booked to Distribution segment's third quarter results.

In July 2013 Fortum completed the divestment of its 33% holding in Infratek ASA to a fund managed by Triton. The sales price was NOK 295 million (approximately EUR 38 million). A capital gain of EUR 11 million was booked in the Power segment's third quarter results.

During fourth quarter there were several divestments that had a minor effect to Fortum's Heat segment's results. In November 2013 Fortum sold its 50% ownership in the Finnish district heating company Riihimäen Kaukolämpö Oy to the City of Riihimäki (40%) and to Riihimäen Kaukolämpö Oy (10%).

In December 2013 Fortum sold its Kauttua combined heat and power (CHP) plant in Eura, Finland to the Finnish energy company Adven Oy. Also in December 2013 Fortum sold its CHP plant as well as its natural gas and district heating network in the town of Nokia to Leppäkosken Sähkö Oy. Furthermore Fortum's Uimaharju CHP plant ownership was transferred to Stora Enso on 31 December 2013 according to an earlier agreement signed in 1990.

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 Energiantuotanto Oy (TSE) 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 was 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 TSE with EUR 10 million and gave a shareholder loan to the company amounting to EUR 13 million.

Fortum closed its divestment of Fortum Energiaratkaisut 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.

Divestments

EUR million	2013	2012
Divestment of subsidiaries		
Intangible assets and Property, plant and equipment	30	247
Other non-current and current assets	3	73
Liquid funds	1	14
Interest-bearing loans	-22	-181
Other liabilities and provisions	-3	-53
Non-controlling interests	-	0
Gain on sale	12	139
Sales price received	21	239
Less proceeds not yet settled in cash	-2	2
Less liquid funds	1	14
Sales price for the shares (net of cash)	22	223
Proceeds from interest-bearing receivables	22	181
Proceeds not yet settled in cash	-2	2
Total	42	406
Other divestments	100	4
Gross divestment of shares	142	410

[For more information see Note 20 Participations in associated companies and joint ventures.](#)

9 Assets held for sale

Accounting policies

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.

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.

The assets and liabilities relating to Finnish distribution business have been classified as assets held for sale in the balance sheet as of 31 December 2013. Fortum signed in December 2013 an agreement to sell its electricity distribution business in Finland to Suomi Power Networks Oy, which is owned by a consortium of Finnish pension funds Keva (12.5%) and Local Tapiola Pension (7.5%) together with international infrastructure investors First State Investments (40%) and Borealis Infrastructure (40%).

The total consideration is EUR 2.55 billion on a debt- and cash-free basis. Fortum expects to complete the divestment process during the first quarter of 2014 subject to the necessary regulatory approvals as well as customary closing conditions. Fortum expects to book a one-time sales gain of EUR 1.8-1.9 billion (depending on the timing of the closing) corresponding to approximately EUR 2.0 per share in its Distribution segment's first quarter 2014 results.

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

Assets held for sale ¹⁾

EUR million	2013	2012
Intangible assets and property, plant and equipment	1,116	-
Other assets	42	-
Cash and cash equivalents	15	-
Total	1,173	-

Liabilities related to assets held for sale ¹⁾

EUR million	2013	2012
Interest-bearing liabilities	20	-
Deferred tax liabilities	141	-
Connection fees	306	-
Other liabilities	73	-
Total	540	-

¹⁾ Amounts are presented net of internal balances with other Fortum subsidiaries, such as internal financing amounting to EUR 61 million (2012: 0).

Impact on Distribution segment information

The Finnish distribution operations are included in the segment information presented in Note 5. The impact of Finnish distribution business to Distribution segment's comparable operating profit for 2013 was EUR 73 million. Additional information of the impact to segment information is presented in the table below:

EUR million	Distribution segment 2013	Distribution segment 2013 without Finnish operations	Impact ¹⁾
Comparable EBITDA	550	410	-140
Comparable operating profit	331	258	-73
Operating profit	348	271	-77
Share of profits in associates and joint ventures	5	7	2
Depreciation and amortisation	219	152	-67
Capital expenditure	260	134	-126
Assets (at period end)	4,301	3,145	-1,156
Liabilities (at period end)	531	195	-336
Net assets (at period end)	3,770	2,950	-820
Comparable return on net assets, %	8.8	8.7	-0.1
Return on net assets, %	9.2	9.1	-0.1
Number of employees (at period end)	852	515	-337
Volume of distributed electricity, TWh	26.1	16.6	-9.5
Number of electricity distribution customers, thousands	1,648	1,006	-642

¹⁾ Impact as consolidated to Fortum Group figures for 2013.

10 Other income and other expenses

Accounting policies

Other income

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

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/losses from sales of emission rights are reported in other income.

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.

10.1 Other income

EUR million	2013	2012
Gain on sale of emission rights	-	43
Rental income	14	16
Insurance compensation	3	6
Other items	77	44
Total	94	109

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.

In 2013 Fortum received EUR 40 million in compensation for CSA penalties from E4, the general contractor of the Nyagan power plant, which is included in other items in the table above.

No gain booked for sale of emission rights in 2013 (2012: 43). Costs for made emissions which are not covered by emission rights received for free were EUR 9 million (2012: 17). The costs are included in Materials and services.

10.2 Other expenses

EUR million	2013	2012
Operation and maintenance costs	219	280
Property taxes	171	125
IT and telecommunication costs	69	72
Other items	282	284
Total	741	761

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 138 million (2012: 72).

Principal auditors fees

EUR million	2013	2012
Audit fees	1.4	1.6
Audit related assignments	0.2	0.1
Tax assignments	0.0	0.1
Other assignments	0.0	0.0
Total	1.6	1.8

Deloitte is the appointed auditor until the next Annual General Meeting, to be held in 2014. 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.

11 Materials and services

EUR million	2013	2012
Materials	1,667	1,651
Materials purchased from associated companies and joint ventures	654	679
Transmission costs	194	192
External services	18	26
Total	2,533	2,548

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), purchased fuels used in CHP production and purchased steam.

Total materials and services include production taxes and duties EUR 188 million (2012: 193), of which nuclear related capacity and property taxes EUR 92 million (2012: 88) and hydro power related property taxes EUR 14 million (2012: 13). Taxes related to nuclear and hydro production include taxes paid through purchases from associated companies as mentioned above.

[See Note 20 Participations in associated companies and joint ventures.](#)

12 Employee benefits

EUR million	2013	2012
Wages and salaries	380	377
Pensions		
Defined contribution plans	36	33
Defined benefit plans	15	15
Reduction due to insured defined benefit obligation	-5	-
Social security costs	75	73
Share-based remunerations	7	8
Other employee costs	21	37
Total	529	543

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 included in a performance bonus system. The long-term incentive schemes are intended for senior executives and other management of the Fortum Group.

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

[For further information on pensions see Note 32 Pension obligations.](#)

12.1 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.

12.2 Long-term incentives

Accounting policies

Fortum's share bonus system is a performance-based, long-term incentive (LTI) arrangement. The share bonus system is divided into 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. The potential reward is based on the performance of the Group and its divisions.

In the LTI arrangement each share 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. 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. 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 maximum value of shares, before taxation, to be delivered to a participant after the earning period cannot exceed the participant's annual salary.

The earning period is followed by a 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 sixth calendar year of an individual plan, provided that the participant remains employed by the Group.

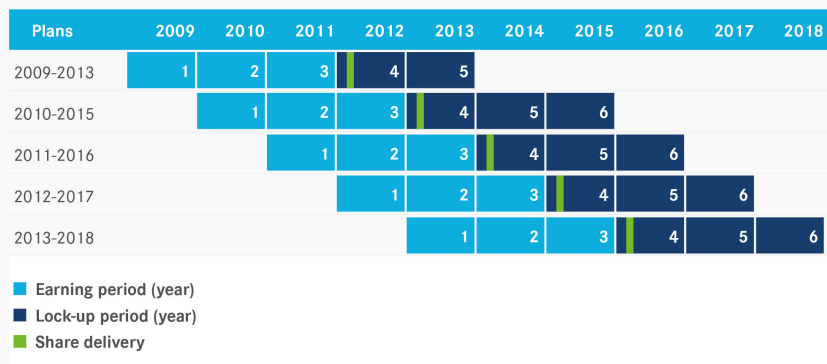
The share plans under the new LTI arrangement are accounted for as partly cash- and partly equity-settled arrangements. The portion of the earned reward that the participants receive in shares is accounted for as an equity settled transaction, and the portion of the earned reward settled in cash covering the tax and other charges, is accounted for as cash settled transaction. For participants receiving cash only, the total arrangement is accounted for as cash-settled transaction. 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. The social charges related to the arrangement payable by the employer are accrued as a liability.

Under the previous LTI arrangement (before 2008) the reward as share rights was determined after the three year earning period, however the settlement of the plan occurred only after the lock-up period. The fair value changes arising from the changes in Fortum share price were accrued over the remaining vesting period. The Group had entered into share forward transactions to hedge this exposure. The forward transactions did not qualify for hedge accounting and therefore the periodic changes in their fair values were recorded in the income statement. Last plan under the previous LTI arrangement was settled in spring 2013.

At present, approximately 140 managers, all of whom have been elected by the Board of Directors, are participants in at least one of the five on-going annual LTI plans (plans 2009-2013, 2010-2015, 2011-2016, 2012-2017 and 2013-2018).

The expense recorded as employee costs for the period was EUR 7 million (2012: 8). Estimated departures 5% have been taken into account when determining the expense. The LTI liability including social charges at the end of the year 2013 was EUR 8 million (2012: 15), including EUR 1 million (2012: 2) recorded in equity.

Share bonus system



Shares granted

	Plan 2010-2015	Plan 2009-2013	Plan 2008-2012
Grant date	13.2.2013	8.2.2012	9.2.2011
Grant price, EUR	13.90	18.16	21.85
Number of shares granted	187,493	165,132	150,436
Number of shares subsequently forfeited	-3,671	-18,988	-22,735
Number of shares released from lock-up			-127,701
Number of shares under lock-up at the end of the year 2013	183,822	146,144	0
Fortum share price at the end of the grant year, EUR	16.63	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 2013 for plan 2010-2015 was 97,842 share rights and for plan 2009-2013 49,289 share rights.

In spring 2013 the plan 2007-2012 was settled and 299,766 share rights were paid to the participants.

12.3 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 five months. The membership in the fund terminates when the member has received his/her share of the fund in full.

New rules for the Fund were registered by the Ministry of Employment and the Economy, and approved by the Annual General Meeting of the Fortum Personnel Fund in 2013. The rules were amended in order to be aligned with the law for the personnel funds effective from the beginning of 2011. The main change concerns the members' right to withdraw funds. An employee is entitled to make withdrawals right from the beginning of the membership. The membership in the fund starts at the beginning of the next month after the employment relationship has been ongoing for five months.

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.

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.

The fund's latest financial year ended at 30 April 2013 and the fund then had a total of 2,722 members (2012: 2,727). At the end of April 2013 Fortum contributed EUR 2.8 million (2012: 2.5) to the personnel fund as an annual profit-sharing bonus based on the financial results of 2012. The combined amount of members' shares in the fund was EUR 23 million (2012: 22).

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

12.4 The President and CEO and the management team remuneration

The Fortum Management Team (FMT) consists of nine members, including the President and CEO. The following table presents the total remuneration of the President and CEO and the Fortum Management Team and takes 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	2013		2012	
	The President and CEO	Other FMT members ¹⁾	The President and CEO	Other FMT members
Salaries and fringe benefits	795	2,860	980	2,803
Performance bonuses	22	197	27	170
Share-based remuneration	448	1,122	637	1,455
Pensions (statutory)	137	494	172	479
Pensions (voluntary)	204	695	252	613
Social security expenses	48	337	60	333
Total	1,654	5,705	2,128	5,853

¹⁾ Including compensation of EUR 80,000 paid to CFO Rauramo for assuming the duties of the President and CEO during March-November 2013.

A pension liability of EUR 1,566 thousand (2012: 1,078) related to the defined benefit plans for management team members has been recognised in the balance sheet. The additional pension arrangement for the President and CEO is a defined contribution pension plan and thus no liability has been recognised in the balance sheet.

The annual contribution for the President and CEO's pension arrangement 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 the 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 65 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.

In the event that Fortum decides to give notice of termination to the President and CEO, he is entitled to salary of the notice period (6 months) and to severance pay equal to 18 months' salary. Other FMT members' termination compensation is equal to 12 to 24 months' salary.

[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/default.aspx](http://www.fortum.com/en/corporation/corporate-governance/remuneration-board/employment-terms-conditions-president-ceo/pages/default.aspx) and in section Remuneration.

Number of shares delivered to the management

The table below shows the number of shares delivered in 2013 and 2012 to the President and CEO and other FMT members under the LTI arrangements. In spring 2013 there were deliveries of LTI plans 2007-2012 and 2010-2015. Shares delivered under the plan 2010-2015 are subject to a lock-up period under which they cannot be sold or transferred to a third party.

	2013	2012
FMT members at 31 December 2013		
Tapio Kuula	35,152	17,171
Helena Aatinen (from 1 November 2012)	519	-
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 (from 1 September 2012)	756	-
Matti Ruotsala	12,395	7,283
Kaarina Ståhlberg (from 1 September 2013)	-	-
Former FMT members		
Anne Brunila (until 31 October 2012)	-	3,983
Juha Laaksonen (until 31 August 2012)	-	6,840
Maria Paatero-Kaarnakari (until 31 January 2012)	-	3,367
Total	112,797	71,148

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

12.5 Board of Directors and management shareholding

On 31 December 2013, the members of the Board of Directors owned a total of 10,950 shares (2012: 11,950), which corresponds to 0.00% (2012: 0.00%) of the company's shares and voting rights.

Number of shares held by members of the Board of Directors

	2013	2012
Board members at 31 December 2013		
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	-	-
Mino Akhtarzand	-	-
Heinz-Werner Binzel	-	1,000
Kim Ignatius	2,400	2,400
Total	10,950	11,950

The President and CEO and other members of the Fortum Management Team owned a total of 346,106 shares (2012: 268,992) which corresponds to approximately 0.04% (2012: 0.03%) of the company's shares and voting rights.

Number of shares held by members of the Fortum Management Team

	2013	2012
FMT members at 31 December 2013		
Tapio Kuula	153,555	118,403
Helena Aatinen	519	-
Alexander Chuvaev	12,093	12,093
Mikael Frisk	42,128	32,049
Timo Karttinen	69,791	60,228
Per Langer	25,267	16,717
Markus Rauramo	13,756	13,000
Matti Ruotsala	28,897	16,502
Kaarina Ståhlberg	-	-
Total	346,006	268,992

12.6 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 2013 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 are no pension arrangements for the Board members. Social security costs EUR 13 thousand (2012: 12) have been recorded for the fees in accordance with local legislation in respective countries.

Compensation for Board service

EUR/year/meeting	2013	2012
Chairman	75,000	75,000
Deputy Chairman	57,000	57,000
Chairman of the Audit and Risk Committee ¹⁾	57,000	57,000
Members	40,000	40,000
Meeting fee ²⁾	600	600

¹⁾ If not acting as Chairman or Deputy Chairman of the Board of Directors simultaneously.

²⁾ Is paid in double to a member who lives outside Finland in Europe and triple to a member who lives outside Europe.

Total compensation for Board of Directors

EUR	2013	2012
Board members at 31 December 2013		
Chairman, Sari Baldauf	84,000	80,353
Deputy Chairman, Christian Ramm-Schmidt	66,000	64,479
Mino Akhtarzand	58,000	54,349
Heinz-Werner Binzel	60,400	53,149
Ilona Ervasti-Vaintola	49,000	46,549
Kim Ignatius (from 11 April 2012)	67,200	48,100
Joshua Larson	70,600	67,549
Former Board members		
Esko Aho (until 11 April 2012)	-	13,000
Total	455,200	427,528

13 Finance costs - net

EUR million	Note	2013	2012
Interest expense			
Borrowings		-363	-379
Other interest expense		-1	-1
Capitalised borrowing costs	19	69	80
Total		-295	-300
Interest income			
Loan receivables		38	51
Other interest income		4	3
Total		42	54
Fair value gains and losses on financial instruments	7		
Fair value change of interest rate derivatives not getting hedge accounting status		-16	-12
Fair value change of hedging derivatives in fair value hedge relationship		25	39
Fair value change of hedged items in fair value hedge relationship		-24	-39
Rate difference on forward contracts		-1	-11
Total		-16	-23
Exchange gains and losses			
Loans and receivables	7	-214	246
Cross currency interest rate derivatives	7	19	-12
Foreign currency derivatives	7	195	-231
Interest income on share of State Nuclear Waste Management Fund	30	9	16
Unwinding of discount on nuclear provisions	30	-35	-36
Unwinding of discount on other provisions	31, 32	-16	-15
Other financial income		1	1
Other financial expenses		-8	-11
Total		-49	-42
Finance costs - net		-318	-311

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.

Further information can be found in the Notes mentioned in the table.

Interest income includes EUR 29 million (2012: 40) from shareholders' loans in Finnish and Swedish nuclear companies and EUR 6 million (2012: 7) from deposits.

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	2013	2012
Interest rate and cross currency swaps		
Interest expenses on borrowings	18	29
Exchange rate difference from derivatives	19	-12
Rate difference in fair value gains and losses on financial instruments ¹⁾	9	27
Total fair value change of interest rate derivatives in finance costs - net	46	44
Forward foreign exchange contracts		
Interest expenses on borrowings	-89	-108
Exchange rate difference from derivatives	195	-231
Rate difference in fair value gains and losses on financial instruments	-1	-11
Total fair value change of currency derivatives in finance costs - net	105	-350
Total fair value change of interest and currency derivatives in finance costs - net	151	-306

¹⁾ Fair value gains and losses on financial instruments include fair value changes from interest rate swaps not getting hedge accounting amounting to EUR -16 million (2012: -12) and fair value change of hedging derivatives in fair value hedge relationship EUR 25 million (2012: 39), totalling EUR 9 million (2012: 27).

14 Income tax expense

14.1 Profit before tax

EUR million	2013	2012
Finnish companies	440	495
Swedish companies	476	625
Other companies	583	466
Total	1,499	1,586

14.2 Major components of income tax expense by major countries

EUR million	2013	2012
Current taxes		
Finnish companies	-104	-97
Swedish companies	-93	-91
Other companies	-46	-13
Total	-243	-201
Deferred taxes		
Finnish companies	81	-13
Swedish companies	-7	172
Other companies	-56	-30
Total	18	129
Adjustments recognised for current tax of prior periods		
Finnish companies	-1	0
Swedish companies	5	-2
Other companies	1	0
Total	5	-2
Total income taxes	-220	-74

14.3 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	2013	%	2012	%
Profit before tax	1,499		1,586	
Tax calculated at nominal Finnish tax rate	-367	24.5	-389	24.5
Tax rate changes	80	-5.3	230	-14.5
Differences in tax rates and regulations	55	-3.7	42	-2.6
Income not subject to tax	2	-0.2	16	-1.0
Tax exempt capital gains	12	-0.8	32	-2.0
Expenses not deductible for tax purposes	-7	0.5	-7	0.4
Share of profit of associated companies and joint ventures	25	-1.7	4	-0.3
Taxes related to dividend distributions	0	0.0	-4	0.3
Tax losses for which no deferred tax was recognised	-22	1.5	-6	0.4
Utilisation of previously unrecognised tax losses	3	-0.2	9	-0.6
Other items	-5	0.3	0	0.0
Adjustments recognised for taxes of prior periods	4	-0.2	-1	0.1
Tax charge in the income statement	-220	14.7	-74	4.7

Key tax indicators:

- The weighted average applicable tax rate for 2013 is 22.5% (2012: 25.6%)
- The effective tax rate in the income statement for 2013 is 14.7% (2012: 4.7%)
- The effective tax rate excluding the share of profits from associates, tax exempt capital gains and tax rate changes for 2013 is 22.3% (2012: 21.2%)
- The total tax rate for 2013 is 33.8% (2012 29.0%).

Fortum has a material deferred tax liability owing to its investments in non current assets. These assets are depreciated more rapidly for tax than for accounting purposes resulting in lower current tax payments at the start of an assets' lifetime and higher tax payments at the end of its lifetime. This difference results in a deferred tax liability, which is valued using the tax rate expected to be in force when the liability unwinds.

In December 2013 the Finnish Parliament passed legislation lowering the income tax rate from 24.5% to 20%. The one-time positive effect in the income tax cost from the tax rate change was approximately EUR 79 million. Respectively, in 2012 tax rate was positively effected with EUR 230 million from lowering of Swedish tax rate from 26.3% to 22%. These tax rate changes have created the effective tax rate to fluctuate.

One time tax exempt capital gains reduced the effective tax rate in 2013 through mainly the sale of small hydro plants in Sweden, Swedish energy company Härjeåns Kraft AB and Infratek ASA in Norway. Similar reductions in effective tax rate occurred in 2012 through divestments of some heat operations in Finland and Estonia. Capital gains are booked in Finnish, Swedish, Norwegian and Dutch companies.

14.4 Total taxes

Fortum has current income taxes in 2013 totalling EUR 243 million (2012: 201). The effective tax rate indicates tax burden taking into account the differences between accounting and tax rules, including tax exempt capital gains, tax rate changes and other differences. The effective tax rate may therefore fluctuate.

Taxes borne indicate different taxes that Fortum pays for the period. In 2013 Fortum's taxes borne were EUR 644 million (2012: 565). Taxes borne include corporate income taxes, production taxes, employment taxes, taxes on property and cost of indirect taxes. Production taxes include also production taxes and taxes on property paid through electricity purchased from associated companies. The total tax rate (TTR) indicates the burden on taxes borne by Fortum from its profit before these taxes. On the contrary to the effective tax rate the total tax rate is steadily increasing as different production taxes and real estate taxes are increasing.

In addition, Fortum administers and collects different taxes on behalf of governments and authorities. Such taxes include VAT, and excise taxes on power consumed by customers, payroll taxes and withholding taxes. The amount of taxes collected by Fortum was EUR 834 million (2012: 749). In 2012 Fortum reported VAT as gross amount for input and output VAT. The gross amount of taxes collected was EUR 3,918 million in 2012.

Fortum has had several tax audits ongoing during 2013. Fortum has received income tax assessments in Sweden for the years 2009-2011, in Belgium for the years 2008 and 2009 as well as in Finland regarding the year 2007. Fortum has appealed all assessments received. Based on legal analysis, no provision has been accounted for in the financial statements related to tax audits.

[See also Note 29 Deferred income taxes.](#)

[Note 11 Materials and services and](#)

[Operating and financial review: Sustainability.](#)

[For further information regarding the on-going tax appeals see Note 39 Legal actions and official proceedings.](#)

15 Earnings and dividend per share

Accounting policies

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.

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.

15.1 Earnings per share

Earnings per share, basic

	2013	2012
Profit attributable to owners of the parent (EUR million)	1,204	1,416
Weighted average number of shares (thousands)	888,367	888,367
Basic earnings per share (EUR)	1.36	1.59

At the end of 2013 Fortum had no diluting stock option schemes.

15.2 Dividend per share

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.

A dividend in respect of 2013 of EUR 1.10 per share, amounting to a total dividend of EUR 977 million based on the amount of shares registered as of 3 February 2014, is to be proposed at the Annual General Meeting on 8 April 2014. These Financial statements do not reflect this dividend.

A dividend in respect of 2012 of EUR 1.00 per share, amounting to a total dividend of EUR 888 million, was decided at the Annual General Meeting on 9 April 2013. The dividend was paid on 19 April 2013.

A dividend in respect of 2011 of EUR 1.00 per share, amounting to a total dividend of EUR 888 million, was decided at the Annual General Meeting on 11 April 2012. The dividend was paid on 23 April 2012.

16 Financial assets and liabilities by categories

Accounting policies

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.

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.

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.

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.

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.

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.

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.

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.

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.

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 2013

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	21	44					31		75
Derivative financial instruments	3								
Electricity derivatives				40		42			82
Interest rate and currency derivatives			70	185		23			278
Oil and other futures and forward contracts				3					3
Long-term interest-bearing receivables	22	1,461						2	1,463
Financial instruments in current assets									
Derivative financial instruments	3								
Electricity derivatives				82		104			186
Interest rate and currency derivatives				80		3			83
Oil and other futures and forward contracts				28		0			28
Trade receivables	24	771							771
Other short-term interest-bearing receivables	24	6							6
Cash and cash equivalents ¹⁾	25	1,269							1,269
Total		3,551	70	418		172	31	2	4,244

¹⁾ Cash and cash equivalents includes EUR 15 million related to assets held for sale.

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	21	37				32		69
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	22	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	24	914						914
Other short-term interest-bearing receivables	24	9						9
Cash and cash equivalents	25	963						963
Total		3,304	181	388	105	32	3	4,013

Financial liabilities by categories 2013

EUR million	Note	Financial liabilities at fair value through profit and loss		Fair value recognised in equity, cash flow hedges	Other financial liabilities		Finance leases	Total financial liabilities
		Hedge accounting, fair value hedges	Non-hedge accounting		Amortised costs	Fair value		
Financial instruments in non-current liabilities								
Interest-bearing liabilities ¹⁾	28				5,656	1,299 ²⁾	21	6,976
Derivative financial instruments	3							
Electricity derivatives			28	7				35
Interest rate and currency derivatives		22	71	47				140
Oil and other futures and forward contracts			2					2
Financial instruments in current liabilities								
Interest-bearing liabilities ¹⁾	28				2,140		2	2,142
Derivative financial instruments	3							
Electricity derivatives			24	0				24
Interest rate and currency derivatives			48	3				51
Oil and other futures and forward contracts			9	1				10
Trade payables	34				452			452
Other liabilities	34				140			140
Total		22	182	58	8,388	1,299	23	9,972

¹⁾ Including interest-bearing liabilities, EUR 20 million, in Liabilities related to assets held for sale at 31 December 2013 (2012: 0) of which EUR 4 million in current liabilities.

²⁾ Fair valued part of bond in fair value hedge relationship.

Financial liabilities by categories 2012

EUR million	Note	Financial liabilities at fair value through profit and loss		Fair value recognised in equity, cash flow hedges	Other financial liabilities		Finance leases	Total financial liabilities	
		Hedge accounting, fair value hedges	Non-hedge accounting		Amortised costs	Fair value			
Financial instruments in non-current liabilities									
Interest-bearing liabilities	28				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	28				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	34				558			558	
Other liabilities	34				228			228	
Total			-	376	70	7,643	1,895	25	10,009

¹⁾ Fair valued part of bond in fair value hedge relationship.

17 Financial assets and liabilities by fair value hierarchy

Accounting policies

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.

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.

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.

Fair values under Level 3 measurement hierarchy

Fair valuation of electricity derivatives maturing over ten years which are not standard NASDAQ OMX Commodities Europe products are based on prices collected from reliable market participants. Other financial assets and liabilities that are not based on observable market data.

Other measurements

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

Financial assets

EUR million	Note	Level 1		Level 2		Level 3		Netting ³⁾		Total	
		2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
In non-current assets											
Available for sale financial assets ¹⁾	21	1	1			30	31			31	32
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				54	56			-12	-14	42	42
Non-hedge accounting			1	68	55		2 ²⁾	-28	-24	40	34
Interest rate and currency derivatives											
Hedge accounting				93	183					93	183
Non-hedge accounting				185	175					185	175
Oil and other futures and forward contracts											
Non-hedge accounting		3	10		17				-10	3	17
In current assets											
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				127	96			-23	-41	104	55
Non-hedge accounting		2	18	244	175			-164	-114	82	79
Interest rate and currency derivatives											
Hedge accounting				3	4					3	4
Non-hedge accounting				80	38					80	38
Oil and other futures and forward contracts											
Hedge accounting		1			2			-1		0	2
Non-hedge accounting		60	125		60			-32	-140	28	45
Total		67	155	854	861	30	33	-260	-343	691	706

Financial liabilities

EUR million	Note	Level 1		Level 2		Level 3		Netting ³⁾		Total	
		2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
In non-current liabilities											
Interest-bearing liabilities	28			1,299	1,895 ⁴⁾					1,299	1,895
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				19	17		1 ²⁾	-12	-14	7	4
Non-hedge accounting			12	56	22			-28	-24	28	10
Interest rate and currency derivatives											
Hedge accounting				69	57					69	57
Non-hedge accounting				71	108					71	108
Oil and other futures and forward contracts											
Non-hedge accounting		2	3		10				-10	2	3
In current liabilities											
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				23	42			-23	-41	0	1
Non-hedge accounting		3	23	185	109			-164	-114	24	18
Interest rate and currency derivatives											
Hedge accounting				3	4					3	4
Non-hedge accounting				48	197					48	197
Oil and other futures and forward contracts											
Hedge accounting		2			4			-1		1	4
Non-hedge accounting		41	116		64			-32	-140	9	40
Total		48	154	1,773	2,529	0	1	-260	-343	1,561	2,341

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 30 million (2012: 31), 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 (2012: 1). The cumulative fair value change booked in Fortum's equity was EUR -3 million (2012: -3).

²⁾ In 2013 NASDAQ OMX Commodities Europe quoted the closest 10 years and in 2012 for 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.

Net fair value amount of interest rate and currency derivatives is EUR 170 million, assets EUR 361 million and liabilities EUR 191 million. Fortum has cash collaterals based on Credit Support Annex agreements with some counterparties. At the end of December 2013 Fortum had received EUR 134 million from Credit Support Annex agreements. The received cash has been booked as short term liability.

18 Intangible assets

Accounting policies

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

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred when bringing the software into use. 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 costs recognised as assets are amortised over their estimated useful lives (three to five years).

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).

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.

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.

Critical accounting estimates: Assigned values and useful lives in acquisitions

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. Different assumptions and assigned lives could have a significant impact on the reported amounts.

The Group has significant carrying values in property, plant and equipment as well as goodwill which are tested for impairment according to the accounting policies.

[See note 19 Property, plant and equipment for more information.](#)

EUR million	Goodwill		Other intangible assets		Total	
	2013	2012	2013	2012	2013	2012
Cost 1 January	309	294	457	447	766	741
Translation differences and other adjustments	-34	15	-1	5	-35	20
Increases through business combinations	-	-	-	4	-	4
Capital expenditure	-	-	49	35	49	35
Change in emission rights	-	-	0	-25	0	-25
Disposals	-	-	-20	-17	-20	-17
Sale of subsidiary companies	-	-	-3	-	-3	-
Reclassifications	-	-	5	8	5	8
Moved to Assets held for sale	-	-	-89	-	-89	-
Cost 31 December	275	309	398	457	673	766
Accumulated depreciation 1 January	-	-	324	308	324	308
Translation differences and other adjustments	-	-	-2	7	-2	7
Increases through business combinations	-	-	-	2	-	2
Disposals	-	-	-20	-17	-20	-17
Sale of subsidiary companies	-	-	0	-	0	-
Reclassifications	-	-	3	2	3	2
Impairment charges	-	-	-	0	-	0
Depreciation for the period	-	-	30	22	30	22
Moved to Assets held for sale	-	-	-54	-	-54	-
Accumulated depreciation 31 December	-	-	281	324	281	324
Carrying amount 31 December	275	309	117	133	392	442

The goodwill is included in Russia segment and relates to the acquisition of OAO Fortum. 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.

[See also note 19.2.4. Russia](#)

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 timing of the finalization of the investment programme and discount rate used for discounting. The assumptions used for impairment testing are determined as part of the business planning process for the Fortum Group and are based on expectations of future events that are believed to be reasonable under the circumstances.

The discount rate used is taking into account the risk profile of the country in which the cash flows are generated. Pre-tax discount rate used for Russia was 10.5% (2012: 10.8%). There have not been any major changes in the discount rate components or in the methods used to determine them.

As of 31 December 2013, the recoverable values were greater than their carrying values and therefore the related goodwill is not impaired. According to management a reasonably possible change in the discount rate used or in the level of future 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, bought emission rights and emission rights received free of charge, which are recognised to the lower of fair value and historical cost.

19 Property, plant and equipment

Accounting policies

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 Note 31 Other provisions for information about 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.

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.

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.

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.

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 is 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 Fortum and TVO are sharing control of the power plant, Meri-Pori is accounted for as a jointly controlled asset. Fortum is accounting for its part of the investment, i.e. 54.55%. Fortum is also entitled to part of the electricity TVO produces in Meri-Pori through its shareholding of 26.58% of TVO C-series shares.

[For further information regarding Fortum's shareholding in TVO, see Note 20 Participations in associated companies and joint ventures.](#)

Critical accounting estimates: Assumptions related to impairment testing

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 described in this note. 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.

The Group has not recognised any impairment losses in 2013 based on impairment testing done in late 2013.

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 2013 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.

[Estimates are also made in an acquisition when determining the fair values and remaining useful lives of acquired intangible and tangible assets, see note 18 Intangible 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 2013	3,401	3,436	15,398	199	2,550	24,984
Translation differences and other adjustments	-103	-158	-558	4	-152	-967
Increases through business combinations	0	1	9	0	0	10
Capital expenditure	1	74	269	2	889	1,235
Nuclear asset retirement cost	-	-	45	-	-	45
Disposals	0	-114	-119	-1	0	-234
Sale of subsidiary companies	-1	-19	-17	0	-1	-38
Reclassifications	1	580	1,051	1	-1,638	-5
Moved to Assets held for sale	-3	-30	-1,977	-1	-50	-2,061
Cost 31 December 2013	3,296	3,770	14,101	204	1,598	22,969
Accumulated depreciation 1 January 2013	-	1,549	6,784	154	-	8,487
Translation differences and other adjustments	-	-47	-201	0	-	-248
Increases through business combinations	-	0	0	0	-	0
Disposals	-	-96	-90	-1	-	-187
Sale of subsidiary companies	-	-4	-7	0	-	-11
Depreciation for the period	-	122	582	6	-	710
Reclassifications	-	28	-31	0	-	-3
Moved to Assets held for sale	-	-22	-957	-1	-	-980
Accumulated depreciation 31 December 2013	-	1,530	6,080	158	-	7,768
Carrying amount 31 December 2013	3,296	2,240	8,021	46	1,598	15,201

The change in property, plant and equipment was negative, even though capital expenditures were higher than depreciation during the year. The decreases were mainly due to the transfer to assets held for sale and translation differences. The main increases were due to the ongoing investment programme in OAO Fortum and construction of CHP plants in Heat segment.

[See Note 9 Assets held for sale](#)

[For more information on credit risks regarding ongoing investments, see Note 3.8 Credit risk.](#)

Property, plant and equipment that are subject to restrictions in the form of real estate mortgages amount to EUR 240 million (2012: 261).

[See Note 35 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 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	1217	1523
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

19.1 Capitalised borrowing costs

EUR million	Buildings, plants and structures		Machinery and equipment		Advances paid and construction in progress		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
1 January	17	16	73	74	149	67	239	157
Translation differences and other adjustments	-3	1	-12	3	-12	2	-27	6
Increases	-	-	-	-	69	80	69	80
Reclassification	27	0	108	0	-135	0	0	0
Depreciation	-1	0	-6	-4	-	-	-7	-4
Moved to Assets held for sale	-	-	-1	-	-	-	-1	-
31 December	40	17	162	73	71	149	273	239

New borrowing costs of EUR 69 million were capitalised in 2013 (2012: 80) 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 2.8 - 8.7% (2012: 3.4 - 8.1%) depending on country and loan currency.

19.2 Capital expenditure ¹⁾

EUR million	Finland		Sweden		Estonia		Poland		Norway		Other countries, total		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Power														
Hydropower	17	12	91	86	-	-	-	-	-	-	-	-	108	98
Nuclear power	60	53	-	-	-	-	-	-	-	-	-	-	60	53
Fossil-based electricity	2	4	-	-	-	-	-	-	-	-	-	-	2	4
Renewable-based electricity	4	1	3	27	-	-	-	-	-	-	-	-	7	28
Other	1	1	-	-	-	-	-	-	-	-	0	6	1	7
Total Power	84	71	94	113	-	-	-	-	-	-	0	6	178	190
Heat														
Fossil-based heat	7	9	6	12	-	-	2	3	-	-	1	-	16	24
Fossil-based electricity	-	-	-	-	-	-	2	1	-	-	-	-	2	1
Renewable, of which	17	66	218	150	-	-	-	-	-	-	39	87	274	303
waste	0	0	105	106	-	-	-	-	-	-	14	47	119	153
biofuels	17	66	111	41	-	-	-	-	-	-	25	40	153	147
other	-	-	2	3	-	-	-	-	-	-	-	-	2	3
District heat network	14	12	42	33	16	10	6	15	4	21	4	0	86	91
Other	5	12	14	32	-	0	0	-	-	-	0	1	19	45
Total Heat	43	99	280	227	16	10	10	19	4	21	44	88	397	464
Distribution	128	158	123	151	-	0	-	-	9	15	-	-	260	324
Electricity Sales	1	-	-	0	-	-	-	-	-	-	-	1	1	1
Other	10	10	0	1	-	-	0	-	-	-	3	-	13	11
Total excluding Russia-segment	266	338	497	492	16	10	10	19	13	36	47	95	849	990
Russia														
Fossil-based electricity													387	535
Fossil-based heat													48	32
Other													0	1
Total Russia													435	568
Total including Russia-segment													1,284	1,558

¹⁾ Includes capital expenditure to both intangible assets and property, plant and equipment.

Maintenance investments during 2013 in property, plant and equipment were EUR 239 million (2012: 247). Investments due to requirements of legislation were EUR 187 million (2012: 223). Investments increasing productivity were EUR 385 million (2012: 422) and growth investments were EUR 473 million (2012: 666).

19.2.1 Power

In Finland, Fortum invested EUR 60 million (2012: 53) into the Loviisa nuclear power plant. Fortum invested additionally EUR 108 million (2012: 98) into hydro production, mainly refurbishment and productivity investments. The biggest of these were Höljes, Skedvi and Gammelänge refurbishment in Sweden, EUR 35 million (2012: 21). Investments for CO₂ free production were EUR 175 million (2012: 178).

19.2.2 Heat

In year 2013 Heat segment commissioned new bio-mass fired CHP plants in Jelgava, Latvia and Järvenpää, Finland. In Klaipeda, Lithuania new waste-to-energy CHP-plant was taken into production, while in Brista 2, in Sweden test-runs were started. Growth investments in Heat segment totalled EUR 105 million (2012: 142). Refurbishment and legislation investments totalled EUR 90 million (2012: 102). 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 2013 comprised of a new fuel handling systems in Stockholm aiming to increase biomass share of fuels in the coal fired CHP-plant KVV6 and new CHP plant KVV8 in Värtan. New pyrolysis based bio-oil plant was inaugurated in November 2013 in Joensuu, Finland. Investments for CO₂ free production were EUR 272 million (2012: 301).

19.2.3 Distribution

Distribution invested EUR 260 million (2012: 324) in reliability of electricity distribution, maintenance and new investments in Finland, Sweden, and Norway. This includes EUR 31 million (2012: 59) investment in the Finnish smart metering with hourly measurement capabilities to network customers, project was finalized in the end of 2013 with almost 620,000 installed meters.

19.2.4 Russia

OAO Fortum has an extensive investment programme aiming to almost double its power capacity with 2,300 MW. During 2013 EUR 249 million (2012: 371) was invested in this programme. The value for the remaining part of the programme is estimated to be approximately EUR 0.5 billion from January 2014 onwards. The last three units are to be completed by mid of 2015. Nyagan power plant unit 1 started operations in March 2013 and Nyagan power plant unit 2 was commissioned in December 2013. Altogether, Fortum's extensive investment programme in Russia consists of eight new units.

20 Participations in associated companies and joint ventures

Accounting policies

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 has 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.

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 and TGC-1. The share of profit of these companies is accounted for based on previous quarter information since updated interim information is not normally available.

EUR million	2013	2012
Historical cost		
1 January	1,683	1,637
Translation differences and other adjustments	-97	41
Acquisitions	-	10
Reclassifications	-6	-5
Divestments	-49	-
Historical cost 31 December	1,531	1,683
Equity adjustments to participations in associates and joint ventures		
1 January	296	377
Translation differences and other adjustments	-12	-8
Share of profits of associates	105	23
Reclassifications	6	5
Divestments	-16	-
Dividends received	-50	-45
OCI items associated companies	45	-56
Equity adjustments 31 December	374	296
Total	1,905	1,979

The carrying amount of investments in associated companies at the end of 2013 was EUR 1,905 million (2012: 1,979). Fortum owns shares in three (2012: three) companies classified as joint ventures. The total carrying value of these joint ventures was EUR 59 million (2012: 54).

20.1 Investments

There were no material investments in associated companies or joint ventures during 2013.

In December 2012 Turun Seudun 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.

20.2 Divestments

In June 2013, Fortum agreed to sell its 47.9% ownership in the Swedish energy company Härjeåns Kraft AB to the Finnish energy company Oy Herrfors Ab, a subsidiary of the Katternö Group. The sales price was SEK 445 million (approximately EUR 51 million). The transaction was completed in July and a capital gain of EUR 17 million was booked to Distribution segment's third quarter results.

In July 2013 Fortum completed the divestment of its 33% holding in Infratek ASA to a fund managed by Triton. The sales price was NOK 295 million (approximately EUR 38 million). A capital gain of EUR 11 million was booked in the Power segment's third quarter results.

There were no material divestments of shares in associated companies during 2012.

20.3 Share of profits from associates

Fortum's share of profit for the full year 2013 amounted to 105 million (2012: 23), of which Hafslund represented EUR 31 million (2012: -20), TGC-1 EUR 46 million (2012: 27) and Gasum EUR 8 million (2012: 15). Share of profits from associates also includes Fortum's share of its nuclear associates Teollisuuden Voima Oyj, Forsmark Kraftgrupp AB and OKG AB EUR 21 million (2012: -6), of which EUR 17 million (2012: 1) is due to accounting of nuclear related assets and liabilities.

[See Note 30 Nuclear related assets and liabilities.](#)

In 2012 the share of profit from Hafslund included EUR -25 million related to extraordinary write-downs and provisions on BioWood Norway AS, Bio-El Fredrikstad and an ongoing tax dispute and EUR 7 million loss in relation to Hafslund's divestment of REC shares.

20.4 Dividends received

During 2013 Fortum has received EUR 50 million (2012: 45) in dividends from associates of which EUR 21 million (2012: 22) was received from Hafslund, EUR 12 million (2012: 10) from Gasum and EUR 4 million (2012: 4) from Infratek ASA.

20.5 Principal associated companies

EUR million Company	Segment	Domicile	Participation %		Carrying amount in Group	
			2013	2012	2013	2012
Kemijoki Oy	Power	Finland	18	18	215	223
Teollisuuden Voima Oyj (TVO)	Power	Finland	26	26	284	270
OKG AB	Power	Sweden	46	46	184	142
Forsmark Kraftgrupp AB	Power	Sweden	26	26	78	112
Gasum Oy	Heat	Finland	31	31	116	121
Territorial Generating Company 1 (TGC-1)	Russia	Russia	26	26	463	476
Hafslund ASA	Other	Norway	34	34	323	334
Others					242	301
Total					1,905	1,979

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%.

Fortum owns, through its Swedish subsidiaries, 45.5% of the shares in OKG AB and 25.5% of the shares in Forsmark Kraftgrupp AB. Each owner is entitled to electricity produced in proportion to its shareholding. Excluding non-controlling interests in the subsidiaries, Fortum's participation in the associated companies are 43.4% and 22.2% respectively, which reflects the share of electricity produced that Fortum can sell further to the market. The minority part of the electricity purchased is invoiced further to each minority owner according to their respective shareholding and treated as pass-through.

[See also Jointly controlled assets in Note 19 Property, plant and equipment.](#)

Market value, based on market quotations of Fortum's shareholding in the listed principal associated companies on 31 December 2013 (Hafslund ASA and TGC-1) was EUR 514 million (2012: 581), of which Hafslund was EUR 369 million (2012: 412) and TGC-1 was EUR 145 million (2012: 169). 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 2013 trading volumes of TGC-1 shares in relation to the number of shares of the company were approximately 10% 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	Ownership, %	Votes, %
Kemijoki Oy ^{1) 3)}	Finland	462	366	41	-8	18	18
Teollisuuden Voima Oyj ^{1) 2)}	Finland	6,725	5,257	285	37	26	26
OKG AB ^{1) 3)}	Sweden	2,620	2,088	606	6	46	46
Forsmark Kraftgrupp AB ^{1) 3)}	Sweden	2,573	2,005	752	0	26	26
Gasum Oy ²⁾	Finland	731	341	855	22	31	31
Territorial Generating Company 1 (TGC-1) ²⁾	Russia	3,245	1,159	1,153	99	26	26
Hafslund ASA ²⁾	Norway	2,869	1,992	1,175	69	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 11 Materials and services.](#)

²⁾ Based on September 2013 figures.

³⁾ Based on December 2012 figures.

20.6 Transactions and balances

Associated company transactions

EUR million	2013	2012
Sales to associated companies	3	5
Interest on associated company loan receivables	27	41
Purchases from associated companies	626	652

Purchases from associated companies include mainly purchases of nuclear and hydro power at production cost including interest costs and production taxes.

[See Note 11 Materials and services.](#)

Associated company balances

EUR million	2013	2012
Receivables from associated companies		
Long-term interest-bearing loan receivables	1,415	1,332
Trade receivables	14	10
Other receivables	19	9
Liabilities to associated companies		
Long-term loan payables	248	234
Trade payables	12	21
Other payables	2	6

Long-term interest-bearing receivables are mainly receivables from Swedish nuclear companies, OKG AB and Forsmark Kraftgrupp AB, EUR 1,312 million (2012: 1,249).

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	2013	2012
Sales to joint ventures	63	118
Interest on joint venture loan receivables	2	-
Purchases from joint ventures	20	27
Receivables from joint ventures	51	49
Other payables to joint ventures	0	2

There is a decrease in sales in 2013 since the comparative 2012 figures include a sales of inventory to Turun Seudun Energiintuotanto Oy (TSE). Receivables from joint ventures included long-term interest-bearing loan receivables of EUR 37 million (2012: 38).

[See Note 8 Acquisitions and disposals for information regarding the sale of Fortum Heat Naantali Oy shares to TSE.](#)

21 Other non-current assets

EUR million	2013	2012
Available for sale financial assets	31	32
Other	44	37
Total	75	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 30 million (2012: 31), 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 (2012: 1). The cumulative fair value change booked in Fortum's equity was EUR -3 million (2012: -3).

22 Long-term and short-term interest-bearing receivables

EUR million	2013	2012
Long-term loan receivables	1,461	1,381
Finance lease receivables	2	3
Total long-term interest-bearing receivables	1,463	1,384
Other short-term interest-bearing receivables	6	9
Total short-term interest-bearing receivables ¹⁾	6	9
Total	1,469	1,393

¹⁾ Included in trade and other receivables in the balance sheet, see Note 24.

Long-term loan receivables include receivables from associated companies EUR 1,415 million (2012: 1,332), mainly from Swedish nuclear companies, OKG AB and Forsmark Kraftgrupp AB, EUR 1,312 million (2012: 1,249). 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 Forsmark Kraftgrupp AB.

Long-term loan receivables from associated companies also include receivables from the Finnish nuclear company Teollisuuden Voima Oyj (TVO) amounting to EUR 85 million (2012: 58). Olkiluoto 3, the nuclear power plant being built by 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 provide 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 of which EUR 25 was outstanding at end of December 2013. In March 2012 a new subordinated shareholder loan was given to fund planning of Olkiluoto 4, where Fortum's share of the commitment is EUR 72 million of which EUR 15 million was outstanding at end of December 2013. In June 2013, TVO's shareholders committed to provide additional EUR 300 million subordinated shareholders' loan related to Olkiluoto 3. The facility will be available until the end of 2018. Fortum's share of this commitment is at maximum EUR 75 million. At the end of December 2013 no drawdowns were done on this facility.

For further information regarding credit risk management, see Note 3.8 Credit risk.

Interest-bearing receivables

EUR million	Effective interest rate, %	Carrying amount 2013	Repricing			Fair value 2013	Carrying amount 2012	Fair value 2012
			Under 1 year	1-5 years	Over 5 years			
Long-term loan receivables	2.5	1,466	1,444	11	11	1,505	1,389	1,440
Finance lease receivables	8.5	2	-	-	2	4	3	5
Total long-term interest-bearing receivables ¹⁾	2.5	1,468	1,444	11	13	1,509	1,392	1,445
Other short-term interest-bearing receivables	0.8	1	1	-	-	1	1	1
Total interest-bearing receivables	2.5	1,469	1,445	11	13	1,510	1,393	1,446

¹⁾ Including current portion of long-term receivables EUR 5 million (2012: 8).

23 Inventories

Accounting policies

Inventories 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.

EUR million	2013	2012
Nuclear fuel	109	91
Coal	74	140
Oil	44	46
Biofuels	55	74
Other inventories	93	77
Total	375	428

No write downs have been booked related to inventories during 2013 or 2012.

24 Trade and other receivables

Accounting policies

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.

EUR million	2013	2012
Trade receivables	771	914
Income tax receivables	98	110
Accrued interest income	14	1
Accrued income and prepaid expenses	40	44
Other receivables	161	192
Short-term finance lease receivables	0	0
Other short-term interest-bearing receivables	6	9
Moved to assets held for sale	-42	-
Total	1,048	1,270

The management considers that the carrying amount of trade and other receivables approximates their fair value.

24.1 Trade receivables

Ageing analysis of trade receivables

EUR million	2013		2012	
	Gross	Impaired	Gross	Impaired
Not past due	725	2	865	2
Past due 1-90 days	39	2	45	6
Past due 91-180 days	10	2	9	1
Past due more than 181 days	83	80	68	64
Total	857	86	987	73

Impairment losses recognised in the income statement were EUR 24 million (2012: 14), of which EUR 18 million (2012: 8) are impairment losses recognised in the OAO Fortum Group. On 31 December 2013, trade receivables of EUR 86 million (2012: 73) are impaired and provided for, of which EUR 73 million (2012: 63) refers to the OAO Fortum Group.

[For information regarding impairment losses by segment, see Note 5 Segment reporting.](#)

Trade receivables by currency

EUR million	2013	2012
EUR	219	242
SEK	381	463
RUB	173	180
NOK	30	37
PLN	31	36
Other	23	29
Total	857	987

Trade receivables are arising from a large number of customers mainly in EUR, SEK and RUB mitigating the concentration of risk. On 31 December 2013 bank guarantees held as collaterals for trade receivables amounted to EUR 0.3 million (2012: 0.1).

For further information regarding credit risk management and credit risks, see

[Counterparty risks in the Operating and financial review](#)
and [Note 3.8 Credit risk](#).

25 Cash and cash equivalents

Accounting policies

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.

EUR million	2013	2012
Cash at bank and in hand	1,240	858
Bank deposits with maturity under 3 months	29	105
Cash and cash equivalents	1,269	963
Cash and cash equivalents moved to assets held for sale	-15	-
Total	1,254	963

Bank deposits include bank deposits held by OAO Fortum amounting to EUR 101 million (2012: 105). At the year end 2013 OAO Fortum's deposits included EUR 58 million in euros and EUR 43 million in Russian roubles. The funds in OAO Fortum are committed to the ongoing investment program. The bank deposits in euros held by OAO Fortum are hedging future payments in euros.

For further information regarding credit risk management and credit risks, see

[Counterparty risks in the Operating and financial review](#)
and [Note 3.8 Credit risk](#).

26 Share capital

Accounting policies

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.

EUR million	2013		2012	
	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 2013, 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 2013 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.

[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 12 Employee benefits.](#)

[A description of shares, share capital and shareholders in Fortum is shown in the Operating and financial review.](#)

26.1 Treasury shares

At the end of 2013, 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.

26.2 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.

27 Non-controlling interests

Principal non-controlling interests

EUR million		2013	2012
AB Fortum Värme Holding samägt med Stockholms stad Group	Sweden	538	494
OAD Fortum Group	Russia	59	64
Tartu Energi Group	Estonia	21	20
Other		20	25
Total		638	603

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.

28 Interest-bearing liabilities

Accounting policies

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 are recognised at fair value.

EUR million	2013	2012
Bonds	4,736	5,342
Loans from financial institutions	752	869
Finance lease liabilities	21	23
Other long-term interest-bearing debt	1,467	1,465
Total long-term interest-bearing debt	6,976	7,699
Current portion of long-term bonds	1,103	499
Current portion of loans from financial institutions	106	114
Current portion of other long-term interest-bearing debt	59	31
Current portion of financial lease liabilities	2	2
Commercial papers	718	228
Other short-term interest-bearing debt	154	204
Total short-term interest bearing debt	2,142	1,078
Total interest-bearing debt	9,118	8,777
Interest-bearing liabilities moved to assets held for sale	-20	-
Total	9,098	8,777

Interest-bearing debt ¹⁾

EUR million	Effective interest rate, %	Carrying amount 2013	Repricing			Fair value 2013	Carrying amount 2012	Fair value 2012
			Under 1 year	1-5 years	Over 5 years			
Bonds	3.7	5,839	2,017	1,483	2,339	6,232	5,841	6,239
Loans from financial institutions	3.3	858	584	72	202	916	983	1,062
Other long-term interest-bearing debt ²⁾	1.2	1,549	1,545	-	4	1,572	1,521	1,566
Total long-term interest-bearing debt ³⁾	3.2	8,246	4,146	1,555	2,545	8,720	8,345	8,867
Commercial papers	0.8	718	718	-	-	719	228	228
Other short-term interest-bearing debt	0.4	154	154	-	-	154	204	204
Total short-term interest-bearing debt	0.7	872	872	0	0	873	432	432
Total interest-bearing debt ⁴⁾	3.0	9,118	5,018	1,555	2,545	9,593	8,777	9,299

¹⁾ Including interest-bearing liabilities, EUR 20 million, in Liabilities related to assets held for sale at 31 December 2013 (2012: 0).

²⁾ Includes loans from State Nuclear Waste Management Fund and Teollisuuden Voima Oyj EUR 995 million (2012: 940), financial leases EUR 23 million (2012: 25), loans from Finnish pension institutions EUR 198 million (2012: 228) and other loans EUR 333 million (2012: 328).

3) Including current portion of long-term debt.

4) The average interest rate on loans and derivatives on 31 December 2013 was 3.6% (2012: 4.5%).

The interest-bearing debt increased in 2013 by EUR 341 million to EUR 9,118 million (2012: 8,777). The amount of short-term financing increased with EUR 440 million, and at the end of the year the amount of short term financing was EUR 872 million (2012: 432).

On 13 March 2013, Fortum issued two 5 year bonds under its existing Euro Medium Term Note programme. The total nominal value of the bonds is SEK 3,150 million (about EUR 376 million) consisting of SEK 2,000 million at floating rate and SEK 1,150 million at 2.75% fixed interest rate. In April Fortum increased the amount of re-borrowing from the Finnish nuclear waste fund and Teollisuuden Voima by EUR 55 million to EUR 995 million. In the second quarter Fortum issued three new bonds: one 30 year EUR 100 million bond at fixed interest rate 3.5% and two SEK denominated bonds of 1 billion each (in total about EUR 231 million) at floating rate maturing 2018 and 2023. In June the amount of Fortum's Revolving Credit Facility (RCF) was lowered from EUR 2.5 billion to EUR 2.0 billion. The amount of the facility is EUR 2 billion until July 2016 and EUR 1.9 billion until July 2017. During the third quarter OAO Fortum repaid bilateral loans of RUB 3,057 million (approximately EUR 72 million). During the last quarter Fortum repaid a maturing EUR 500 million bond.

For more information please see

[Note 3 Financial risk management.](#)

[Note 35 Pledged assets](#)

[and Note 38 Contingent liabilities.](#)

28.1 Bond issues

Issued/Maturity	Interest basis	Interest rate, %	Effective interest, %	Currency	Nominal million	Carrying amount EUR million
Fortum Oyj EUR 8,000 million EMTN Programme ¹⁾						
2006/2016	Fixed	4.500	4.615	EUR	750	748
2007/2014	Fixed	4.700	4.764	SEK	2,600	293
2009/2014	Fixed	4.625	4.714	EUR	750	750
2009/2014	Fixed	5.250	5.400	NOK	500	60
2009/2017	Fixed	6.125	6.240	NOK	500	60
2009/2019	Fixed	6.000	6.095	EUR	750	745
2010/2015	Floating	Stibor 3M+0.95		SEK	3,100	350
2010/2015	Fixed	3.125	3.235	SEK	3,100	350
2011/2021	Fixed	4.000	4.123	EUR	500	530
2012/2017	Floating	Stibor 3M+1.2		SEK	1,000	113
2012/2017	Fixed	3.250	3.260	SEK	1,750	197
2012/2022	Fixed	2.250	2.344	EUR	1,000	967
2013/2018	Fixed	2.750	2.855	SEK	1,150	129
2013/2018	Floating	Stibor 3M+1.0		SEK	3,000	338
2013/2023	Floating	Stibor 3M+1.13		SEK	1,000	113
2013/2043	Fixed	3.500	3.719	EUR	100	96
Total outstanding carrying amount 31 December 2013						5,839

¹⁾ EMTN = Euro Medium Term Note

28.2 Finance lease liabilities

On 31 December 2013 Fortum had a small number of finance lease agreements for machinery and equipment.

Present value of finance lease liabilities

EUR million	2013	2012
Minimum lease payments	24	28
Less future finance charges	1	3
Total	23	25

Maturity of minimum lease payments

EUR million	2013	2012
Less than 1 year	2	3
1-5 years	22	25
Over 5 years	-	-
Total	24	28

Maturity of finance lease liabilities

EUR million	2013	2012
Less than 1 year	2	2
1-5 years	21	23
Over 5 years	-	-
Total	23	25

29 Deferred income taxes

Accounting policies

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 substantively 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.

Critical accounting estimates: Assumptions and estimates regarding future tax consequences

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 36 million.

The movement in deferred tax assets and liabilities during 2013

EUR million	1 Jan 2013	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 2013
Deferred tax assets						
Property, plant and equipment	17	2	-	-	-	19
Provisions	42	-18	-	-	-	24
Tax losses and tax credits carry-forward	80	-	-	-	-	80
Pension obligations	29	2	-19	-	-	12
Other	43	-14	-	-2	-	27
Total deferred tax assets	211	-28	-19	-2	0	162
Offset against deferred tax liabilities	-34	2				-32
Net deferred tax assets	177	-26	-19	-2	0	130
Deferred tax liabilities						
Property, plant and equipment	1,840	-53	-	-55	-141	1,591
Derivative financial instruments	29	9	9	-	-	47
Other	44	-2	-	-	-	42
Total deferred tax liabilities	1,913	-46	9	-55	-141	1,680
Offset against deferred tax assets	-34	2	-	-	-	-32
Net deferred tax liabilities	1,879	-44	9	-55	-141	1,648

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 7 million (2012: 8) 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 32 million on 31 December 2013 (2012: 26).

Deferred tax assets and liabilities from acquisitions, disposals and assets held for sale in 2013 relate to the sale of Fortum Sähkösiirto Oy and Fortum Espoo Distribution Oy shares in 2014.

[See Note 9 Assets held for sale.](#)

The movement in deferred tax assets and liabilities during 2012

EUR million	1 Jan 2012	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 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
Pension obligations	25	0	4	-	-	29
Other	42	1	-	-	-	43
Total deferred tax assets	215	-8	4	-	0	211
Offset against deferred tax liabilities	-40	6	-	-	-	-34
Net deferred tax assets	175	-2	4	0	0	177
Deferred tax liabilities						
Property, plant and equipment	1,967	-179	-	58	-6	1,840
Derivative financial instruments	66	2	-39	-	-	29
Other	4	40	-	-	-	44
Total deferred tax liabilities	2,037	-137	-39	58	-6	1,913
Offset against deferred tax assets	-40	6	-	-	-	-34
Net deferred tax liabilities	1,997	-131	-39	58	-6	1,879

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	2013		2012	
	Tax losses	Deferred tax asset	Tax losses	Deferred tax asset
Losses without expiration date	6	2	10	3
Losses with expiration date	320	78	262	78
Total	327	80	272	81

Deferred tax assets of EUR 47 million (2012: 31) 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.

30 Nuclear related assets and liabilities

Accounting policies

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 Nuclear Waste Management Fund is managed by governmental authorities. The related provisions are the provision for decommissioning and the provision for disposal of spent fuel.

The fair values of the provisions are calculated according to IAS 37 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.

Critical accounting estimates: Assumptions made when estimating provisions 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.

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.

EUR million	2013	2012
Amounts recognised in the balance sheet		
Nuclear provisions	744	678
Share in the State Nuclear Waste Management Fund	744	678
Legal liability and actual share of the State Nuclear Waste Management Fund		
Liability for nuclear waste management according to the Nuclear Energy Act	1,059	996
Funding obligation target	1,039	996
Fortum's share of the State Nuclear Waste Management Fund	1,005	956

30.1 Nuclear related provisions

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 2013. 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 2013, the discounted liability increased due to updated cost estimates related to interim and final storage of spent fuel.

The legal liability by the end of 2013, decided by the Ministry of Employment and the Economy and calculated according to the Nuclear Energy Act, is EUR 1,059 million (2012: 996). The carrying value of the nuclear provisions in the balance sheet, calculated according to IAS 37, have increased by EUR 66 million compared to 31 December 2012, totaling EUR 744 million on 31 December 2013. 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.

[See also Note 19 Property, plant and equipment.](#)

Nuclear provisions

EUR million	2013	2012
1 January	678	653
Additional provisions	51	10
Used during the year	-20	-21
Unwinding of discount	35	36
31 December	744	678
Fortum's share in the State Nuclear Waste Management Fund	744	678

30.2 Fortum's share in the State Nuclear Waste Management Fund

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. Based on the law, Fortum applied for periodising of the payments to the fund over three years, due to proposed increase in the legal liability. The application was approved by the Ministry of the Employment and the Economy in December 2013.

The Fund is from an IFRS perspective overfunded with EUR 261 million (2012: 278), since Fortum's share of the Fund on 31 December 2013 is EUR 1,005 million (2012: 956) and the carrying value in the balance sheet is EUR 744 million (2012: 678).

Operating profit for 2013 includes a positive total adjustment of EUR 23 million (2012: -31), since the carrying value of the provisions has increased more than the fund. 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.

30.2.1 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 and the approved periodisation amounts to EUR 1,039 million (2012: 996). Real estate mortgages and other securities given also cover unexpected events according to the Nuclear Energy Act.

[See also Note 35 Pledged assets](#)
[and Note 38 Contingent liabilities.](#)

30.3 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 28 Interest-bearing liabilities](#)
[and Note 35 Pledged assets.](#)

30.4 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 +17 million in 2013, which included EUR -5 million due to decrease of the carrying value of the State Nuclear Waste Management Fund in Finland. In 2012, the effect in share of profits was EUR +1 million, which included EUR -9 million due to decrease of the carrying value of the State Nuclear Waste Management Fund in Finland. 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 2013.

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 38 Contingent liabilities.](#)

31 Other provisions

Accounting policies

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.

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.

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.

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.

EUR million	2013				2012			
	CSA provision	Environmental	Other	Total	CSA provision	Environmental	Other	Total
1 January	178	12	24	214	180	12	17	209
Provisions for the period	-	1	10	11	-	0	15	15
Provisions used	-24	-2	-12	-38	-23	0	-7	-30
Provisions reversed	-48	0	-9	-57	-	0	-2	-2
Unwinding of discount	12	0	0	12	15	0	0	15
Exchange rate differences	-15	0	-1	-16	6	0	1	7
31 December	103	11	12	126	178	12	24	214
Of which current provisions ¹⁾	20	0	3	23	-	6	1	7
Of which non-current provisions	83	11	9	103	178	6	23	207

¹⁾ Included in trade and other payables in the balance sheet, see note 34.

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 remaining provision is assessed at each balance sheet date and the assessment is based on changes in estimated risks and timing related to commissioning of the remaining power plants in the investment programme. During 2013 EUR 48 million of the provision was reversed to the income statement after the finalisation of the two greenfield power plant investments, i.e. Nyagan 1 and Nyagan 2. The remaining provision for possible penalties amounts to EUR 103 million (Dec 31 2012: 178) including EUR 20 million covering the remaining penalties to be paid in 2014 regarding the delay of Nyagan 2. Paid penalties during 2013 amounted to EUR 24 million (2012: 23). The provision increases due to unwinding of the discounting of potential future penalty payments, which during 2013 resulted in an increase of the provision with EUR 12 million (2012: 15). The unwinding effect is recognised in other financial expenses.

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 2 million (2012: 1).

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.

[Regarding provisions for decommissioning and provision for disposal of spent fuel for nuclear production, see note 30.](#)

32 Pension obligations

Accounting policies

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 net interest is presented in financial items and the rest of the income statement effect as pension cost.

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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss related to a curtailment is recognised immediately in profit or loss. Gains or losses on settlements of defined benefits plans are recognised when the settlement occurs.

Critical accounting estimates: Assumptions used to determine future pension obligations

The present value of the pension obligations is based on actuarial calculations that use several assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

Fortum's pension arrangements

Finland

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. Certain Fortum employees in Finland have an additional pension coverage, certain level of benefit promised after retirement, through the company's own pension fund (Fortum Pension Fund) or through insurance companies. The additional pensions through insurance companies provide old age pension and funeral grant and Fortum Pension Fund is providing old age pension, early old age benefit, disability pension, survivor's pension and funeral grant.

The Fortum Pension Fund is a closed fund managed by a Board, consisting of both employer's and employees' representatives. The Fund is operating under regulation from Financial Supervisory Authority (FSA). The liability has to be fully covered according to the regulations. The national benefit obligation related to the defined benefit plans is calculated so that the promised benefit is fully funded until retirement. After retirement the benefits payables are indexed yearly with TyEL-index.

The promised benefit is defined in the rules of the Fund, mostly 66% at a maximum of the salary basis. The salary basis is an average of ten last year's salaries, which are indexed with common salary index to accounting year.

Sweden

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 Swedish pension fund is managed by a Board, consisting of both employers' and employees' representatives. The fund is operating under regulation from Swedish Financial Supervisory Authority and the County Administrative Board and governed by Swedish law (no. 1967:531). The fund constitutes a security for the employer's defined benefit pension plan liability and the fund has no obligations in relation to pension

payments. The employer must have a credit insurance from PRI Pensionsgaranti Mutual Insurance Company for the liability. The liability must not be fully covered by the fund according to the regulations.

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.

Pension arrangements in other countries

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 and where the company meets the benefit payment obligation as it falls due. 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.

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.

In other countries the pension arrangements are done in accordance with the local legislation and practice, mostly being defined contribution plans.

Main risks relating to defined benefit plans - Sweden and Finland

Overall risks

Sweden - As the pension fund is separated from the funding companies Fortum is not obliged to make additional contributions to the pension fund in any case of deficit. However if the assets decrease to a level lower than the liability according to Swedish GAAP, Fortum's credit insurance cost from PRI will increase.

Finland - If the return of fund's assets is not enough to cover the raise in liability and benefit payments over the financial year then the employer funds the deficit with contributions unless the fund has sufficient equity.

Change in discount rate

Sweden - The discount rate which is used to calculate the defined benefit obligation is derived from market rates on Swedish covered bonds with an equivalent duration to the pension obligation, and the company therefore has a risk in the development on the bond market. Should the market rates decrease then the liability increases.

Finland - The discount rate which is used to calculate the defined benefit obligation (according to IFRS) depends on the value of corporate bond yields as at reporting date. A decrease in yields increases the benefit obligation that is offset by increase in the value of fixed income holdings.

Investment and volatility risk

Finland - The pension fund's board accepts yearly an Investment Plan, which is based on the external asset-liability analysis. The assets are allocated to stocks and stock funds, fixed income instruments and real estate. The investments are diversified into different asset classes and to different asset managers taking into account the regulation of the Financial Supervisory Authority. The real estate investments consist mainly of the Fortum headquarters, rented by Fortum Oyj.

Risks relating to assumptions used

Actuarial calculations use assumptions for future inflation and salary levels and longevity. Should the actual outcome differ from these assumptions, this might lead to higher liability.

Movement in the net defined benefit liability

EUR million	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset(-)/liability(+)	
	2013	2012	2013	2012	2013	2012
Balance at 1 January	652	581	-500	-460	152	121
Included in profit or loss						
Current service cost	15	15			15	15
Past service cost		0				0
Settlements	-42	1	4		-38	1
Curtailments		-1				-1
Net interest ¹⁾	18	20	-14	-16	4	4
	-9	35	-10	-16	-19	19
Included in OCI						
Remeasurement gains(+)/losses(-)	-55	47	-22	-21	-77	26
Actuarial gains/losses arising from changes in demographic assumptions					0	
Actuarial gains/losses arising from changes in financial assumptions	-69	59			-69	59
Actuarial gains/losses arising from experience adjustments	14	-12			14	-12
Return on plan assets (excluding amounts included in net interest expense)			-22	-21	-22	-21
Exchange rate differences	-15	12	10	-9	-5	3
	-70	59	-12	-30	-82	29
Other						
Contributions paid by the employer			-6	-6	-6	-6
Benefits paid	-22	-23	13	12	-9	-11
Transfer of assets in to insurance company in Sweden			29		29	-
Balance at 31 December	551	652	-486	-500	65	152
Present value of funded defined obligation					540	638
Fair value of plan assets					-485	-496
Funded status					55	142
Present value of unfunded obligation ²⁾					10	10
Net liability arising from defined benefit obligation					65	152
Defined benefit obligations included in the non-current liabilities					65	152
Defined benefit assets included in the non-current assets					0	0
Net defined benefit asset(-)/liability(+) presented in balance sheet					65	152

¹⁾ Net interest is presented among financial items in income statement, the rest of costs related to defined benefit plans are included in staff costs (row defined benefits plans and part of the amount reduction due to insured defined benefit obligation in staff cost specification in Note 12 Employee benefits).

²⁾ The unfunded obligation relates to arrangements in Russia and Poland.

At the end of 2013 a total of 2,085 (2012: 2,542) Fortum employees are included in defined benefit plans providing pension benefits. During 2013 pensions or related benefits were paid to a total of 4,300 (2012: 4,303) persons.

Contributions expected to be paid during the year 2014 are EUR 11 million.

Fair value of plan assets

EUR million	2013	2012
Equity instruments	196	161
Debt instruments	155	168
Cash and cash equivalents	24	41
Real estate, of which the total EUR 74 million (2012: 74) occupied by the Group	83	80
Company's own ordinary shares	5	4
Other assets	23	46
Total	486	500

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.

The actual return on plan assets in Finland and Sweden totalled EUR 25 million (2012: 35).

Amounts recognised in the balance sheet by country 2013

EUR million	Finland	Sweden	Other countries	Total
Present value of funded obligations	281	221	38	540
Fair value of plan assets	-262	-197	-26	-485
Deficit(+)/surplus(-)	19	24	12	55
Present value of unfunded obligations	-	-	10	10
Net asset(-)/liability(+) in the balance sheet	19	24	22	65
Defined benefit asset included in the assets	0	0	0	0
Pension obligations in the balance sheet	19	24	22	65

Amounts recognised in the balance sheet by country 2012

EUR million	Finland	Sweden	Other countries	Total
Present value of funded obligations	289	313	40	642
Fair value of plan assets	-251	-221	-27	-499
Deficit(+)/surplus(-)	38	92	13	143
Present value of unfunded obligations	-	-	9	9
Net asset(-)/liability(+) in the balance sheet	38	92	22	152
Defined benefit asset included in the assets	0	0	0	0
Pension obligations in the balance sheet	38	92	22	152

The principal actuarial assumptions used

	2013				2012			
	Finland	Sweden	Russia	Other countries	Finland	Sweden	Russia	Other countries
Discount rate, %	3.02	3.90	7.50	4.11	2.72	2.90	7.50	3.96
Future salary increases, %	2.20	3.00	7.50	3.72	2.20	3.50	7.50	3.54
Future pension increases, %	2.10	2.00	6.00	2.80	2.10	2.00	6.00	3.85
Rate of inflation, %	2.00	2.00	6.00	1.89	2.00	2.00	6.00	1.80

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 life expectancy is the expected number of years of life remaining at a give age:

Longevity at age 65 aged	Finland	Sweden
45 - male	20.6	21.6
45 - female	26.4	24.1
65 - male	19.0	19.6
65 - female	24.7	22.8

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 2013, 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%	-8%
0.5 % decrease in discount rate	8%	9%
0.5 % increase in benefit	6%	8%
0.5 % decrease in benefit	-6%	-6%
0.5 % increase in salary growth rate	1%	3%
0.5 % decrease in salary growth rate	-1%	-3%

The methods used in preparing the sensitivity analysis did not change compared to the previous period. Change in mortality basis so that life expectancy will increase by one year increases net liability in Finland and Sweden with EUR 17 thousand (3.4%).

Maturity profile of the undiscounted defined benefit obligation for Finland and Sweden

EUR million	Future benefit payments
Maturity under 1 year	20
Maturity between 1 and 5 years	96
Maturity between 5 and 10 years	109
Maturity between 10 and 20 years	213
Maturity between 20 and 30 years	177
Maturity over 30 years	153

The weighted average duration of defined benefit obligation in Finland and Sweden at the end of the 2013 is 15.9 years.

33 Other non-current liabilities

EUR million	2013	2012
Connection fees	417	418
Other liabilities	40	54
Moved to assets held for sale	-306	-
Total	151	472

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 (2012: 306). These connection fees are included in the amount moved to assets held for sale in 2013.

Refundable connection fees to the district heating network in Finland amounted to EUR 111 million (2012: 112).

34 Trade and other payables

EUR million	2013	2012
Trade payables	452	558
Accrued expenses and deferred income		
Accrued personnel expenses	86	57
Accrued interest expenses	255	228
Other accrued expenses and deferred income	128	105
Other liabilities		
VAT-liability	29	47
Current tax liability	16	18
Energy taxes	37	25
Advances received	57	41
Current provisions ¹⁾	23	7
Other liabilities	137	221
Moved to assets held for sale	-73	-
Total	1,147	1,307

¹⁾ See also Note 31 Other provisions.

The management considers that the amount of trade and other payables approximates fair value.

35 Pledged assets

EUR million	2013	2012
On own behalf		
For debt		
Pledges	301	293
Real estate mortgages	137	137
For other commitments		
Real estate mortgages	103	124
On behalf of associated companies and joint ventures		
Pledges and real estate mortgages	3	3

35.1 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 2013 (2012: 269).

Pledges also include bank deposits as trading collateral of EUR 12 million (2012: 4) 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 (2012: 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 (2012: 41).

[Regarding the relevant interest-bearing liabilities, see Note 28 Interest-bearing liabilities.](#)

35.2 Pledged assets for other commitments

Fortum has given real estate mortgages in power plants in Finland for a value of EUR 103 million (2012: 124) 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 21 million. Pledges given related to Inkoo and Naantali power plants.

[See also Note 30 Nuclear related assets and liabilities and note 38 Contingent liabilities.](#)

36 Leasing

Accounting policies

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.

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.

36.1 Leases as a lessor

Operating leases

The operating rental income recognised in income statement was EUR 1 million (2012: 8).

Future minimum lease payments receivable on operating leases

EUR million	2013	2012
Not later than 1 year	6	6
Later than 1 year and not later than 5 years	1	6
Later than 5 years	2	4
Total	9	16

Assets leased out by operating lease agreements

EUR million	2013	2012
Acquisition cost	4	8
Accumulated depreciation at 1 January	-1	-2
Depreciation charge for the year	0	0
Total	3	6

Finance leases

Fortum does not have material finance lease arrangements where where the Group is leasing out assets.

36.2 Leases as lessee

Operating leases

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 28 million (2012: 31) 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	2013	2012
Not later than 1 year	30	32
Later than 1 year and not later than 5 years	60	73
Later than 5 years	154	176
Total	244	281

Finance leases
Assets leased in by finance lease agreements

EUR million	2013	2012
Acquisition cost	40	41
Accumulated depreciation at 1 January	-18	-17
Depreciation charge for the year	-2	-2
Total	20	22

The assets leased by financial lease agreements are classified as machinery and equipment.

[For more information regarding Fortum's finance lease liabilities, see Note 28 Interest-bearing liabilities.](#)

37 Capital commitments

EUR million	2013	2012
Property, plant and equipment	759	1,168
Intangible assets	6	4
Total	765	1,172

Capital commitments are capital expenditure contracted for at the balance sheet date but not recognised in the financial statements. Capital commitments have decreased compared to year-end 2012. The decrease comes mainly from progressing of OAO Fortum's investment programme, finalisation of CHP investments in Klaipeda in Lithuania and Jelgava in Latvia, as well as the implementation of automatic meters in Finland. The decrease is offset by increases CHP investments in Stockholm, Sweden.

[For more information regarding capital expenditure, see Note 19 Property, plant and equipment.](#)

38 Contingent liabilities

Accounting policies

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.

EUR million	2013	2012
On own behalf		
Other contingent liabilities	78	67
On behalf of associated companies and joint ventures		
Guarantees	472	487
Other contingent liabilities	125	125
On behalf of others		
Guarantees	3	0

38.1 Guarantees on own behalf

Other contingent liabilities on own behalf contain various contingent liabilities for group companies, EUR 78 million in 2013 (2012: 67).

38.2 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 were EUR 40 million (2012: 39).

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 amount to SEK 3,696 million (EUR 417 million) at year-end 2013 (2012: EUR 431 million).

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 (2012: 125).

Fortum's 100% owned subsidiary Fortum Heat and Gas Oy has a collective contingent liability with Neste Oil Oyj of the in 2004 demerged Fortum Oil and Gas Oy's liabilities based on the Finnish Companies Act's (734/1978) Chapter 14a Paragraph 6.

39 Legal actions and official proceedings

39.1 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. 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 December 2013, the court decided in favor of the industry on all major topics. However, the decision has been appealed by EI to the next level, the Administrative Court of Appeal. EI is expected to file its detailed appeal by the end of February 2014. Timetable for consideration of the matter by the Administrative Court of Appeal is not yet set.

In Finland, the Supreme Administrative Court gave its ruling on December 23, 2013 on the appeal by Fortum Sähkönsiirto Oy and Fortum Espoo Distribution Oy concerning the level of cost of equity and debt used in the regulatory model for 2009-2011. According to the appeal, the cost of equity and debt used in the model was too low for 2009-2011 due to the impact of the financial crisis. The Supreme Administrative court stated that according to the main rule the regulatory model confirmed in advance will be applied and amendments to the model should only be made based on significantly changed circumstances. The Court ruled that the change in circumstances was not significant enough and the appeal by Fortum Sähkönsiirto Oy and Fortum Espoo Distribution Oy was rejected.

Additionally, Fortum Sähkönsiirto Oy has a case open in the Supreme Administrative Court in Finland concerning consideration of the extraordinary storm repair costs in 2011 in the regulation. Fortum Sähkönsiirto Oy has appealed for EUR 19 million to be treated as pass through items. Time schedule for the court ruling is still open and Fortum Sähkönsiirto Oy's regulatory decision for 2008-2011 will be further delayed.

Fortum received income tax assessments in Sweden for the years 2009, 2010 and 2011 in December 2011, December 2012 and December 2013, respectively. According to the tax authorities, Fortum would have to pay additional income taxes for the years 2009, 2010 and 2011 for the reallocation of loans between the Swedish subsidiaries in 2004-2005, as well as additional income taxes for the years 2010 and 2011 for financing of the acquisition of TGC 10 (current OAO Fortum) in 2008. The claims are based on a change in tax regulation as of 2009. Fortum considers the claims unjustifiable and has appealed the decisions. Based on legal analysis, no provision has been recognised in the financial statements.

If the decisions by the tax authority remain final despite the appeal processes, the impact on net profit would be approximately SEK 425 million (EUR 48 million) for the year 2009, approximately SEK 444 million (EUR 50 million) for the year 2010 and approximately SEK 532 million (EUR 60 million) for the year 2011.

The Administrative Court has now investigated Fortum's appeal for the year 2009 and, on 9 October 2013, ruled against the tax authority. The Administrative Court approved the appeal on formal legal grounds. Both the tax authority and Fortum have appealed the court's decision. Fortum is dissatisfied with the amount of legal costs that the Court ordered the tax authority to pay and appealed this part of the decision.

Fortum has received income tax assessments in Belgium for the years 2008 and 2009. Tax authorities disagree with 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 would be approximately EUR 36 million for the year 2008 and approximately EUR 27 million for the year 2009. The tax has already been paid. If the appeal is approved, Fortum will receive a 7% interest on the amount.

Fortum received an income tax assessment in Finland for 2007 in December 2013. Tax authorities claim in the transfer pricing audit, that detailed business decisions are done by Fortum Oyj and therefore re-characterize the equity Fortum has injected to its Belgium subsidiary Fortum Project Finance NV not to be equity, but funds to be available for the subsidiary. Tax authorities' view is that the interest income that Fortum Project Finance NV received from its loans should be taxed in Finland, not Belgium. The Belgium tax authorities have an opposite view on the issue. Fortum considers the claims unjustifiable both for legal grounds and interpretation. Fortum has appealed the decision. The

appeal is based on national legislation in Finland and the EU arbitration between Finland and Belgium. Based on legal analysis, no provision has been recognized in the financial statements. If the decisions by the tax authority remain final despite the appeals processes, the impact on net profit would be approximately EUR 136 million for the year 2007.

Fortum has on-going tax audits in Finland, Belgium, Russia and some other countries.

[See Note 14 Income tax expense and 29 Deferred income taxes](#)

In addition to the litigations described above, some Group companies are involved in other routine tax and other disputes incidental to their normal conduct of business. Based on the information currently available, management does not consider the liabilities arising out of such litigations likely to be material to the Group's financial position.

39.2 Associated companies

In Finland Fortum is participating in the country's fifth nuclear power plant unit, Olkiluoto 3 (OL3), 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 reactor main components are installed. Installation of the other components and engineering of the plant automation system continued. Based on the progress reports of AREVA-Siemens Consortium, TVO estimates that the start of the regular electricity production of the plant unit may be postponed until year 2016. The supplier is responsible for the time schedule.

In December 2008 the OL3 supplier, AREVA-Siemens, initiated the International Chamber of Commerce (ICC) arbitration proceedings and submitted a claim concerning the delay and the ensuing costs incurred at the Olkiluoto 3 project. In 2012, TVO submitted a counter-claim and defense in the matter. The quantification estimate of TVO's costs and losses was approximately EUR 1.8 billion, which included TVO's actual claim and estimated part. The arbitration proceedings may continue for several years and TVO's claimed amounts will be updated. The supplier updated its original claim in October 2013. The updated claim including quantification until the end of June 2011 and together with the original claim, is in total approximately EUR 2.7 billion. TVO has considered and found the claim by the supplier to be without merit, and is in the process of scrutinizing the new material and responding to it.

40 Related party transactions

40.1 The Finnish State and companies owned by the Finnish State

At the end of 2013, 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.

[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.

40.2 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 2013.

[See Note 12 Employee benefits for further information on the Board of Directors and Fortum Management Team remuneration and shareholdings.](#)

40.3 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 20 Participations in associated companies and joint ventures.](#)

40.4 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 in Fortum Pension Fund in Finland include Fortum shares representing 0.03% (2012: 0.03%) of the company's outstanding shares. Real estate and premises owned by the Fortum Pension Fund in Finland have been leased to Fortum. In 2013 the total amount paid by Fortum in contributions to the pension funds was EUR 0 million (2012: 0). Real estate mortgages have also been given for loans from Fortum's pension fund for EUR 41 million (2012: 41).

41 Events after the balance sheet date

There are no material events after balance sheet date.

42 Subsidiaries by segment on 31 December 2013

● = 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
Findis Oy	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	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	²⁾ Finland	▼	100.0
Fortum Nuclear Services Oy	Finland	●	100.0
Fortum Power and Heat Oy	²⁾ Finland	●, ■, ▼	100.0
Fortum Sähkönsiirto Oy	²⁾ 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
Tohkojan Tuulipuisto Oy	¹⁾ Finland	●	100.0
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.A.S	France	●	100.0
Fortum Service Deutschland GmbH	Germany	●	100.0
Fortum Energy 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 Insurance Ltd	Guernsey	▼	100.0
Amrit Energy Private Ltd	¹⁾ India	▼	100.0
Finnshakti Energy Private Limited	¹⁾ India	▼	100.0
FinnSurya Energy Private Limited	¹⁾ India	▼	100.0
Fortum India Private Limited	²⁾ India	▼	100.0
Fortum C&P	Ireland	▼	100.0
Fortum Finance Ireland Limited	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	Luxemburg	▼	100.0
Fortum L.A.M SNC.	Luxemburg	■	100.0
Fortum Luxembourg SARL	Luxemburg	▼	100.0
Fortum Meter Lease Norway SNC	Luxemburg	▲	100.0
Fortum Meter Lease SNC	Luxemburg	▲	100.0
Fortum Sendi Prima Sdn Bhd	Malaysia	●	100.0
Fortum Distribution AS	Norway	▲	100.0
Fortum ESD Norway AS	¹⁾ 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 Power and Heat AS	1) Norway	▲	100.0
Fortum Bytom SA	Poland	■	98.2
Fortum Power and Heat Polska Sp.z.o.o	Poland	■, ●, ▼	100.0
Fortum Zabrze SA	Poland	■	97.7
Rejonowa Spółka Ciepłownicza Sp. z o.o.	Poland	■	98.2
Chelyabinsk Energoremont	Russia	□	97.6
LLC Fortum Energy OOO Fortum Energija	Russia	□	100.0
OAD Fortum	Russia	□	97.6
Tobolsk CHP Limited Liability Company	1) Russia	□	97.6
Urals Heat Network	Russia	□	97.6
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
Brännälven Kraft AB	Sweden	●	67.0
Brista 2 Aktiebolag	Sweden	■	42.6
Brista 2 Kommanditbolag	Sweden	■	42.6
Brista Spårterminal AB	Sweden	■	50.1
Bullerforsens Kraft Aktiebolag	Sweden	●	88.0
Fortum 1 AB	Sweden	□	100.0
Fortum Älvkraft i Värmland 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 Värme Invest AB	Sweden	■	50.1
Fortum Vind Norr AB	Sweden	●	100.0
Fortum Vindvärme AB	Sweden	■	50.1
Fortum Zeta AB	Sweden	▼	100.0
Laforsen Produktionsnät Aktiebolag	Sweden	▲	80.0
Mellansvensk Kraftgrupp Aktiebolag	Sweden	●	86.9
Oreälvens Kraftaktiebolag	Sweden	●	65.0

Sigtuna-Väsby Fastighets AB	Sweden	■	50.1
Stockholm Gas AB	Sweden	■	50.1
Uddeholm Kraft Aktiebolag	Sweden	●	100.0
Värmlandskraft-OKG-delägarna Aktiebolag	Sweden	●	73.3
FB Generation Services B.V.	The Netherlands	●	75.0
Fortum Finance II B.V.	The Netherlands	▼	100.0
Fortum Holding B.V.	²⁾ The Netherlands	▼	100.0
Fortum India B.V.	The Netherlands	▼	100.0
Fortum India Industry B.V.	¹⁾ 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 Sun B.V.	The Netherlands	▼	100.0
Fortum Wave Power B.V.	The Netherlands	●	100.0

Parent company financial statements

Income statement

EUR million	Note	2013	2012
Sales	2	84	34
Other income	3	7	8
Employee costs	4	-33	-38
Depreciation, amortisation and write-downs	7	-9	-7
Other expenses		-60	-67
Operating profit		-11	-70
Financial income and expenses	5	-16	409
Profit after financial items		-27	339
Group contributions ¹⁾		608	574
Profit before income tax		581	913
Income tax expense	6	-104	-84
Profit for the period		477	829

¹⁾ Taxable profits transferred from Finnish subsidiaries.

Balance sheet

EUR million	Note	31 Dec 2013	31 Dec 2012
ASSETS			
Non-current assets			
Intangible assets	Z	15	16
Property, plant and equipment	Z	13	10
Investments in group companies	Z	16,215	16,450
Interest-bearing receivables from group companies	Z	2,382	1,561
Interest-bearing receivables from associated companies	Z	1	1
Other non-current assets	Z	5	1
Deferred tax assets		4	5
Total non-current assets		18,635	18,044
Current assets			
Other current receivables from group companies	8	630	582
Other current receivables from associated companies	8	0	0
Other current receivables	8	11	39
Cash and cash equivalents	9	1,059	714
Total current assets		1,700	1,335
Total assets		20,335	19,379
EQUITY			
Shareholders' equity	10		
Share capital		3,046	3,046
Share premium		2,822	2,822
Retained earnings		3,674	3,733
Profit for the period		477	829
Total shareholders' equity		10,019	10,430

LIABILITIES			
Non-current liabilities			
External interest-bearing liabilities	11	6,351	6,863
Interest-bearing liabilities to group companies	11	1,470	552
Interest-bearing liabilities to associated companies	11	247	234
Other non-current liabilities		2	5
Total non-current liabilities		8,070	7,654
Current liabilities			
External interest-bearing liabilities	11	2,025	958
Trade and other payables to group companies	12	25	95
Trade and other payables to associated companies	12	2	4
Trade and other payables	12	194	238
Total current liabilities		2,246	1,295
Total liabilities		10,316	8,949
Total equity and liabilities		20,335	19,379

Cash flow statement

EUR million	2013	2012
Cash flow from operating activities		
Profit for the period	477	829
Adjustments:		
Income tax expense	104	84
Group contributions	-608	-574
Finance costs - net	16	-409
Depreciations, amortisation and write-downs	9	7
Operating profit before depreciations	-2	-63
Non-cash flow items and divesting activities	1	0
Interest and other financial income	60	64
Interest and other financial expenses paid	-229	-191
Dividend income	210	683
Group contribution received	574	542
Realised foreign exchange gains and losses	-149	52
Taxes	-87	-61
Funds from operations	378	1,026
Other short-term receivables increase(-)/decrease(+)	-5	2
Other short-term payables increase(+)/decrease(-)	-40	35
Change in working capital	-45	37
Net cash from operating activities	333	1,063
Cash flow from investing activities		
Capital expenditures	-9	-8
Acquisition of shares and capital contributions in subsidiaries	-19	-912
Capital returns from subsidiaries	210	-
Acquisition of other shares	-2	0
Proceeds from sales of fixed assets	0	0
Proceeds from sales of shares in associates	0	0
Change in interest-bearing receivables and other non-current assets	-836	230
Net cash used in investing activities	-656	-690
Cash flow before financing activities	-323	373

Cash flow from financing activities		
Proceeds from long-term liabilities	759	1,351
Payment of long-term liabilities	-526	-508
Change in cashpool liabilities	917	-253
Change in short-term liabilities	406	179
Dividends paid	-888	-888
Net cash used in financing activities	668	-119
Net increase(+)/decrease(-) in cash and cash equivalents	345	254
Cash and cash equivalents at the beginning of the period	714	460
Cash and cash equivalents at the end of the period	1,059	714

Notes to the parent company financial statement

1 Accounting policies and principles

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.

1.9 Presentation of the notes

Information presented in the notes is given separately for Fortum Group companies and for associated companies of the Group.

2 Sales by market area

EUR million	2013	2012
Finland	65	20
Other countries	19	14
Total	84	34

3 Other income

EUR million	2013	2012
Gain on sales of shareholdings	-	0
Rental and other income	7	8
Total	7	8

4 Employee costs

EUR million	2013	2012
Personnel expenses		
Wages, salaries and remunerations	26	29
Indirect employee costs		
Pension costs	5	6
Other indirect employee costs	1	2
Other personnel expenses	1	1
Total	33	38
Salaries and remunerations		
President and CEO	2	2
Board of Directors	0	0
Total	2	2

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 12 Employee benefits and](#)

[Note 32 Pension obligations in the Consolidated financial statements.](#)

	2013	2012
Average number of employees	326	334

5 Financial income and expenses

EUR million	2013	2012
Dividend income from group companies	210	683
Dividend income from associated companies and other companies	0	-
Interest and other financial income from group companies	27	60
Write-downs of participations in group companies	-44	-110
Interest and other financial income	13	2
Exchange rate differences	1	-4
Interest and other financial expenses to group companies	-8	-6
Interest and other financial expenses	-215	-216
Total	-16	409
Total interest income and expenses		
Interest income	40	62
Interest expenses	-219	-217
Interest net	-179	-155

Write-downs of participations in group companies are related to shares in Fortum Heat and Gas Oy.

6 Income tax expense

EUR million	2013	2012
Taxes on regular business operations	-45	-57
Taxes on group contributions	149	141
Total	104	84
Current taxes for the period	103	84
Current taxes for prior periods	0	0
Changes in deferred tax	1	0
Total	104	84

[For more information, see note 13 Contingent liabilities.](#)

7 Non-current assets

Intangible assets

EUR million	Intangible assets total
Cost 1 January 2013	47
Additions	4
Disposals	-2
Cost 31 December 2013	49
Accumulated depreciation 1 January 2013	31
Disposals	-1
Depreciation for the period	4
Accumulated depreciation 31 December 2013	34
Carrying amount 31 December 2013	15
Carrying amount 31 December 2012	16

Property, plant and equipment

EUR million	Buildings and structures	Machinery and equipment	Advances paid and construction in progress	Total
Cost 1 January 2013	1	33	4	38
Additions and transfers between categories	-	0	6	6
Disposals	0	-1	-	-1
Cost 31 December 2013	1	32	10	43
Accumulated depreciation 1 January 2013	0	28	-	28
Disposals	0	-1	-	-1
Depreciation for the period	1	2	-	3
Accumulated depreciation 31 December 2013	1	29	-	30
Carrying amount 31 December 2013	0	3	10	13
Carrying amount 31 December 2012	1	5	4	10

Investments

EUR million	Shares in Group companies	Receivables from Group companies	Receivables from associated companies	Other non-current assets	Total
1 January 2013	17,330	1,561	1	2	18,894
Additions ¹⁾	-	1,089	-	5	1,094
Disposals ²⁾	-191	-268	0	-	-459
31 December 2013	17,139	2,382	1	7	19,529
Accumulated depreciation 1 January 2013	-880	-	-	-	-880
Impairment charges ³⁾	-44	-	-	-2	-46
Accumulated depreciation 31 December 2013	-924	-	-	-2	-926
Carrying amount 31 December 2013	16,215	2,382	1	5	18,603

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.

8 Other current receivables

EUR million	2013	2012
Other current receivables from group companies		
Trade receivables	10	5
Other receivables	609	574
Accrued income and prepaid expenses	11	3
Total	630	582
Other current receivables from associated companies		
Trade receivables	0	0
Other current receivables		
Trade receivables	0	0
Other receivables	1	1
Accrued income and prepaid expenses	10	38
Total	11	39

9 Cash and cash equivalents

EUR million	2013	2012
Cash at bank and in hand	984	714
Bank deposits	75	-
Cash and cash equivalents	1,059	714

10 Changes in shareholders' equity

EUR million	Share capital	Share premium	Retained earnings	Total
Total equity 31 December 2012	3,046	2,822	4,562	10,430
Cash dividend	-	-	-888	-888
Profit for the period	-	-	477	477
Total equity 31 December 2013	3,046	2,822	4,151	10,019
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

EUR million	2013	2012
Distributable funds 31 December	4,151	4,562

11 Interest-bearing liabilities

External interest-bearing liabilities

EUR million	2013	2012
Bonds	4,725	5,205
Loans from financial institutions	681	747
Other long-term interest-bearing debt	945	911
Total long-term interest-bearing debt	6,351	6,863
Current portion of long-term bonds	1,103	499
Current portion of loans from financial institutions	49	25
Commercial papers	718	228
Other short-term interest-bearing debt	155	206
Total short-term interest-bearing debt	2,025	958
Total external interest-bearing debt	8,376	7,821

Maturity of external interest-bearing liabilities

EUR million	2013
2014	2,025
2015	1,029
2016	841
2017	542
2018	631
2019 and later	3,308
Total	8,376

External interest-bearing liabilities due after five years

EUR million	2013	2012
Bonds	2,440	2,228
Loans from financial institutions	118	287
Other long-term liabilities	750	710
Total	3,308	3,225

Other interest-bearing liabilities due after five years

EUR million	2013	2012
Interest-bearing liabilities to group companies	9	9
Interest-bearing liabilities to associated companies	248	234
Total	257	243

12 Trade and other payables

EUR million	2013	2012
Trade and other payables to group companies		
Trade payables	1	39
Other liabilities	24	56
Accruals and deferred income	0	0
Total	25	95
Trade and other payables to associated companies		
Accruals and deferred income	2	4
Total	2	4
Trade and other payables		
Trade payables	9	9
Other liabilities	8	6
Accruals and deferred income	177	223
Total	194	238

13 Contingent liabilities

EUR million	2013	2012
On own behalf		
Other contingent liabilities	3	5
On behalf of group companies		
Guarantees	348	527
On behalf of associated companies		
Guarantees	417	431
Contingent liabilities total	768	963

Operating leases

EUR million	2013	2012
Lease payments		
Not later than 1 year	4	3
Later than 1 year and not later than 5 years	6	7
Total	10	10

Derivatives

EUR million	2013			2012		
	Contract or notional value	Fair value	Not recognised as income	Contract or notional value	Fair value	Not recognised as income
Forward rate agreements	56	0	0	116	0	0
Interest rate swaps	6,658	105	100	6,268	201	169
Forward foreign exchange contracts ¹⁾	18,614	-39	5	19,909	-54	1
Interest rate and currency swaps	928	36	-2	544	-8	0

¹⁾ Includes also future positions.

Fortum Oyj received in December 2013 an income tax assessment regarding transfer pricing for the year 2007. Fortum has appealed the decision. Based on legal analyses, no provision has been recognised in the financial statements. If the decisions by the tax authority remain final despite the appeals processes, the impact on net profit would be approximately EUR 136 million for the year 2007.

[For more information, see note 39 Legal actions and official proceedings to the consolidated financial statements.](#)

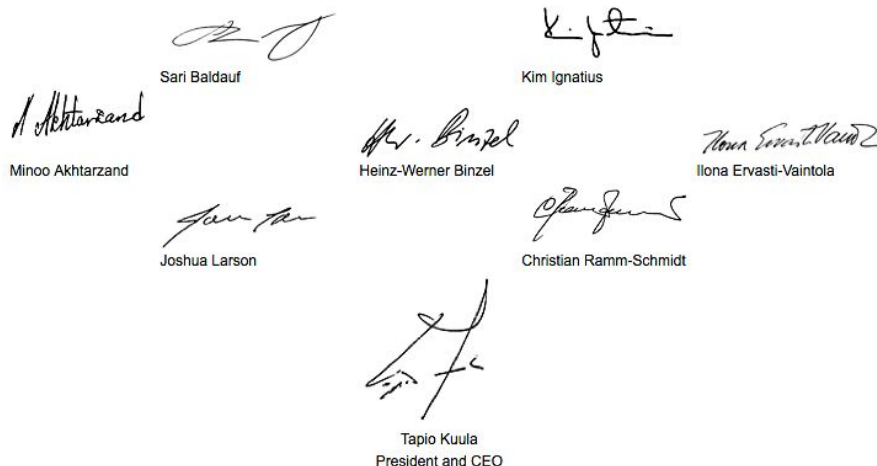
14 Related party transactions

[See Note 40 Related party transactions in the Consolidated financial statements.](#)

Proposal for the distribution of earnings

The distributable funds of Fortum Corporation as at 31 December 2013 amounted to EUR 4,151,029,137.59 including the profit of the period of EUR 477,747,032.48. 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 1.10 per share for 2013 totalling EUR 977,203,749.50, when calculated based on the number of registered shares as of 3 February 2014. The Board of Directors proposes that the remaining part of the profit be retained in the shareholders' equity.



Sari Baldauf
Kim Ignatius
Minoo Akhtarzand
Heinz-Werner Binzel
Ilona Ervasti-Vaintola
Joshua Larson
Christian Ramm-Schmidt
Tapio Kuula
President and CEO

Espoo, 3 February 2014

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.-31.12.2013. 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.

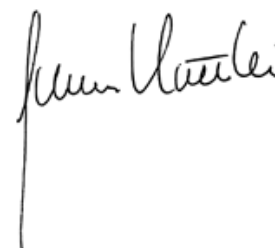
Other opinions

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, 3 February 2014

Deloitte & Touche Oy
Authorized Public Audit Firm



Jukka Vattulainen
Authorized Public Accountant



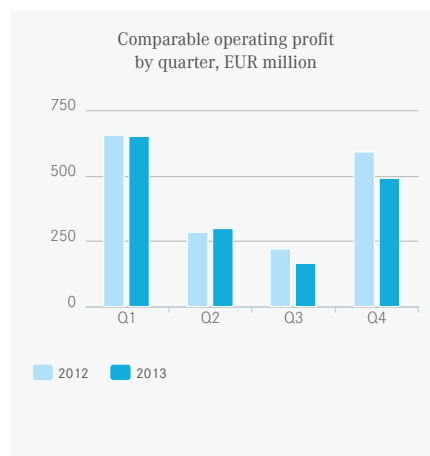
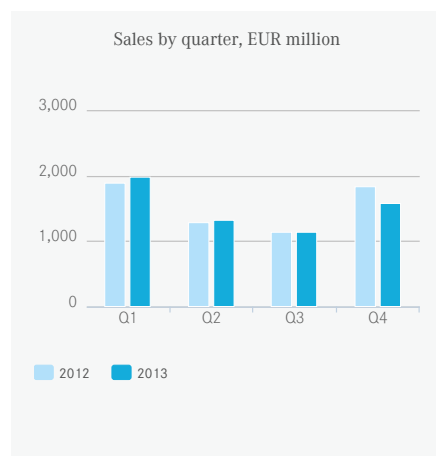
NOTE: Quarterly financial information is unaudited.

Selected data based on quarterly consolidated income statement

EUR million	Q1/ 2012	Q2/ 2012	Q3/ 2012	Q4/ 2012	2012	Q1/ 2013	Q2/ 2013	Q3/ 2013	Q4/ 2013	2013
Sales	1,901	1,284	1,140	1,834	6,159	1,991	1,327	1,148	1,590	6,056
Comparable EBITDA	812	447	391	766	2,416	819	467	364	649	2,299
Comparable operating profit	654	284	223	591	1,752	650	298	166	493	1,607
Operating profit	739	286	226	623	1,874	603	438	97	574	1,712
Share of profit/loss of associates and joint ventures	-7	26	7	-3	23	29	33	4	39	105
Finance costs - net	-77	-74	-83	-77	-311	-73	-83	-78	-84	-318
Profit before income tax	655	238	150	543	1,586	559	388	23	529	1,499
Income tax expense	-119	-47	-30	122	-74	-107	-74	4	-43	-220
Profit for the period	536	191	120	665	1,512	452	314	27	486	1,279

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Profit for the period, non-controlling interests	-39	-4	6	-59	-96	-51	0	4	-28	-75
Profit for the period, owners of the parent	497	187	126	606	1,416	401	314	31	458	1,204
Earnings per share, basic, EUR	0.56	0.21	0.14	0.68	1.59	0.45	0.35	0.04	0.52	1.36
Earnings per share, diluted, EUR	0.56	0.21	0.14	0.68	1.59	0.45	0.35	0.04	0.52	1.36



Quarterly sales by segment

EUR million	Q1/ 2012	Q2/ 2012	Q3/ 2012	Q4/ 2012	2012	Q1/ 2013	Q2/ 2013	Q3/ 2013	Q4/ 2013	2013
Power	655	535	506	719	2,415	664	547	495	542	2,248
Heat	625	321	205	477	1,628	629	283	214	439	1,565
Russia	310	198	203	319	1,030	344	251	210	314	1,119
Distribution	308	223	225	314	1,070	342	230	219	284	1,075
Electricity Sales	247	135	119	221	722	262	153	133	196	744
Other	44	29	23	41	137	16	15	16	22	69
Netting of Nord Pool Spot transactions ¹⁾	-188	-88	-66	-161	-503	-188	-98	-92	-132	-510
Eliminations	-100	-69	-75	-96	-340	-78	-54	-47	-75	-254
Total	1,901	1,284	1,140	1,834	6,159	1,991	1,327	1,148	1,590	6,056

¹⁾ Sales and purchases with Nord Pool Spot are netted at the 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/ 2012	Q2/ 2012	Q3/ 2012	Q4/ 2012	2012	Q1/ 2013	Q2/ 2013	Q3/ 2013	Q4/ 2013	2013
Power	342	222	201	381	1,146	303	210	138	207	858
Heat	162	24	-9	94	271	170	11	-14	106	273
Russia	48	4	-12	28	68	41	20	-15	110	156
Distribution	110	51	57	102	320	137	60	57	77	331
Electricity Sales	9	11	9	10	39	15	13	13	7	48
Other	-17	-28	-23	-24	-92	-16	-16	-13	-14	-59
Comparable operating profit	654	284	223	591	1,752	650	298	166	493	1,607
Non-recurring items	110	11	1	33	155	4	0	40	17	61
Other items affecting comparability	-25	-9	2	-1	-33	-51	140	-109	64	44
Operating profit	739	286	226	623	1,874	603	438	97	574	1,712

The first and last quarters of the year are usually the strongest quarters for power and heat businesses.

[Quarterly information from 2005 to 2013 is available in Excel format on Fortum's website www.fortum.com/investors/financial-information.](http://www.fortum.com/investors/financial-information)



Fortum's Financials 2013 includes the audited consolidated financial statement of the Fortum Group and review of the operations during the year. The company's Corporate Governance Statement and Annual Review are published on the annual report 2013 internet site at the same time as Fortum's Financials. In addition to the Annual Review, Financials and Corporate Governance, Fortum publishes its Sustainability Report 2013 on the same internet site at the end of March 2014. The report follows the Global Reporting Initiative's (GRI) G3.1 Guidelines.

Annual General Meeting

The Annual General Meeting of Fortum Corporation will be held on Tuesday, 8 April 2014, 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 EET.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a dividend of EUR 1.10 per share for 2013, totalling approximately EUR 977 million based on the number of registered shares as of 3 February 2014. The possible dividend-related dates planned for 2014 are:

- the ex-dividend date 9 April 2014,
- the record date for dividend payment 11 April 2014 and
- the dividend payment date 22 April 2014.

Financial information in 2014

Fortum will publish three interim reports in 2014: Q1 on 29 April, Q2 on 18 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 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.

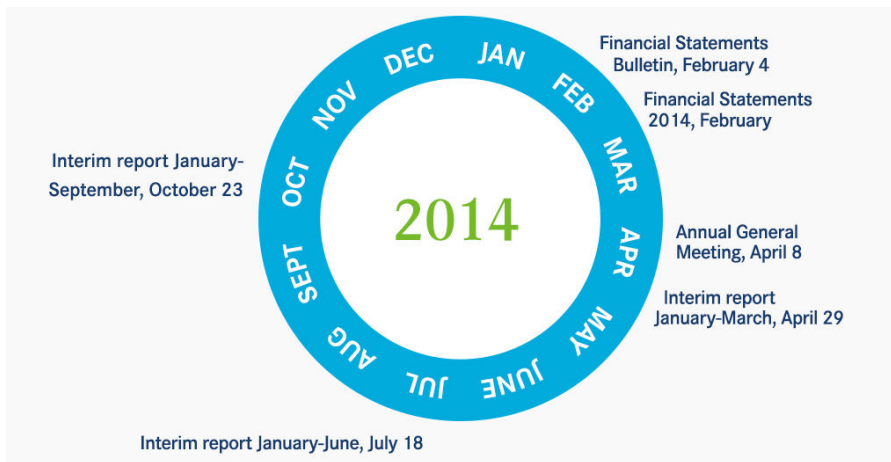
Fortum share basics

Listed on NASDAQ OMX Helsinki
 Trading ticker: FUM1V
 Number of shares, 4 February 2014:
 888,367,045.
 Sector: Utilities

Fortum's activities in capital markets during 2013

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 2013 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.



Corporate Governance



The General Meeting of Shareholders is the highest decision-making body of Fortum. The Board of Directors is responsible for the company's strategic development. The President and CEO is in charge of the operative, day-to-day management.

Corporate Governance Statement

Corporate governance at Fortum is based Finnish laws, the company's Articles of Association and the Finnish Corporate Governance Code 2010. The Corporate Governance Statement is issued separately from the Operating and financial review, and it has been reviewed by the Audit and Risk Committee of Fortum's Board of Directors.

Fortum prepares consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Finnish Securities Markets Act as well as the appropriate Financial Supervision Authority's regulations and guidelines and NASDAQ OMX Helsinki Ltd's rules. The company's Operating

and financial review and the parent company financial statements are prepared in accordance with the Finnish Companies Act, Accounting Act, Securities Market Act and the opinions and guidelines of the Finnish Accounting Board. The auditor's report covers the Operating and financial review, consolidated financial statements and the

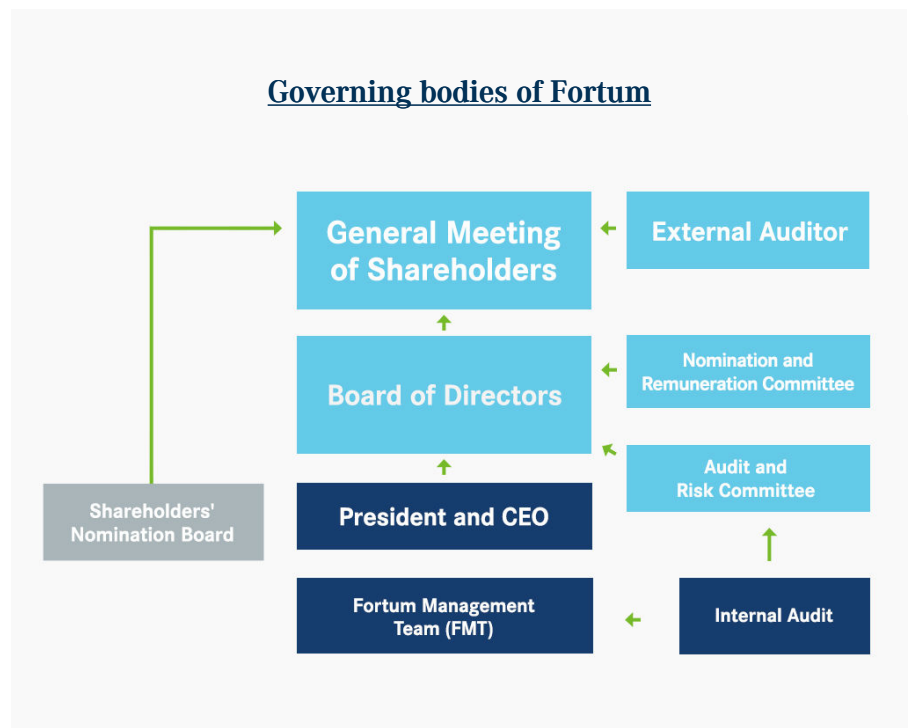
parent company financial statements. The Finnish Corporate Governance Code 2010 is available on the website of the Securities Markets Association (www.cgfinland.fi).

Governing bodies of Fortum

The decision-making bodies managing and overseeing the Group's administration and operations are the General Meeting of Shareholders, the Board of Directors with its two Committees, the Audit and Risk Committee and the Nomination and Remuneration Committee, and the President and CEO, supported by the Fortum Management Team.

The General Meeting of Shareholders is the highest decision-making body of Fortum making resolutions in matters designated in the Companies Act. The Board of Directors is responsible for the company's strategic development and for supervising and steering the company's business and management. The President and CEO, supported by the Fortum Management Team, has the operational responsibility at the Group level and is in charge of the day-to-day management of the Group, and at the division level, the operational responsibility is held by the division head, supported by the division's management team.

In addition, Fortum has an informal Advisory Council consisting of representatives of



Fortum's stakeholder groups as invited by the Board of Directors. The Advisory Council aims

to advance Fortum's businesses by facilitating dialogue and exchange of views

between Fortum and its stakeholders. During 2013, the Advisory Council consisted of 13

representatives of Fortum's stakeholder groups and three employee representatives.

General Meeting of Shareholders

The General Meeting of Shareholders is the highest decision-making body of Fortum. Every shareholder has the right to attend the General Meeting and exercise his/her power of decision in matters belonging to the General Meeting by law. Each share entitles to one vote. A shareholder who is present at the General Meeting of Shareholders also has the right to request information with respect to the matters to be considered at the meeting.

Decisions at the General Meetings of Shareholders are primarily made by a simple majority of votes. Examples of such decisions are the following: resolutions on the adoption

of the financial statements, payment of dividends, discharging from liability of the members of the Board of Directors and the President and CEO, appointment of the Board of Directors and the external auditors and decision on their remuneration.

In accordance with the Articles of Association and the Companies Act, 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.

The Annual General Meeting of Shareholders is to be held once a year, at the latest in June. An Extraordinary General Meeting of Shareholders shall be held whenever the Board of Directors finds it necessary or when it is required by law to convene such a meeting.

The duties of the Annual General Meeting include:

- Adoption of the parent company financial statements and consolidated financial statements
- Resolution on the use of the profit shown on the balance sheet and the payment of dividend
- Resolution on the discharge from liability of the members of the Board of Directors and the President and CEO
- Resolution on the number of members of the Board of Directors
- Resolution on the remuneration of the members of the Board of Directors
- Election of the chairman, deputy chairman and members of the Board of Directors
- Resolution on the remuneration of the external auditor
- Election of the external auditor

The Board of Directors

The Board of Directors is responsible for the company's strategic development and for supervising and steering the company's business and management. Further, under the Articles of Association and in line with the Companies Act, the Board of Directors represents the company and is responsible for the proper arrangement of the control of the company's accounts and finances.

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. The Annual General Meeting also elects the Chairman and the Deputy Chairman of the Board of Directors. Under the Articles of Association, a person who has reached the age of 68 cannot be elected to the Board of Directors.

The Board of Directors convenes according to a previously agreed schedule to discuss specified themes and other issues whenever considered necessary. The Chairman of the Board of Directors prepares the agenda for the Board of Directors meeting based on the proposal by the President and CEO. The members of the Board of Directors have a right to suggest specific matters and have them included on the agenda. More than half of the members must be present at the meeting to constitute a quorum. The decision of the Board of Directors shall be made by a simple majority. The Board of Directors has approved a written charter for its work, the main content of which is disclosed herein, including the duties of the Board of Directors.

The President and CEO, the Chief Financial Officer and the General Counsel, as secretary to the Board of Directors, attend the Board meetings on a regular basis. Other Fortum

Management Team members and senior executives attend as required.

As part of its duties, the Board of Directors conducts an annual self-assessment in order to further develop its work. In addition, the Board of Directors annually evaluates which of the directors are independent of the company and its significant shareholders.

Board of Directors in 2013

Until the Annual General Meeting held on 9 April 2013, the Board of Directors comprised the following seven members: Chairman Sari Baldauf, Deputy Chairman Christian Ramm-Schmidt, Mino Akhtarzand, Heinz-Werner Binzel, Ilona Ervasti-Vaintola, Kim Ignatius and Joshua Larson. The Annual General Meeting on 9 April 2013 re-elected them to the Board of Directors until the end of the Annual General Meeting in 2014.

In 2013, the Chairman, the Deputy Chairman and the members of the Board of Directors were all independent non-executive directors and also independent from the company's significant shareholders. Three members, including the Chairman, are female. During 2013, the Board of Directors met 11 times and the attendance rate of its members was 100%.

The main focus areas of the Board of Directors during 2013 consisted of in-depth

reviews of the economic environment and the energy sector, further development of the company's strategy, including assessment of the future alternatives of the electricity distribution business, update of the dividend policy, setting and implementing interim arrangements during the sick leave of the President and CEO, a leadership audit and review of succession plans as well as of further audit and review of various operations like IT and sustainability, among others.

Based on the self-assessment conducted during the previous year, the processes related to the sharing of the meeting material were improved during 2013. In addition, the Board of Directors set certain focus areas and amended certain processes in an effort to further enhance the efficiency of the board work.

Fortum's Board of Directors on 31 December 2013

Name	Born	Education	Occupation	Attendance in the Board meetings	Attendance in the Board Committee meetings
Chairman Ms. Sari Baldauf	1955	MSc (Econ.)	Non-executive chairman	11/11	Nomination and Remuneration Committee, 4/4
Deputy Chairman Mr. Christian Ramm-Schmidt	1946	BSc (Econ.)	Senior Partner of Merasco Capital Ltd. Non-executive director	11/11	Nomination and Remuneration Committee, 3/3 Audit and Risk Committee, 1/1
Ms. Minoo Akhtarzand	1956	Civil Engineer, Electrical engineering	Governor in the County of Jönköping Non-executive director	11/11	Nomination and Remuneration Committee, 4/4
Mr. Heinz-Werner Binzel	1954	Economics and electrical engineering degree	Independent consultant Non-executive director	11/11	Audit and Risk Committee, 6/6
Ms. Ilona Ervasti-Vaintola	1951	LL.M, Trained on the bench	Non-executive director	11/11	Nomination and Remuneration Committee, 4/4
Mr. Kim Ignatius	1956	BSc (Econ)	CFO of Sanoma Corporation Non-executive director	11/11	Audit and Risk Committee, 6/6
Mr. Joshua Larson	1966	Master of International Affairs, Bachelor in Russian language	Private investor and consultant Non-executive director	11/11	Audit and Risk Committee, 6/6

The duties of the Board of Directors include:

- Responsibility for the administration and the proper organisation of the operations of the company
- 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
- Ensuring that the accounting and financial administration are arranged appropriately
- Appointing and dismissing the President and CEO
- Confirming the Group's organisational structure at the top management level, and appointing and dismissing the members of the Fortum Management Team
- Reviewing the main risks and providing instructions concerning the risks
- Confirming the Group's business plan on an annual basis
- Setting and follow-up of company and management performance targets
- Approving the interim reports, consolidated financial statements, operating and financial review and parent company financial statements
- Defining the dividend policy
- Deciding on major investments, divestments and business arrangements
- Confirming Group policies and principles, such as the Group Risk Policy
- Confirming the company's ethical values and operating principles, including sustainability, and overseeing their implementation
- Reviewing the Group's sustainability performance and report

The Board Committees

The committees of the Board of Directors are the Audit and Risk Committee and the Nomination and Remuneration Committee.

The committees assist the Board of Directors by preparing and reviewing in more detail matters falling within the competence of the Board of Directors.

The Board of Directors appoints members of the Audit and Risk Committee and the Nomination and Remuneration Committee from among its members. Each committee shall have at least three members. The members shall have the expertise and experience required by the duties of the respective committee.

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 attend the committee meetings. The Chairman of the committee reports on the committee work to the Board of Directors regularly after each meeting and, in addition, the committee meeting materials and minutes are available to all members of the Board of Directors. The Board of Directors has approved written charters for the committees which are updated on a regular basis upon need.

The Audit and Risk Committee

The Audit and Risk Committee assists the Board of Directors in matters relating to financial reporting, risks and control, in accordance with the tasks specified for audit committees in the Finnish Corporate Governance Code 2010. The Audit and Risk Committee oversees the financial reporting process and monitors the efficiency of the internal controls and risk management within the Group. The committee has a written charter in which its duties have been defined.

Pursuant to the Finnish Corporate Governance Code 2010, the members of the Audit and Risk Committee shall have the qualifications necessary to perform the responsibilities of the committee and at least one of the members shall have expertise specifically in accounting, bookkeeping or auditing. The members shall be independent of the company and at least one member shall be independent of the company's significant shareholders.

The external auditors, Chief Financial Officer, Head of Internal Audit, Corporate Controller and General Counsel, as secretary to the committee, attend the committee meetings on a regular basis. Other senior executives attend to the meetings as invited by the committee.

The Audit and Risk Committee reports on its work to the Board of Directors regularly after each meeting. The Audit and Risk Committee annually reviews its charter, approves the internal audit charter and the internal audit plan and carries out an annual self-assessment of its work. As regards the external auditor, the committee reviews the audit plan and meets the external auditor regularly to discuss the audit plan, audit reports and findings. In addition, the committee evaluates the independence as well as monitors the performance of the external auditors.

Audit and Risk Committee in 2013

After the Annual General Meeting on 9 April 2013, the Board of Directors elected from amongst its members itself Kim Ignatius as the Chairman and Joshua Larson and Heinz-Werner Binzel as members to the Audit and Risk Committee. Until the Annual General Meeting on 9 April 2013, the committee comprised of Kim Ignatius as the Chairman and Joshua Larson, Heinz-Werner Binzel and Christian Ramm-Schmidt as members.

In 2013, the members were all independent of the company and its significant shareholders. The Audit and Risk Committee met six times in 2013 and the attendance rate was 100%.

The duties of the Audit and Risk Committee include:

- Monitoring the financial position of the company
- Supervising the financial reporting process
- Monitoring the reporting process of financial statements
- Communicating with the external auditor and reviewing the reports that the auditor prepares for the committee
- Monitoring the statutory audit of the financial statements and consolidated financial statements
- Holding annual private meetings with the external and internal auditors
- Preparing through the Board of Directors the proposal on the election of the external auditor for shareholders to consider and for resolution at the annual General Meeting
- Evaluating the independence of the external auditor
- Approving the operating instructions for internal audit
- Reviewing the charter, plans and reports of the internal audit function
- 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
- Annually reviewing the Group Risk Policy and risk exposures
- Reviewing reports on legal disputes and proceedings
- Reviewing the Corporate Governance Statement

The Nomination and Remuneration Committee

The Nomination and Remuneration Committee assists the Board of Directors in issues related to nomination and remuneration of the company's management. The committee has a written charter in which its duties have been defined.

Pursuant to the Finnish Corporate Governance Code 2010, the members of a remuneration committee shall be independent of the company. The President and CEO or other executives of the company may not be appointed as members of the committee.

The regular participants at the committee meetings are the President and CEO, Senior Vice President, Corporate Human Resources, and General Counsel as Secretary to the Committee.

The Nomination and Remuneration Committee reports on its work to the Board of Directors regularly after each meeting. The Nomination and Remuneration Committee annually conducts a self-evaluation of its work.

The Nomination and Remuneration Committee in 2013

After the Annual General Meeting on 9 April 2013, the Board of Directors elected from

amongst its members Sari Baldauf as the Chairman and Minoo Akhtarzand, Ilona Ervasti-Vaintola and Christian Ramm-Schmidt as members of the Nomination and Remuneration Committee. Until the Annual General Meeting on 9 April 2013, the committee comprised Sari Baldauf as the Chairman and Minoo Akhtarzand and Ilona Ervasti-Vaintola as members.

In 2013, the members were all independent of the company and its significant shareholders. The committee met four times during 2013 and the attendance rate was 100%.

The duties of the Nomination and Remuneration Committee include:

- Preparing for the Board of Directors recommendations on the pay structures and the bonus and incentive systems of the Group and its management
- Monitoring the functioning of the bonus systems to ensure that the management bonus systems 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 of the executives reporting directly to the President and CEO
- Preparing nomination and remuneration issues and proposals to the Board of Directors concerning the President and CEO as well as the management reporting directly to the President and CEO
- Assisting of the Board of Directors in reporting on remuneration at the Annual General Meeting, as necessary
- Reviewing and preparing succession plans for the President and CEO and the management directly reporting to the President and CEO
- Monitoring, planning and promoting competence development in the Group based on strategic target setting

Shareholders' Nomination Board

The Annual General Meeting on 9 April 2013 established a permanent Shareholders' Nomination Board, in accordance with the proposal of the Board of Directors. During the 9 years prior to the Annual General Meeting on 9 April 2013, the Shareholders' Nomination Board had been appointed annually in accordance with the proposal of the majority shareholder, the State of Finland.

The purpose and task of the Shareholders' Nomination Board is to prepare and present to the Annual General Meeting, and, if necessary, to an Extraordinary General Meeting, a proposal on the following matters: proposal on the remuneration, number and members of the Board of Directors. In addition, the task of the Shareholders' Nomination Board is to seek candidates as potential board members.

The Shareholders' Nomination Board consists of four members, three of which shall be appointed by the company's three largest shareholders, who shall appoint one member each. The Chairman of the Board of Directors serves as the fourth member. The members shall be nominated annually and their term of office shall end when new members are nominated to replace them.

Fortum's three largest shareholders, that are entitled to appoint members to the Shareholders' Nomination Board, shall be determined on the basis of the registered holdings as of the first working day in September in the year concerned. The Shareholders' Nomination Board shall forward its proposals for the Annual General Meeting to the Board of Directors by 31 January each year.

Nomination Board ahead of Annual General Meeting 2014

In September 2013, the following persons were appointed to the Shareholders' Nomination Board: Eero Heliövaara, Director General of the Government Ownership Steering Department, Prime Minister's Office; Harri Sailas, President and CEO, Ilmarinen Mutual Pension Insurance Company; and Liisa Hyssälä, Director General, Social Insurance Institution of Finland, KELA. In addition, the Chairman of the Board of Directors Sari Baldauf was a member of the Shareholders' Nomination Board.

The Shareholders' Nomination Board has decided to propose to the Annual General Meeting 2014, which will be held on 8 April 2014, that the fees to be paid to the

members of the Board of Directors remain unchanged compared to 2013 and are for 2014 as follows: for the Chairman, EUR 75,000 per year; for the Deputy Chairman, EUR 57,000 per year; and for each member, EUR 40,000 per year, as well as for the Chairman of the Audit and Risk Committee EUR 57,000 per year if he or she is not at the same time acting as Chairman or Deputy Chairman. In addition, for each Board and Board Committee meeting a fee of EUR 600 is proposed. For Board members living outside Finland in Europe, the fee for each meeting is proposed to be doubled and for Board members living outside Europe, the fee for each meeting is proposed to be tripled.

In addition, the Shareholders' Nomination Board has decided to propose to the Annual General Meeting 2014 that the Board of Directors comprises eight (8) members and that the following persons be elected to the Board of Directors for a term ending at the end of the Annual General Meeting 2015: Ms Sari Baldauf (as Chairman), Mr Kim Ignatius (as Deputy Chairman), Ms Minoo Akhtarzand, Mr Heinz-Werner Binzel, Ms Ilona Ervasti-Vaintola and Mr Christian Ramm-Schmidt as well as new members Mr Petteri Taalas and Mr Jyrki Talvitie.

President and CEO

The President and CEO holds the position of Managing Director under the Companies Act and is the Chairman of the Fortum Management Team. The President and CEO is in charge of the day-to-day management of the Group in accordance with the Companies Act and with instructions and orders issued by the Board of Directors. Under the Companies Act, the President and CEO is responsible for that the accounts of the

company comply with the applicable laws and that its financial affairs have been arranged in a reliable manner.

Tapio Kuula has served as the President and CEO since May 2009. In March 2013, Mr. Kuula was diagnosed with a condition requiring medical treatment after which he started a sick leave. Chief Financial Officer Markus Rauramo assumed responsibility for

the duties of the President and CEO during the sick leave. President and CEO Mr. Kuula returned to work in November 2013.

The performance of the President and CEO is evaluated by the Board of Directors. The evaluation is based on objective criteria that include the performance of the company and the achievement of targets set by the Board of Directors in advance.

Fortum Management Team and operational organisation

The President and CEO is supported by the Fortum Management Team. The Fortum Management Team assists the President and CEO in setting the strategic and sustainability targets within the framework approved by the Board of Directors, preparing the Group's business plans, and deciding on investments, mergers, acquisitions and divestments within its authorisation.

Financial results are monitored in the monthly reporting and reviewed monthly by the Fortum Management Team. Quarterly Performance Review meetings with the Fortum Management Team and the divisions' management are embedded in the Fortum Performance Management process.

Each member of the Fortum Management Team is responsible for the day-to-day operations and the implementation of operational decisions in their respective organisations. The Fortum Management Team meets on a monthly basis. On 31 December 2013, the Fortum Management Team consisted of nine members, including the President and CEO to whom the members

of the Management Team report. Two of the members were female.

Fortum's four divisions are:

- Power Division, focusing on power generation, power trading and power capacity development as well as on expert services for power producers.
- Heat Division focusing on combined heat and power generation, district heating and cooling activities as well as on business-to-business heating solutions.
- Russia Division focusing on 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 focusing on Fortum's electricity sales and distribution activities; it consists of two business areas: Distribution and Electricity Sales.

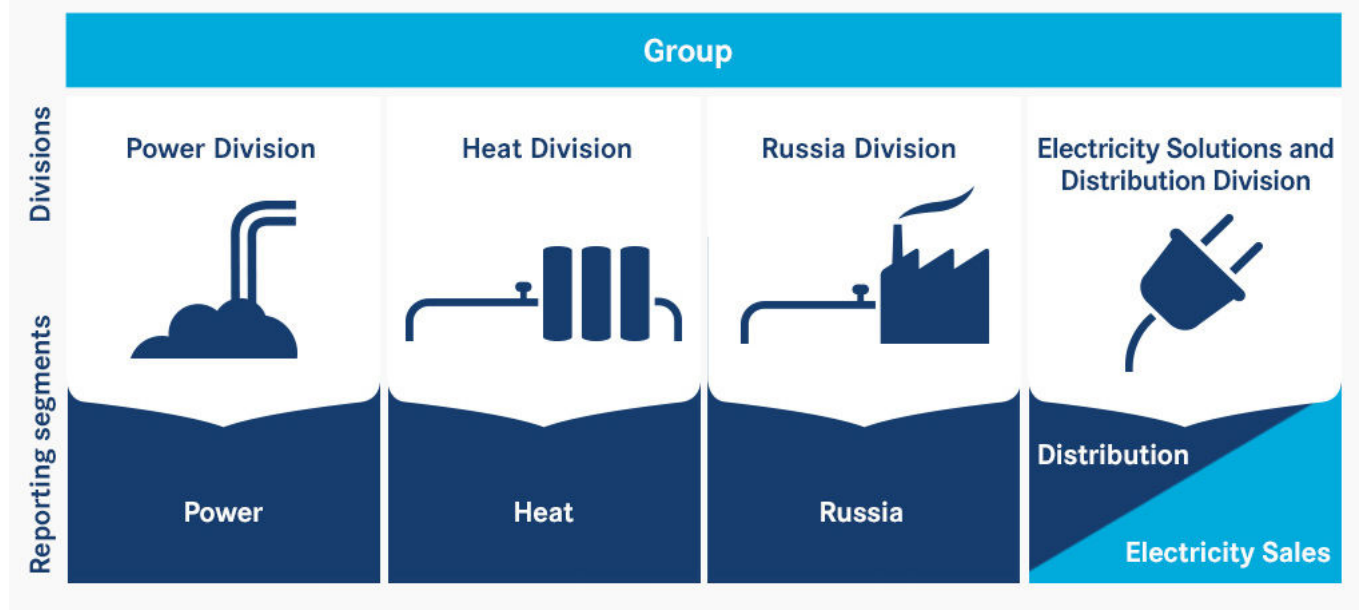
Fortum's Staff functions are Finance, Human Resources, IT and Business Process Management, R&D and Innovation, Communications, Corporate Relations, Strategy and M&A and Sustainability.

The Fortum Management Team on 31 December 2013

- Tapio Kuula, President and CEO, Chairman of the Fortum Management Team
Born 1957, MSc (Eng), MSc (Econ)
- Helena Aatinen, Senior Vice President, Corporate Communications
Born 1959, MSc (Econ)
- Alexander Chuvav, Executive Vice President, Russia Division
Born 1960, MSc (Eng)

- Mikael Frisk, Senior Vice President, Corporate Human Resources
Born 1961, MSc (Econ)
- Timo Karttinen, Executive Vice President, Electricity Solutions and Distribution Division
Born 1965, MSc (Eng)
- Per Langer, Executive Vice President, Heat Division
Born 1969, MSc (Econ)
- Markus Rauramo, Chief Financial Officer
Born 1968, MSc (Econ and Pol. Hist.)
- Matti Ruotsala, Executive Vice President, Power Division
Born 1956, MSc (Eng)
- Kaarina Ståhlberg, General Counsel
Born 1966, LL.M. (Helsinki), LL.M. (Columbia University, New York)

Fortum's financial reporting structure 31 December 2013



Changes in the business structure as of 1 March 2014

In February, Fortum announced that it will renew its business structure as of 1 March 2014. The target of the reorganisation is to strengthen Fortum's capability to execute the company's strategy in the fast developing operating environment. Fortum will report its 2014 first quarter financial results according to the new structure.

The new structure will consist of four reporting segments and staff functions. The four segments are Heat, Electricity Sales and Solutions, Power and Technology, Russia and Distribution. The staff functions are Finance, Strategy, Mergers and Acquisitions, Legal, Human Resources and IT, Communications and Corporate Relations.

Matti Ruotsala is appointed Chief Operating Officer (COO) and will act as deputy to the CEO. Fortum's new CFO will be Timo Karttinen, who will also head the Distribution Division. Markus Rauramo will continue in a

new role as Executive Vice President, Heat, Electricity Sales and Solutions, Per Langer as Executive Vice President, Hydro Power and Technology and Alexander Chuvav as Executive Vice President, Russia.

New Executive Management members are Tiina Tuomela, Executive Vice President, Nuclear and Thermal Power; Kari Kautinen, Senior Vice President, Strategy, Mergers and Acquisitions and Esa Hyvärinen, Senior Vice President, Corporate Relations.

Internal control and risk management systems in relation to financial reporting

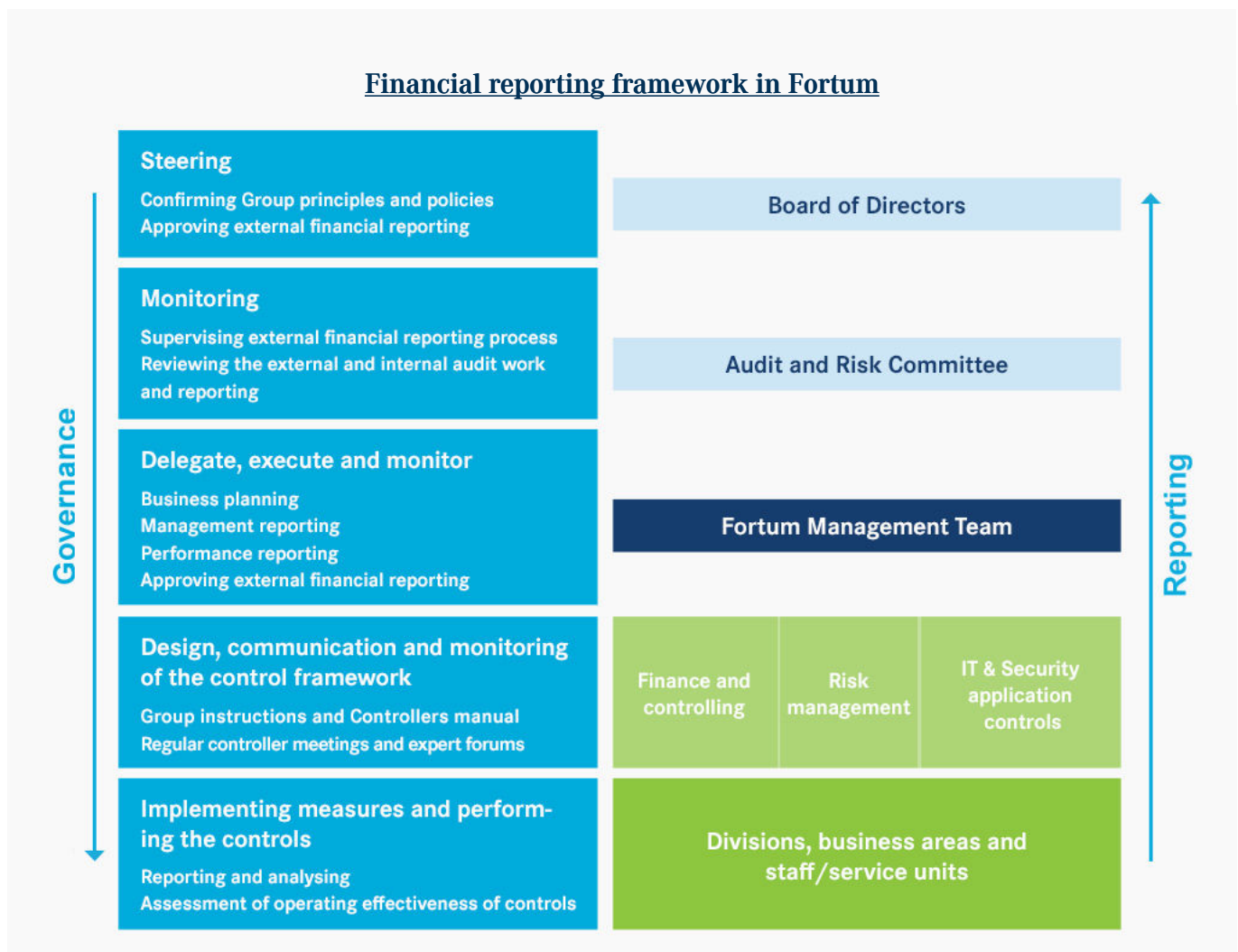
The internal control and risk management systems relating to financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and to ensure compliance with applicable laws and regulations.

Overview of risk management

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 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).

Financial reporting framework in Fortum



Internal control framework

Control environment

Fortum's internal control framework supports the execution of the strategy and ensures regulatory compliance and reliability of the financial reporting. The internal control framework consists of Group-level policies and processes as well as business and support process-level controls.

Corporate Risk Management is responsible for reporting risk exposures and maintaining the company's risk management framework.

Corporate Accounting and Control 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. The Controllers Manual contains financial reporting instructions. This manual is regularly reviewed and updated. The 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. This applies also to the financial reporting. Some areas, such as commodity market risk control are centralised.

Risk assessment

Risks related to financial reporting are identified and analysed annually as part of the risk management process. Risks are reported regularly in connection with the planning process and the follow-up of actions and improvements is integrated in 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. Cross-divisional teams by process area update this

framework regularly. This assessment includes risks related to potential fraud and other irregularities, as well as to risks of loss or misappropriation of assets.

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 the 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. A 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

centre has been ISO 9001:2008 certified since 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, risks and investments. These analyses are reviewed at different levels of the Group and ultimately by the Board of Directors.

Information and communication of policies, instructions and processes

The Controllers Manual includes the Fortum Accounting manual, Investment manual and reporting instructions and other policies relating to financial reporting. The monthly

Core Controllers' meetings, headed by the Corporate Controller, steer the development projects within Finance and receive updates from different expert forums within Finance.

The Regular Accounting Network Forum meetings are used to inform the finance community about upcoming changes in IFRS, new accounting policies and other changes.

Monitoring and 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 the divisions' management are embedded in the Fortum Performance Management process.

As part of the Fortum internal control framework, all divisions assess the effectiveness of the controls they are responsible for. Division- and corporate-level controller teams are responsible for assessing the financial reporting process, and Corporate Risk Management reviews these control assessments regularly and reports to the management and to the Audit and Risk

Committee on an annual basis. Internal control design and operating effectiveness are also assessed by Corporate Internal Audit. Audit results, including corrective actions and status, are regularly reported to the management and to the Audit and Risk Committee.

Fortum performance management process



Auditing

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 adequacy of the business processes and 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.

External Audit

The company has one external auditor, which shall be an audit firm certified by the Central

Chamber of Commerce. The external 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 9 April 2013 elected Authorised Public Accountant Deloitte & Touche Oy as the company's external auditor, with Authorised Public Accountant Jukka Vattulainen having the principal responsibility.

Compliance Management and Code of Conduct

Fortum's 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.

Prevention of corruption is one of the Code of Conduct's focus areas. Compliance risks such as corruption, are managed as part of Fortum's operational risk management framework and control procedures in all Fortum's operating countries. Fortum has 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 the business plans, and follow-up is a part of the business performance review. Line management regularly reports on the compliance activities to the Fortum Management Team and further to the Audit and Risk Committee.

Fortum employees are encouraged to report suspected misconduct to their own supervisors, to other management or, if necessary, directly to internal audit. Additionally, Fortum employees and partners can report suspicions of misconduct confidentially via an electronic-channel. The report can be submitted in several languages and anonymously if necessary.

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. For instance, separate anti-corruption training events for division management teams and other specific groups have been arranged by Legal department and, in addition, Fortum has provided training to its employees and directors through a specific Code of Conduct eLearning tool. Conducting the eLearning is also a part of the induction programme of new Fortum employees.



Remuneration

The Finnish Corporate Governance Code 2010 requires that Fortum issues a remuneration statement regarding the salaries and other remuneration paid by the company. Furthermore, the Cabinet Committee on Economic Policy, representing the state owner, issued in August 2012 a statement on the remuneration of executive management and key individuals in companies with state ownership. Fortum complies both with the Finnish Corporate Governance Code 2010 and the statement 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, at the proposal of the Nomination and Remuneration Committee, the

remuneration principles at the Group level and decides on the bonus targets and the remuneration of senior management (President and CEO and other members of the Fortum Management Team). 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 system.

The Board of Directors decides on the bonus criteria - based on predetermined and

measurable performance and result targets - for senior management (the President and CEO and other members of the Fortum Management Team). The bonuses paid to the members of senior management are 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 (annual salary = 12 times the salary paid in December of the year in question).

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 approves the Fortum

management members and key individuals 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.

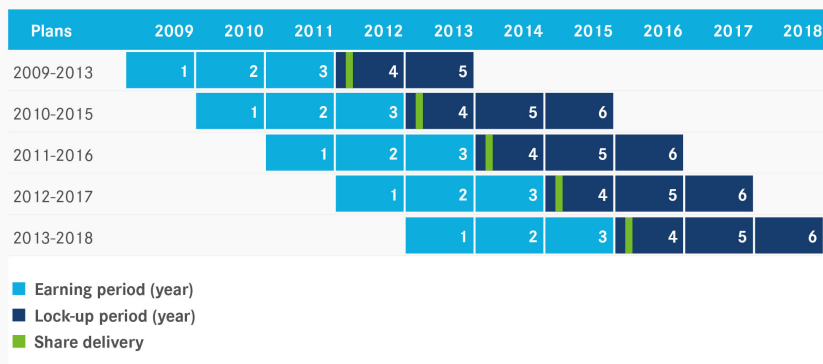
Fortum’s share bonus system is divided into six-year share plans, within which participants

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 annual salary.

Fortum's current long-term incentive system is in line with the statement on the remuneration of executive management and key individuals in companies with state ownership and the Finnish Corporate Governance Code 2010 for listed companies.

Share bonus systems



PCA Corporate Finance, an independent Finnish financial advisor, has been consulted in matters related to remuneration.

Compensation for the President and CEO and the Fortum Management Team

The remuneration of the President and CEO amounted to EUR 812,936 (2012: 1,260,483) and the remuneration of other Fortum Management Team members amounted to a total of EUR 2,997,744 (2012: 3,515,796).

The table below includes the short-term compensation paid to the President and CEO and the Fortum Management Team during 2013 and 2012. The bonuses paid to the Management Team, including the President and CEO, amounted to a total of EUR 155,182 (2012: 993,131), which

corresponds to 0.04% (2012: 0.26%) of the total remuneration in the Fortum Group.

EUR	Salaries and fringe benefits 2013	Salaries and fringe benefits 2012	Short-term bonuses 2013 ¹⁾	Short-term bonuses 2012 ¹⁾	Total 2013	Total 2012
President and CEO	795,000	979,824	17,935	280,659	812,936	1,260,483
Other Management Team members ^{2) 3)}	2,860,497	2,803,324	137,246	712,472	2,997,744	3,515,796
Total	3,655,498	3,783,148	155,182	993,131	3,810,680	4,776,279

¹⁾ Short-term bonus payments are based on the previous year's targets and achieved results.

²⁾ Including compensation of EUR 80,000 paid to CFO Rauramo for assuming the duties of the President and CEO during March-November 2013.

³⁾ CFO Rauramo was granted a recruitment bonus in 2012, to be paid over three years. As Fortum disclosed in 2012, the first 33,334 euro payment was made in 2012. The second payment of the same amount was disbursed in 2013 and Rauramo is entitled to a third payment of the same amount in 2014.

Additionally, the President and CEO had a gross income of EUR 971,341 from the share delivery of share plans 2007-2012 and 2010-2015 during spring 2013. The corresponding aggregated figure for the other members of the Fortum Management Team was EUR 1,508,203. The shares from share plan 2010-2015 cannot be transferred or sold before the end of the lock-up period.

Shares delivered to the management

The table shows the number of Fortum shares delivered to the President and CEO and other Fortum Management Team members under the long-term incentive plans.

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.

Fortum Management Team members 31st December 2013

	2013	2012
Tapio Kuula	35,152	17,171
Helena Aatinen	519	-
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	756	-
Matti Ruotsala	12,395	7,283
Kaarina Ståhlberg (member of the Fortum Management Team from 1 September 2013)	-	-

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, including free car allowance and phone allowances 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.
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 bonuses. If the President and CEO's contract is terminated before retirement age, he 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.

^{*)} Annual bonus payments (short- and long-term) cannot exceed 120% of annual salary (annual salary = 12 times the salary paid in December of the year in question).

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 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.

In addition to the statutory pensions, the members of Fortum Management Team have supplementary pension arrangements. The Group policy is that all new supplementary pension arrangements are defined contribution plans.

Retirement age for Fortum's President and CEO is 63 and for other members of the

Fortum Management Team 60-65. For the President and CEO and the other members of the Fortum Management Team, 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.

Remuneration of Board of Directors

Every member of the Board of Directors receives a fixed yearly 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 in 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 in employment relationship or service contract with Fortum and they are not given the opportunity to participate in Fortum's bonus or share bonus systems, 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 9 April 2013 confirmed the following compensation for the members of the Board of Directors:

Compensation for Board of Directors

EUR/year/meeting	2013	2012
Chairman	75,000	75,000
Deputy Chairman	57,000	57,000
Chairman of the Audit and Risk Committee ¹⁾	57,000	57,000
Members	40,000	40,000
Meeting fee ²⁾	600	600

¹⁾ if not acting as Chairman or Deputy Chairman of the Board of Directors simultaneously.

²⁾ is paid in double to a member who lives outside Finland in Europe and triple to a member who lives outside Europe.

Total compensation for Board of Directors

EUR	Board service in 2013	Total compensation in 2013 *	Board service in 2012	Total compensation in 2012 *
Board Members at 31 December 2013				
Sari Baldauf, Chairman	1 Jan-31 Dec	84,000	1 Jan-31 Dec	80,353
Christian Ramm-Schmidt, Deputy Chairman	1 Jan-31 Dec	66,000	1 Jan-31 Dec	64,479
Mino Akhtarzand	1 Jan-31 Dec	58,000	1 Jan-31 Dec	53,349
Heinz-Werner Binzel	1 Jan-31 Dec	60,400	1 Jan-31 Dec	53,149
Ilona Ervasti-Vaintola	1 Jan-31 Dec	49,000	1 Jan-31 Dec	46,549
Kim Ignatius	1 Jan-31 Dec	67,200	11 Apr-31 Dec	48,100
Joshua Larson	1 Jan-31 Dec	70,600	1 Jan-31 Dec	67,549
Former Board Members				
Esko Aho	N/A	N/A	1 Jan-11 Apr	13,000

*) includes fixed yearly fee and meeting fees



Board of Directors

Fortum's Board of Directors 31 December 2013

Sari Baldauf



- Chairman, born 1955, MSc, Business Administration
- Independent member of Fortum's Board of Directors since 2009
- 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:

- 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: Member of the Board
- Savonlinna Opera Festival, Chairman
- Sanoma Corporation, Deputy Chairman 2003-2009
- Capman Corporation, Member of the Board 2008-2011
- YIT Corporation, Member of the Board 2006-2008
- Hewlett-Packard Company, Member of the Board 2006-2012

Fortum shares as of 31 December 2013:
2,300
(31 December 2012: 2,300)

Christian Ramm-Schmidt



- Deputy Chairman, born 1946, BSc (Econ)
- Independent member of Fortum's Board of Directors since 2006
- Member of the Nomination and Remuneration Committee

Main occupation:

- Merasco Capital Ltd., Senior Adviser

Primary work experience:

- Baltic Beverages Holding Ab (BBH), President
- Baltika Breweries, Russia, Chairman of the Board
- Fazer Biscuits Ltd., Fazer Chocolates Ltd., Fazer Confectionery Group Ltd., President

- ISS ServiSystems Oy, Director
- Rank Xerox Oy, Director

Key positions of trust:

- Reima Oy and Atoy Oy, Member of the Board

Fortum shares as of 31 December 2013:
2,250
(31 December 2012: 2,250)

Minoo Akhtarzand



- Born 1956, MSc, Electrical engineering
- Independent member of Fortum's Board of Directors since 2011
- Member of the Nomination and Remuneration Committee

Main occupation:

- Governor in the County of Jönköping

Primary work experience:

- Swedish National Rail Administration, Director-General
- Regional Labour Agency, Director
- Vattenfall AB, several senior executive positions
- Stockholm Energi, various positions

Key positions of trust:

- The National Society for Road Safety in the County of Jönköping, Chairman
- 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, Member of the Board
- EIM (European Infrastructure Managers) 2009-2010 and Södertörn university 1997-2003, Deputy Chairman
- Västerbergslagens Energi AB, Chairman of the Board 2000-2004

Fortum shares as of 31 December 2013: -
(31 December 2012: -)

Heinz-Werner Binzel



- Born 1954, Economics and electrical engineering degree
- Independent member of Fortum's Board of Directors since 2011
- Member of the Audit and Risk Committee

Main occupation:

- Independent consultant

Primary work experience:

- RWE Energy AG, Board member for procurement and sale of electricity, gas, and water
- RWE Solutions AG, Board member as CFO, CEO
- NUKEM GmbH, several senior executive positions in Germany and the USA

Key positions of trust:

- TÜV Rheinland Holding AG, Member of the Supervisory Board, Chairman of the Audit Committee
- RWE Solutions AG, Chairman of the Supervisory Board 2003-2006

Fortum shares as of 31 December 2013: -
(Dec 31, 2012: 1,000)

Ilona Ervasti-Vaintola



- Born 1951, LL.M., Trained on the bench
- Member of Fortum's Board of Directors since 2008, independent since 1 November 2011
- Member of the Nomination and Remuneration Committee

Main occupation:

- Non-executive Director

Primary work experience:

- Sampo plc, Group Chief Counsel, Member of the Group Executive Committee
- Mandatum Bank plc, Chief Counsel and member of the Board
- Mandatum & Co Ltd, Director, Partner

- Union Bank of Finland Ltd, Head of Financial Law Department, Legal counsel

Key positions of trust:

- Securities Market Association, Deputy Chairman of the Board
- Finnish Literature Society 2005-2011, Fiskars Corporation 2004-2010, OMX Nordic Exchanges Group Ltd 2003-2008 and Stockholmsbörsen AB 2003-2007, Member of the Board
- Legal Committee of the Central Chamber of Commerce of Finland, Member 2002-2005 and Chairman 2005-2010

Fortum shares as of 31 December 2013: 4,000
(31 December 2012: 4,000)

Kim Ignatius



- Born 1956, BSc (Econ), Helsinki School of Economics and Business Administration
- Independent member of Fortum's Board of Directors since 2012
- Chairman of the Audit and Risk Committee

Main occupation:

- Sanoma Corporation, CFO

Primary work experience:

- TeliaSonera AB, Executive Vice President and CFO
- Sonera Oyj, Executive Vice President and CFO
- Tamro Oyj, Group CFO

Key positions of trust:

- Millicom International Cellular S.A., Member of the Board, Chairman of the Audit Committee

Fortum shares as of 31 December 2013:
2,400
(31 December 2012: 2,400)

Joshua Larson



- Born 1966, Master of International Affairs, Bachelor in Russian language
- Independent member of Fortum's Board of Directors since 2010
- Member of the Audit and Risk Committee

Main occupation:

- Private investor and consultant

Primary work experience:

- IFC Alemar, CEO and Senior Managing Director
- The Carlyle Group, Moscow, Managing Director
- Morgan Stanley, Moscow, Executive Director, Head of Russian Operations

- Goldman Sachs International, London and Moscow, Executive Director, Co-Head of Russian Business

Key positions of trust:

- 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: Member of the Board of Directors

Fortum shares as of 31 December 2013: -
(31 December 2012: -)



Fortum Management Team 31 December 2013

In February 2014, Fortum announced that it will renew its business structure as of 1 March 2014. For more information, see Financials, [Events after the balance sheet date](#).

Tapio Kuula



President and CEO

- Born 1957, MSc (Eng), MSc (Econ)
- President and CEO since 2009
- Member of the Management Team since 1997
- Employed by Fortum since 1996

Primary work experience:

- 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, Deputy Chairman of the Board
- Finnish-Russian Chamber of Commerce - FRCC, Member of the Board
- EURELECTRIC, Member of the Board
- Northern Dimension Business Council, Co-chairman

Fortum shares as of 31 December 2013:

153,555
(31 December 2012: 118,403)

Helena Aatinen



Senior Vice President, Corporate Communications

- Born 1959, MSc (Econ)
- Senior Vice President, Corporate Communications since 2012
- Member of the Management Team since 2012
- Employed by Fortum since 2011

Primary work experience:

- 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

Fortum shares as of 31 December 2013:
519
(31 December 2012: -)

Aleksander Chuvaev



Executive Vice President, Russia Division

- Born 1960, MSc (Eng)
- Executive Vice President, Russia Division, General Director of OAO Fortum and country responsible for Russia since 2009
- Member of the Management Team since 2009
- Employed by Fortum since 2009

Primary work experience:

- GE Oil & Gas, Regional Executive Director, Russia and CIS 2009
- SUEK, Investment Development Director, Russia 2008
- JSC Power Machines, Managing Director, Russia 2006
- 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

Key positions of trust:

- Energy Producers Council, Member of the Supervisory Board
- Russian Union of Industrialists and Entrepreneurs, Member of the Board
- Territorial Generating Company No. 1 (TGC-1), Member of the Board
- Government Commission on the Development of the Electric Power Industry, Member

Fortum shares as of 31 December 2013:
12,093
(31 December 2012: 12,093)

Mikael Frisk



Senior Vice President, Corporate Human Resources

- Born 1961, MSc (Econ)
- Senior Vice President, Corporate Human Resources, since 2001. Responsible for Corporate HR, IT and Business Process Management.
- Member of the Management Team since 2001
- Employed by Fortum since 2001

Primary work experience:

- Nokia Mobile Phones, Vice President, HR Global Functions 1998
- Nokia-Maillefer, Vice President, HR, Lausanne, Switzerland 1993

- Nokia NCM Division, HR Development Manager 1992
- Oy Huber Ab, HR Development Manager 1990

Key positions of trust:

- HENRY - The Finnish Association for Human Resources Management, Member of the Board

Fortum shares as of 31 December 2013:

42,128
(31 December 2012: 32,049)

Timo Karttinen



Executive Vice President, Electricity Solutions and Distribution Division

- Born 1965, MSc (Eng)
- Executive Vice President, Electricity Solutions and Distribution Division, and country responsible for Finland and Norway since 2009
- Member of the Management Team since 2004
- Employed by Fortum since 1991

Primary work experience:

- 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
- Finnish Energy Industries, Vice-Chairperson of the Executive Board

Fortum shares as of 31 December 2013:

69,791
(31 December 2012: 60,228)

Per Langer



Executive Vice President, Heat Division

- Born 1969, MSc (Econ)
- Member of the Management Team since 2009
- Employed by Fortum since 1999
- Executive Vice President, Heat Division, and country responsible for Sweden, Poland and the Baltic countries since 2009. Responsible for Corporate Research & Development since 2011.

Primary work experience:

- 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
- Hafslund ASA, Member of the Board
- AS Vörguteenus Valdus, Deputy Chairman of the Supervisory Board

Fortum shares as of 31 December 2013:

25,267
(31 December 2012: 16,717)

Markus Rauramo



Chief Financial Officer

- Born 1968, MSc (Econ and Pol. Hist.)
- Chief Financial Officer since 2012
- Member of the Management Team since 2012
- Employed by Fortum since 2012

Primary work experience:

- Stora Enso Oyj, Helsinki, CFO and Member of the GET 2008
- Stora Enso International, London, SVP Group Treasurer 2004
- Stora Enso Oyj, Helsinki, VP Strategy and Investments 2001
- Stora Enso Financial Services, Brussels, VP Head of Funding 1999

- Enso Oyj, Helsinki, several financial tasks 1993

Key positions of trust:

- Wärtsilä Oyj Abp, Member of the Board
- Teollisuuden Voima Oyj, Member of the Board
- Kemijoki Oy, Member of the Supervisory Board
- Oy Proselectum AB, Member of the Board
- Chairman of the Board of several Fortum Corporation companies

Fortum shares as of 31 December 2013:

13,756
(31 December 2012: 13,000)

Matti Ruotsala



Executive Vice President, Power Division

- Born 1956, MSc (Eng)
- Executive Vice President, Power Division since 2009
- Member of the Management Team since 2009
- Employed by Fortum since 2007

Primary work experience:

- 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, Vice-Chairman of the Board
- Componenta Oyj, Member of the Board
- Halton Group Ltd, Member of the Board

Fortum shares as of 31 December 2013:
28,897
(31 December 2012: 16,502)

Kaarina Ståhlberg



General Counsel

- Born 1966, LL.M. (Helsinki), LL.M. (Columbia University, New York)
- General Counsel since 2013
- Member of the Management Team since 2013
- Employed by Fortum since 2013

Primary work experience:

- White & Case, Counsel, 2012
- Nokia Corporation, Vice President, Assistant General Counsel 2005
- Nokia Corporation, Vice President, Head of the Mobile Phones legal department 2004
- Nokia Corporation, Director, Legal at Head Office, Legal Department 2001

- Nokia Corporation, Senior Legal Counsel at Head Office, Legal Department 1999
- Law Offices Dittmar & Indrenius, Attorney at Law 1993
- Law Offices Heikki Haapaniemi, Attorney at Law 1992

Key positions of trust:

- Helsinki Chamber of Commerce, Member of the Board of Directors

Fortum shares as of 31 December 2013: -
(31 December 2012: -)

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The "Annual review" and "Sustainability" sections have not been audited. The Sustainability section has been provided limited independent assurance by a third party. References to the future presented on these pages reflect Fortum's assessments at the beginning of February 2014. Materialisation of such assessments is dependent on various factors, some of which Fortum may not have an impact on, and thus the final outcome may deviate from the assessments presented. Fortum discloses its

outlook statement and the risks related to the realisation of the outlook statement separately in accordance with the applicable laws and regulations under the specific sections in the Operating and Financial Review. Fortum Corporation's [Financial Statements](#) and [Operating and Financial Review](#) for 2013 and the related [Auditor's Report](#) are available on this website.

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